



SHARPEN YOUR BUSINESS LOAN NEGOTIATION SKILLS

PRESENTED BY:

**Stephen Priddle, CPA, CA, CMA
Ottawa, Ontario**

**VP, Finance & CFO & Corporate Secretary
SureWx Inc.**

& President, Practical PD Seminars for Accountants

www.practicalpd.com

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Welcome

- The purpose is to help you better negotiate financing offers or advise on the same
- It will also help re-negotiate the annual renewal of an existing agreement
- I want you to gather ideas, smarts, tips that make you look good!



Notes

- The two hours of PD, include the time you need to read the case
- I will fill in the blanks in the handout in this presentation, it will make it more interesting...
- Send me an email when you finish, spriddle@bell.net, and I will send you fully completed slides and a written case solution



Where am I?

SureWx, helping flights in the winter – safer, less cancellations

VP, Finance & CFO &
Director, co-owner
after 2015 MBO





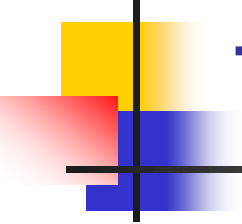
My background

- Employers
- Designations
- Writing
- Speaking



A career excerpt

- The move to treasury for four years...
- Short-term investments, banking, foreign exchange, letters of credit, commodity taxes, insurance & risk management



In our live courses we do
funny intros, I will do two

All my live seminars/webinars have an opportunity to win prizes

- So what are we going to do in this video course
- Send me an email after the course, with useful feedback, a joke, or a good question, and you will be put in a draw to win a prize...
- spriddle@bell.net





Banking joke

- The short-term loan



Banking experience

- I have dealt with all the major banks in Canada at different times
- Accounts, loans, letters of credit
- With one start up I increased the operating facility 10 fold in 4 years
- I used to teach a “canned” Corporate Treasury Management course

I had a 30 year veteran banker review this, no longer in banking so he could speak his mind



Key

- Every single bank is different
- It is not possible to every say that a particular approach will always work
- Everything is a negotiation



A lot depends on

- Your leverage varies, for example:
- Small weak company wants a \$50K line of credit
- Large, strong company wants \$500M of financing...



Note

- The negotiation principles here apply _____ your business is, and many _____, not just bank facilities
- (Not every company margins A/R)
- I will share some _____ in my bank negotiations, maybe you can win the same ones
- Failure is success if we _____ from it



Bank negotiating tips

- Use good _____ to respond to the bank's unreasonable terms, ask for their rationale
- Think of a _____ of alternatives to what the bank is proposing from ideal to not so ideal
- Remember they are always trying to reduce their _____ and _____



Will they negotiate terms?



Actual Big Five Bank email to me

- *"If you have a suggestion to amend wording you may provide it, however any change will require legal review "*

Smaller businesses will find it harder to get the bank to negotiate terms and move away from standard bank agreements, and often the account managers have less experience and want to stick with the template

Remember banks focus on the two Cs

■ _____ and _____



Bank offer letter - objectives

- Consider adequacy of offer
- Look “outside” the case as well
- (Don’t criticize what you don’t like – how to negotiate to improve it is the issue)
- Increase amount that can be borrowed
- Protect the company
- Protect the shareholders
- Minimize costs
- Loosen covenants & restrictions



Bank case instructions



Someone said a bank
agreement is like a



Finished reading

- Did any you note the banker _____ in the case?
- _____, the nasty lender from the Merchant of Venice play by Shakespeare
- Did you notice the special note at the end of the definitions?...



Note

- You “fail” the case if your answer is simply “_____”



Bank case discussion

- Have you ever banked with the Northern Bank?
- What is good about the offer?
- Would you sign it?
- (The company probably needs a little more time than 14 days to consider the offer)
- How can this company get more leverage with the bank? _____



The offer

- The offer from the Northern Bank is not a great one, but a number of questions need to be asked and it may be possible to improve on it
- The Northern Bank was reasonable enough not to demand very extensive budget or business plan information before the loan was granted, in this small business context
- So far, the company has not been able to generate an offer from more than one bank, so it is not in a position to leverage other offers



The offer

- If it had very good financial reporting and a strong business plan, it is likely that more offers could have been received.
- Perhaps it would be better to get a ____ term for the agreement, but this is a new client for the bank
- If the company can perform ____ with the Bank for one year, it will have more leverage next year for the renewal
- _____, with lots of banking experience should be sought before getting back to the bank.



Big picture – Northern Bank

- _____ who have a Northern Bank operating facility – are they happy?
- Are the clauses in this agreement standard Northern Bank clauses or is the bank being _____ on you
- The Bank does see _____ and they would like to get you signed up now, so they can be your banker if you really grow to become a major client



Big picture – Northern Bank

- Being a newer Schedule B bank, they may be a little more _____ than the large Schedule A banks
- It would be good if the Bank has experience in your _____



Big picture – Northern Bank

- It might be good to meet with the bank's _____ people (usually kept away from customers by banks), they make the key decisions



Relationships

- Some people are good at getting results by “_____”
- I am not good at it, and it is not my style
- A story



Is the facility enough?

- The company has been growing at over 200% per year to date
- Is \$250,000 is a _____ before too long and with the forecast for 2015 sales of \$8 million
- (Some banks use a 10% of revenues rule of thumb for operating lines of credit)
- The problem is the Bank will probably not offer any more to a young, relatively unproven company
- One argument to use with the bank is that if receivables are say \$1M, their _____



Where else could they get financing?



Small Business Loan program

- Revenues under \$10M
- Up to \$1M

Canada Small Business Financing Program

Find a loan for your small business

This is a loan program in collaboration with financial institutions. If you are looking for other government financial incentives including grants or general information for small businesses, please access the [Canada Business Network](#).

- Budget 2021 proposes to improve the Canada Small Business Financing Program through amendments to the Canada Small Business Financing Act and its regulations. These proposed amendments are projected to increase annual financing by \$560 million, supporting approximately 2,900 additional small businesses. Proposed amendments include:
 - Expanding loan class eligibility to include lending against intellectual property and start-up assets and expenses.
 - Increasing the maximum loan amount from \$350,000 to \$500,000 and extending the loan coverage period from 10 to 15 years for equipment and leasehold improvements.
 - Expanding borrower eligibility to include non-profit and charitable social enterprises.
 - Introducing a new line of credit product to help with liquidity and cover short-term working capital needs.



✓ Equipment

✗ Working Capital

✓ Business Vehicles

✗ Inventory

✓ Renovations

✗ Labour

✓ Commercial Property

✗ Advertising



Other possible sources

- Could the _____ provide financing?
- Have any ____ operating facility providers been considered?
- Have _____ been considered as a source of financing?
- Has _____ been considered?
- Has _____ been considered?
- Have any _____ been approached?



Other possible sources

- Could the company considering _____ receivables (selling them), to provide cash and reduce the need for an operating facility?
- Has EDC (Export Development Corporation) been approached about helping this company which exports and working with the Northern Bank





EDC help

- Loan guarantees
- BDC co-lending
- Advance payment insurance
- Foreign exchange facility guarantee
- Performance security guarantee
- Credit insurance, to be discussed soon



EDC told me recently

- “We find _____ the best to work with”



Question

- Someone once asked: “how could one get another lender to rank equal with the bank?”
- My answer: _____



What clauses are “hills to die on”?



Most participants want to first discuss

- Personal guarantees



The clause

- (c) Joint and several personal guarantees of both principals include security interests in their principal residences. The principal's spouses will be required to get independent legal advice with respect to the principal residences.



My first ever experience with personal guarantees



Personal guarantees

- Polling question

Are there personal guarantees with
your bank facilities?



■ Yes ■ No



Personal guarantees

- The personal guarantees required of the founders, including a security interest in their principle residences, are likely very _____ (they are legal)
- The personal guarantees also require the involvement of their spouses and the complication and cost of independent legal advice
- The bank wants them to reduce risk, and ensure the business owners have some “_____”.



The approach

- _____them any way possible
- _____if possible
- You should do the same for any similar requirements, from any bank, even if not personal guarantees



The clause

- (Interestingly, the bank has not asked for personal net worth statements)



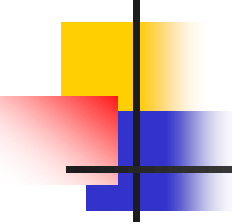
First question

- Ask the bank, what they would like in order to remove the personal guarantees?



Negotiation strategies

- Ask what size the facility would be _____ the personal guarantees, this finds out their “value”
- If _____ could be margined instead of A/R, could they be dropped entirely?
- A limited personal guarantee by each guarantor, not _____



A real life example, I have seen

- Bank wants \$500K guarantee joint & several guarantee from all 4 guarantors
- If the guarantee is triggered, the bank will likely go after the _____
- Much better:
- Each guarantor signs _____, \$500K is not joint & several



Negotiation strategies

- A limitation against the _____, don't include them
- Provide some _____, say some personal investments, and exclude the principal residence
- A limitation against property owned _____
- Reduced guarantees in return for a _____



Negotiation strategies

- The Bank agreeing to ____ the guarantee after a year
- The Bank agreeing to “_____” the guarantee after a year (weaker)



Negotiation strategies

- The Bank agreeing to drop the guarantee after a year
- The Bank agreeing to “consider” dropping the guarantee after a year (weaker)



Negotiation strategies

- The Bank agreeing to drop the guarantee once the company has a _____
- _____ with the bank versus personal guarantee change



Finally

- What about a \$ limit on the personal guarantee?



Notes on guarantees

- If there are outside investors with say 40%, some banks won't ask for personal guarantees of the 60% shareholder as it would be unfair
- If you are with a sub of a big foreign company, the issues may be quite different if you can get a parent company guarantee, it takes away a lot of the difficulties



Alternative to a guarantee

- I was once able to get out of a guarantee requested from the (public) parent company, with a comfort letter signed by the parent company



Random banking story

- The loan problem



Covenants

- Some bank clients have no covenants, this is a nice position to be in
- Have you seen any unusual covenants ?
- It is important that the proposed covenants be examined to see if they are reasonable and _____ - they need to be _____ which means projecting balance sheets
- A ball park calculation of the company's year end net worth is \$600,000 plus \$180,000 profit, less \$40,000 in dividends, giving approximate net worth of \$740,000, better than the covenant minimum of \$700K but close



Covenants

- You should ask your network if they know how “_____” the Northern Bank tends to be in this city, with clients who violate covenants
- Do they “_____” immediately, or do the work customers?
- If covenants are violated, RI could find itself needing to _____ the Operating Facility and/or the three year term loan on demand, without the funds to do so and facing a real crisis



Covenants - evaluation

- From a general banking perspective, the covenants are not too _____
- A 1.75 to 1 current ratio would be more common than 1.8, a rather odd number
- Some banks will exclude _____ from the current ratio calculation – ask for this
- You might want to try to argue _____ is not a real liability and should be excluded
- (Same with _____ that are not like trade payables...)



Current ratio covenant survey

- What is your current ratio covenant?
- All seminars: ____
- A mix of companies and credit risks

: I think I am at 1.25 to 1



Net worth covenant

- The Bank's net worth calculation, does not include, as "equity", related party indebtedness that has been postponed or subordinated, to the Bank's satisfaction
- Since the bank "controls" these liabilities, in effect they are _____
- If the bank would _____, this would help the company's position relative to the covenant
- It might be possible to actually ____ some shareholder loans to equity, to help the net worth calculation



Intangible definition

- Since RI has some software licenses on the balance sheet, you may want to find out if they are considered _____ by the Bank
- They arguably don't have "_____", but they aren't mentioned specifically in the offer letter
- One approach is _____, since they are not specifically excluded
- The other approach is to get _____ now



Experience

- I once got a major bank to agree not to exclude prepaid software licenses from intangibles
- After I left the company, they changed their mind
- I was able to _____ and help my successor CFO push back on this



Covenants & estate planning

- The founders have started some estate planning steps
- Estate planning often includes the issue of high-low preferred shares (redeemable and retractable at a price that far exceeds the issue amount, to fix their value for income tax purposes)
- Under ASPE, it is possible, they can be reported as _____, with the proper disclosure, Section 3856.23
- You might want to discuss this with the Bank now
- _____ from debt under the terms of the covenant definition would be reasonable
- The Bank might insist on a retraction veto right.
- (Some banks don't mind these activities for tax planning purposes, even temporarily waiving covenants.)



Negotiating covenants

- I once decided that it was _____ for a Big Five bank to flex the facility up or down with A/R and inventory, but with the net worth covenant it was “all or nothing”
- So I asked the bank to flex the facility with the level of tangible net worth
- A new account manager said _____, I will go and check with my colleagues
- The colleagues said ____.....



More on covenants

- A “_____” clause would help protect RI. It could state that upon violation of any covenants, the company has 30 or 60 days to “cure” the violation, before the bank can take any action
- A great tip is that you should also include breach cure clauses in _____



More on covenants

- The Bank wants to test this covenant monthly
- If you could get them to move it the test to _____, this would be better



Possible debt service covenant

- The actual _____ of this Bank's version of a debt service covenant should be obtained
- Some _____ should be done to measure estimated future compliance
- The covenant would likely involve dividing income or cashflow before debt service obligations with debt service obligations
- Key point – monthly income statement covenants are _____, because they can be violated with _____



Possible debt service covenant

- The company usually won't _____ a balance sheet covenant with one or two bad months, it takes longer term deterioration
- A _____ test would be better than monthly, that includes several months or quarters or even a full year, because it would smooth variations



Bank outs

- The Bank offer says it “may cancel or restrict availability of any unutilized portion of this facility at any time and from time to time without notice or demand”
- It would be preferable to get a _____, but difficult, given the company is a new client, with no track record
- Perhaps it could be negotiated as committed, with higher fees, the bank must make room in its capital structure in this case

The bank can pull the plug
when



An alternative you could ask for



- Wording associated with the bank “acting _____” flowing from the material adverse change..



Note

- A company apparently won an action against a bank for unfairly calling loans based on a _____
- But it took years and years, and the business was already destroyed



Events of default

- If there is an event of default under the agreement, the facility must be repaid
- There is no provision for _____
- This should be provided for, or it is not fair, perhaps _____ (a bit like a breach cure clause)
- For example, the company is in default for not having the _____
- Based on the offer, they can't get out of default, by getting the _____



More events of default

- The offer says that the entire facility is in default if “_____”
- This might mean a technical default on a minor obligation to a supplier of \$10 (you forget to pay them) might collapse the whole banking agreement
- Perhaps a _____ should be provided, _____ for example
- In practice banks may not _____ this, but if it is there, they have an option



Let's look at the actual loans



Term loan - term



Term loan - term

- A longer loan term should be preferred, perhaps approaching the _____ of the equipment
- The term loan payment including principal will actually _____ over time, they are not flat payments (like most mortgages) which is easier for budgeting

Operation of facility



- If the company's account is negative two dollars, a _____ is advanced
- The facility would be slightly cheaper if the revolving was in multiples of _____, rather than \$10K
- I had my bank go from \$5K to \$10K at renewal, and I complained and they _____



Let's talk about margining

- Which impacts what we can borrow day-to-day

Let's talk about margining

Raleigh Import-Export Inc.							
31-Oct-21							
Accounts Receivable							
	<u>Current</u>	<u>1-30</u>	<u>31 - 60</u>	<u>61 - 90</u>	<u>> 90</u>	<u>TOTAL</u>	<u>Terms</u>
9226-2674 Canada Inc	\$ 13,000.00	-	-	-	-	\$ 13,000.00	Net 30
Advantekss Inc.	63,126.76	-	-	-	-	63,126.76	Net 30
Health Limited	22,100.00	13,000.00	13,000.00		-	48,100.00	Net 30
Enron Corporation					8,053.54	8,053.54	Net 30
Walmart Canada					184,503.22	184,503.22	Net 60
Bell Canada Inc.	18,767.37	98,053.54			15.00	116,835.91	Net 60
Sweden Import AB	51,004.80	51,004.80			-	102,009.60	Net 30
Justin Trudeau Inc.	71,347.96				-	71,347.96	Net 45
Auston Matthews Inc.	63,126.76	63,126.76	63,126.76	-	-	189,380.28	Net 30
SellingStuff.com	22,489.71	-	86,053.54	-	-	108,543.25	Net 30
	<u>\$ 324,963.36</u>	<u>\$ 225,185.10</u>	<u>\$ 162,180.30</u>	<u>\$ -</u>	<u>\$ 192,571.76</u>	<u>\$ 904,900.52</u>	



Margining

- The Bank does not appear willing to margin any of the company's _____
- It is common for _____ to be marginable in a bank agreement with receivables at _____
- (If the Bank is only willing to provide a \$250,000 operating facility, the receivables alone may support it)

Side notes



- I have tried to get a bank to base the margin on _____, not cost (98% margin on software DVDs) but they refused
- Some companies are able to margin _____ and _____ under certain conditions – always negotiate



Foreign receivables

- Since the company sometimes sells _____ the exclusion of these countries may cause a problem
- This should be discussed with the Bank
- It is possible that certain laws in these countries mean that the Bank excludes them
- (One of my Canadian bank's would margin Swedish receivables but not German)
- Could the bank margin them at say _____?



Foreign receivables

- It may be necessary to get EDC (Export Development Corporation) foreign receivable credit insurance, which is generally in the 40 to 90 basis points range for approved companies (0.4% to 0.9%)
- The result is 90% insurance coverage (10% deductible if there are losses) and ____ bank margining of any insured receivables, Canadian or foreign, any age



Note

- Credit insurance basically doesn't cover customer disputes



Foreign receivables

- This also gives you high quality _____, better than most companies can do themselves
- If EDC turns the customer down, it is an indication of real _____ usually
- EDC's credit insurance services are very _____
- Credit insurance is also available from some _____ sources - a broker can help select the best source
- EDC can insure Canadian receivables with a partner



Margining mechanics

- _____ receivables 90 days after invoicing, when some customers may be strong and are on 60 day terms does not make sense
- When 31 days late, these receivable are not marginable, whereas a net 30 receivable from a weak customer is marginable when 59 days late
- This is a standard policy the Bank may be unwilling to change



More mechanics

- If \$1,000 is disputed or late with a good account, nothing is marginable
- A compromise might be that if ____ of the total receivable from a customer is overdue, then the balance is still marginable – I have persuaded a bank to accept this
- The company should also have the ability to persuade that a particular receivable is good, even if it not good by any of the fixed criteria, i.e. it is proven good because the customer paid after month end

Margining mechanics

- In our Newfoundland seminar, a guy said if the bank won't margin a customer's receivable, because of one over 90 day disputed invoice, "_____"
- This is hopefully a joke, it is probably ____...





More mechanics

- The bank may be willing to have some “named exclusions” of companies, who they will margin always as they are “_____”, even though by the agreement, they could not be margined, eg **Walmart**
- If the company has an _____, you should be able to margin



Bonus advice, gov't A/R

- Although there are no government receivables in the case, note that banks will often margin older government receivables, because they are a special case, but you may need to ask



Random banking story

- I get robbed by a bank...



Interest rates

- Who remembers the prime rate in 1981?
- The highest ever in Canada
- _____



Interest rates

- Who remembers the prime rate in 1981?
- The highest ever in Canada
- % on Wednesday, August 12th
- Remember the payment impact, 25 year \$300,000 mortgage
- 2% interest -
- 11.75% interest -
- 20% interest -



Interest rates overall

- You need to find out if the bank's prime rate, Canadian and U.S., _____ with the major bank's' prime rate
- Some historic data should be available from the account manager if you can't google it
- Prime plus 2.5% is a ____, not that unreasonable for a young business, given the risk
- You should ask them to consider _____ the rate after a year



Interest rate survey

- What is Prime plus ___ on your line of credit?
- All seminars: ____
- A mix of companies and credit risks



Interest rates overall

- You need to find out if the bank's prime rate, Canadian and U.S., generally moves with the major bank's' prime rate
- Some historic data should be available from the account manager if you can't google it
- Prime plus 2.5% is a bit high, not that unreasonable for a young business, given the risk
- You should ask them to consider reducing the rate after a year



Interest rates

- Another alternative is a _____ rate on say the first \$150,000 and a higher rate for the balance of the loans, where they have more risk
- You might be able to negotiate a rate _____ if for example the net worth or current ratio increases to a specified level
- For larger borrowers, try to get a built in rate grid, on a _____, lower leverage, lower rate

Danger – do not push this button



Interest rate comments

- The term loan has a floating rate
- It is generally better/safer to finance long-term assets with _____
- This adds risk to the financing
- (It is absolutely standard for Operating Facilities to be floating rate)
- Ask the Bank about this, but they may not be interested in changing, or they might give a high fixed rate



An option

- You might be able to lay off the risk by entering into a _____, although the floating rate may be LIBOR (London Inter Bank Offering Rate)



Other interest rate notes

- You could argue that the rate on U.S. loans should be the same as Canadian, after all the risk is the same.
- Perhaps the bank would go with an _____ on the term loan for a period, but there would be trade off for this.



Interest on late amounts

- The interest rate on late amounts is a rather punitive prime plus 9%
- This should be argued with
- (I have seen prime plus __ in real agreements)



Interesting

- An American business person told me he once had \$200K on deposit with a bank a \$500K loan and they went bankrupt and he _____, which annoyed him
- There was no “set-off” clause to protect him in this situation



Interesting

- I asked a big five Canadian bank, if this could happen in Canada
- I didn't get a clear answer...
- Canadian bank reg's are tight, I am not very worried about them failing
- CDIC insurance covers the first \$100K on deposit of course



Bank fees and rates

- What do you think of them?



Fees and costs

- They are hitting you with fees all over the place
- There is an up front fee, as well as a monitoring fee, a renewal fee and the current activity fees
- You are not renewing, you are setting up for the first time
- Perhaps they could make it one fee so it is less confusing
- An estimate of the direct revenue to the Bank under their proposal is nearly \$25K per year.



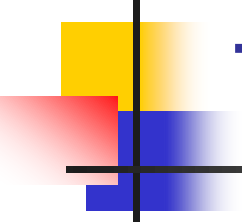
Bank's total return

<u>Total bank fees</u>	
Set-up fee	2,000
Monitoring fee	3,600
Renewal fee	1,500
Activity fees	2,160
Interest	
P+2.5% times	15,600
\$300K	
	24,860



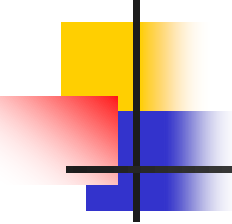
Activity fees

- The Bank wants to have the right to increase its activity fees _____
- This is not _____
- They should at least hold them for the _____the agreement
- Alternately, they should only move when the bank moves them for _____



What is the “hidden cost” in the agreement?

What is the “hidden cost” in the agreement?



- Your company will have to bear the _____
- Taking security interests costs involves some legal work
- You don't want these to be too high
- Ask the Bank what the estimated _____ including out of pocket costs are and which law firm they propose to use, or are they using in house Bank lawyers?
- Have the Bank ask for a quote from the law firm that they pass to you before starting
- If the proposed law firm is an expensive, consider trying to get the Bank to use a cheaper one



Other negotiation ideas

- _____on which law firm would be also be a better clause
- Even better, try to get the fees _____
- We have heard of banks being willing to use _____
- Ask to _____the actual legal bills and be prepared to question the charges



Don't worry

- If you didn't get all these bank negotiation ideas when you read this case....



Bank fees and business stress

- Public co I was Controller of had violated covenants and was in some trouble
- The bank said “we have decided to charge you a \$15K a month, ____ fee”
- “Now, we have decided to send a _____ in to check your situation weekly, the monitor will be _____, oh yes, and you are paying...”
- Our loans were likely now with the _____ loans dept of the bank
- Lesson: _____ on fees, if covenants have been violated..



Bank reporting

- Bankers are not strong on _____ – a story
- The Bank is several years out of date, the term _____no longer exists under Canadian Generally Accepted Accounting Principles
- Should get the Bank to change this to future income taxes, for greater clarity
- However, unless the company has larger future income debits than credits, this will help the current ratio covenant



Bank reporting - timing

- The Bank may be asking for financials _____after year end, at 60 days
- You are still getting consistent reporting in place
- The auditors will be busy with their bigger clients in _____
- Talk to the Bank about this and ask for 90 days
- It would be simpler if all Bank documents were due _____, including the financials, which the company has some difficulty in producing on timely basis at this point in time



The demand for an audit

- The Bank has asked for audited financials, perhaps because the company is a new client
- (Tell them no problem, as long as you pay for it...)
- A first audit will likely be _____, the company has never had an audit before
- However, the shareholders will benefit from greater assurance on the financials, but this is a small business, they know the business well



Audit pushbacks

- Often in small business, the Bank will accept a _____ only
- Consider asking the Bank to drop the requirement to a _____ instead
- Or at least drop to a Review _____, if all goes well
- Another cheaper compromise position is to have the accountants do a Review and a report on performance of “_____” on accounts receivable (and inventory if necessary)
- This would likely be cheaper than even a review, but would have to be approved by the Bank



Audit final points

- The ideal would just a _____
- (I have heard of a bank that would _____ the facility if the financials were audited)
- I have occasionally heard of a bank asking for a copy of the _____ – it might not be good for them to see this



Since we are talking about an audit demanded by a bank

- A story...



Since we were talking about auditing

- We need an audit junior joke



Veto rights

- The Bank proposes veto rights on: _____
- _____
- The latter could restrict _____
- You can always take out shareholder remuneration in the form of salary or management fees, without the Bank having veto rights
- However, this has different tax consequences and you would rather have complete flexibility



Other arguments

- You promise to give the bank _____ of dividends
- Dividends could be paid if say an _____ was repaid on the loan facility
- A fall back position would that dividends more than _____ need approval of the Bank
- Another option is they need approval of the bank but " _____ "
- This last clause would give the Bank some pause in vetoing dividends on a whim, it _____ the clause



Other arguments

- (Note: A “_____” clause is a good compromise, any time bank permission is required for anything)
- Another compromise would be a _____ giving more flexibility



Note the approach

- Each time I provide a range of options, some a lot better for the borrower, some just a little better...



Budget

- The Bank requires an annual budget including balance sheets, income statements and cashflows
- It will be _____ to prepare a budget
- This should be useful to the company otherwise and hopefully not too onerous once good reporting is in place
- Bank _____ will need to be in the budgeted now



Credit card

- The shareholder card should probably be dropped
- A _____ should be requested with the Northern Bank, that is company debt, rather than personal debt
- The Bank might be able to help, by _____ an amount out of the credit facilities
- If not, other _____ could be approached for a corporate card



Side note on corporate credit cards

- It can sometimes be surprisingly difficult to get a corporate credit card
- (Contrast this _____.)
- A CPA with a 1,000 person US public company said she was told to put an _____, to have a corporate credit card
- Perhaps a company can _____ more easily than a person, and there is limited liability

Side note on corporate credit cards



- I was once unable to cash secure a \$10K corporate credit card with a large Canadian bank
- I was told once, bring your _____in from Europe to the branch to sign the credit card papers!
- Another option I used once is a _____, avoiding credit issues



Life insurance

- You will need to ensure that the founders get the life insurance because otherwise the facility could become _____
- Quotes should be obtained immediately to determine the cost so that it can be considered and _____
- The cost should not be that _____ given the age of the founders, if they are in good health
- I have heard of bank life insurance that _____ with the changes in the total bank debt, so that the cost was lower



Interest on funds on deposit

- The interest rate for funds on deposit is only .03% per annum
- This should be _____
- It would be easier to negotiate this with some comparable numbers from other banks



Other points

- It would be better to divide the types of breaches or events of default into _____, the latter not resulting in the loan being called, but with smaller ramifications
- Give the company has some foreign sales, the company should negotiate some foreign exchange facilities (EDC can help)
- If the company faces longer term foreign currency risks, it might want to enter into forward contracts to buy or sell currency for hedging purposes, and these have banking implications



Other points

- The source deductions portion of the statutory prior claims should have no impact since you use a payroll service which makes all the required remittances
- You should ask that Bank what “such other financial and operating statements and reports as and when the Bank may reasonably require” might be
- The Bank should be satisfied with the monthly and annual statements and the budgets
- (I had this clause for years, but the bank has never asked for anything)



Other points

- The company must ensure that it has no environmental issues, because of the strong standard clauses the Bank agreement includes in this regards
- This may require specialized professional advice
- The pay date of the term loan might be more convenient for accounting/cash planning purposes on the _____
- The monthly reports could be put in a spreadsheet, to facilitate the preparation thereof
- Perhaps the Bank has such a spreadsheet available
- It should be noted that some people find that wire transfers sent by Schedule B banks, are not as reliable as Schedule A banks



Conclusions

- A person in one live offering of this said at the end, he should read his _____, he never had!
- Hopefully you have learned quite a bit about bank negotiations, that you can put into practice
- The best loan I never got...
- Email me about some applications of this, or feedback



Other courses

- **Practical for Controllers & CFOs** almost 11,000 have attended, includes 30 minutes more of banking tips
- **Practical Tips for Not-for-Profit Leaders**
- **Practical Work Smarts for All**
- **Practical Tips for Government Accountants**
- **Ten Practical Topics For Financial Leaders**
- **Practical Financial Negotiation Tips**
- **Ethics – More than Just the Code**
- **Contract Review Tips for Accountants**



Other courses

- **Practical for Controllers & CFOs – The Case Course**
- **Ethics – Where the Rubber Hits the Road**
- **Practical Tips to Improve Your Internal Financial Reporting**
- **Ethics – That Feeling In Your Gut**
- **Practical Tips to Get Through Cash Difficulties**
- **Practical Work Solutions from Case Discussions**
- **Build Your Ethical muscles (possible, soon)**
- **And more are being created...**



Closing

- You can also hire an ex-banker to help you negotiate
- You can email me with questions and to get completed slides and full case solution, and to enter the draw spriddle@bell.net
- I can do LinkedIn with you

BANK OFFER LETTER CASE

NOTE:

You may want to print it, if you prefer to read paper cases and make notes on paper cases, rather than on a computer or electronic device.

BANK OFFER LETTER CASE

Raleigh Import-Export Inc. (RI) is a wholesaler, purchasing specialized commercial electronic goods from companies in Asia and reselling them primarily in Canada. RI has also been able to sell to customers in Spain and Portugal, because of connections the founders have there. The company is owned by Billy and Benita Tan, a brother and a sister, both of whom are married and whose spouses are not involved in the business. They are aged 42 and 47 respectively. RI was incorporated in early 2012 and sales have grown from \$356,000 the first year to \$5.2 million estimated for the current year. The company has a December 31 year end. The company's accountants are Arbor & Co, LLP, Chartered Accountants, who started providing a Review Engagement Report on the December 31, 2018 financials.

It is now November 17, 2021. The company has had Canadian and U.S. chequing accounts with the Northern Bank of Canada since the beginning. To finance the growth, the owners recently applied for a \$300,000 Operating Facility and a \$150,000 term loan with the Bank. The Bank's application form was filled, the previous year's and interim financial statements were submitted and the Bank accepted the founder's back of the envelope financial projections for an \$8 million fiscal year in 2022. The Northern Bank of Canada is a newer Schedule II, Canadian bank (foreign owned). The Bank's account manager, Herbert Shylock has been out three times to meet Billy and Benita and seems very supportive of the business and does seem to understand import-export businesses. The siblings also talked to four other banks, none of which were interested in offering any financing. The Northern Bank has just sent a PDF containing an offering letter, see Exhibit 2.

Currently, the company uses a credit card that is in the name of Benita. It is used for miscellaneous purchases, with average monthly volume of \$15,000.

You are the Controller of RI reporting to the President, Benita Tan. You have been with the company for three months and are the senior finance person, with one bookkeeper, one A/R clerk and one A/P clerk reporting to you.

Your task:

Evaluate the bank's offer letter as the Tans' have very little experience with commercial banking.

BANK OFFER LETTER CASE

Exhibit I

Other information about the company

Currently accounts receivable are about \$550,000, all with Canadian and U.S. customers. Terms are normally net 30, but are sometimes net 60. Collection experience has generally been good.

Northern Bank activity fees are currently around \$180 per month.

The term loan will be used to finance certain warehouse equipment that the Tans believe will reduce warehouse salaries and increase efficiencies. The capital budgeting rationale has been verified by you and found to be sound.

The company uses a major national payroll service bureau to do its payroll, including remittances.

The founders told the bank that they expect to make about \$180,000 in 2021 after tax and pay a dividend of about \$40,000. The net book value of the company at December 31, 2020 was \$601,000.

The company has about \$30,000 of software licenses included in property, plant and equipment on the balance sheet. These are being amortized over three years.

Although the founders are still in their 40's, they would like to retire young and they would like to minimize taxes on the growth of the company in their hands. With this in mind they have starting talking with their lawyer and accounting firm about estate planning. With the growth of the company, the Controller is struggling to put consistent, accurate monthly reporting in place, since joining RI.

	Raleigh Import-Export Inc.						
	31-Oct-21						
	Accounts Receivable						
	Current	1-30	31 - 60	61 - 90	> 90	TOTAL	Terms
Tervita Corporation	\$ 13,000.00	-	-	-	-	\$ 13,000.00	Net 30
Genics Inc.	63,126.76	-	-	-	-	63,126.76	Net 30
BrandSafway Group Inc	22,100.00	13,000.00	13,000.00		-	48,100.00	Net 30
Enron Corporation					8,053.54	8,053.54	Net 30
Walmart Canada					184,503.22	184,503.22	Net 60
Bell Canada Inc.	18,767.37	98,053.54			15.00	116,835.91	Net 60
Nilsson Bros. Inc.	51,004.80	51,004.80			-	102,009.60	Net 30
Justin Trudeau Inc.	71,347.96				-	71,347.96	Net 45
Suncoast Enclosures	63,126.76	63,126.76	63,126.76	-	-	189,380.28	Net 30
Forbes Bros Ltd.	22,489.71	-	86,053.54	-	-	108,543.25	Net 30
	<u>\$ 324,963.36</u>	<u>\$ 225,185.10</u>	<u>\$ 162,180.30</u>	<u>\$ -</u>	<u>\$ 192,571.76</u>	<u>\$ 904,900.52</u>	

BANK OFFER LETTER CASE

Exhibit II

Offer letter from the Northern Bank of Canada

November 16, 2021

Private and Confidential

Raleigh Import-Export Inc.
100 Morris Drive
Suite 1203
City,
Province,
Canada

Attention: Ms. Benita Tan

Dear Benita:

Here is our bank facility offer. We look forward to moving forward with this and we wish your business continued success. This offer is open for acceptance until November 30, 2021, after which date it will be null and void, unless extended in writing by the Bank.

Please confirm your acceptance of this agreement by signing the letter in the space provided and returning it to the undersigned. Note that we are willing to consider a monthly debt service covenant based on the income statement, instead of a current ratio covenant.

Yours truly,

Original signed by HS

Herbert Shylock

Account
Manager

We are pleased to confirm the credit facilities described below (the "Credit Facilities"), subject to the following terms and conditions. This agreement supersedes and voids any previous offers or agreements you may have received from the Bank.

BANK OFFER LETTER CASE

DEFINITIONS AND SCHEDULES

The attached schedules are incorporated into this agreement by reference. Schedule "A" contains definitions of capitalized terminology used in this agreement, if not otherwise defined.

All dollar amounts are in Canadian currency and accounting terms are to be interpreted in accordance with Canadian Generally Accepted Accounting Principles, unless noted otherwise.

BORROWER

Raleigh Import-Export Inc. (the "Borrower")

LENDER

Northern Bank of Canada (the "Bank")

CREDIT FACILITIES

Facility (1): \$250,000 revolving demand facility, by way of:

- (a) NBP based loans ("MBP Loans");
- (b) NBUSBR based loans in US currency ("NBUSBR Loans").

To finance general operating requirements.

Facility (2) \$125,000 term loan

To finance certain warehouse equipment.

Each use of the Credit Facilities is called a "Borrowing" and all such usages outstanding at any time are called "Borrowings".

ACCESS

Facility (1)

The Borrower may borrow, convert, repay and reborrow up to the amount of this revolving facility, provided:

- (a) the aggregate Borrowings outstanding under this facility must not exceed at any time the aggregate of the following, less Potential Prior-Ranking Claims (the "Borrowing Limit"):
 - (i) 75% of Good Domestic Accounts Receivable;

BANK OFFER LETTER CASE

- (ii) 65% of Good Foreign Accounts Receivable; and
 - (iii) 90% of EDC Accounts Receivable ("EDC Accounts Receivable" means accounts receivable of the Borrower the payment of which has been insured by the Export Development Canada);
- b) this facility is made available at the sole discretion of the Bank and the Bank may cancel or restrict availability of any unutilized portion of this facility at any time and from time to time without notice or demand.

REPAYMENT

Facility (1)

Borrowings under this facility are expected to revolve with operating requirements.

Notwithstanding compliance with the covenants and all other terms and conditions of this agreement, Borrowings under this facility are repayable on demand and the Bank may terminate this facility at any time, without notice or demand. Upon demand or termination, the Borrower shall pay to the Bank all Borrowings outstanding under this facility.

Facility (2)

Borrowings under this facility are repayable by consecutive monthly principal payments of \$3,472.22 plus interest, on the 3rd day of each month for three years until the facility is repaid in full.

INTEREST RATES AND

FEES Facility (1)

NBP Loans: NBP plus 2.5% per annum.
NBUSBR Loans: NBUSBR plus 2.75% per annum.

Facility (2)

NBP Loans: NBP plus 3.0% per annum.

Funds on deposit

Funds on deposit will earn interest at 0.03% per annum.

A set up fee

A set up fee of \$2,000 is payable by the Borrower upon acceptance of this agreement. This fee is non-refundable and is deemed to be earned by the Bank upon acceptance of this agreement, to compensate for time, effort and expense incurred by the Bank in approving these facilities.

BANK OFFER LETTER CASE

Monitoring Fee

A monitoring fee of \$300 per month, for revolving NBP Loans and NBUSBR Loans and is payable monthly in arrears on such date as the Bank may determine.

Renewal Fee

A renewal fee of \$1,500 is to be paid, six months after Facility (1) commences.

Activity Fees

The Bank's current activity fee schedule will be in place for the chequing accounts, but the Bank reserves the right to change the activity fees at any time.

Alternate fee arrangements

In lieu of fees set out above, the Borrower, may at the Borrower's discretion, deliver ninety percent (90%) of the amount of above-mentioned banking fees to the Bank Manager's personal address, to be confirmed, in a paper bag, once a year, in cash, with no bills larger than twenty dollars (\$20.00).

CALCULATION AND PAYMENT OF INTEREST AND FEES

NBP Loans and NBUSBR Loans

The Borrower shall pay interest on each NBP Loan and NBUSBR Loans monthly in arrears, on the 25th day of each month for Facility (1) and on the 3rd day of each month for Facility (2). Such interest will be calculated monthly and will accrue daily on the basis of the actual number of days elapsed and a year of 365 days. Interest on NBUSBR Loans shall be paid in US currency.

Overdue Payments

Any amount that is not paid when due hereunder shall, unless interest is otherwise payable in respect thereof in accordance with the terms of this agreement or the instrument or contract governing same, bear interest until paid at the rate of NBP plus 9% per annum or, in the case of an amount in US currency, NBUSBR plus 9% per annum.

EXCHANGE RATE FLUCTUATIONS

If, for any reason, the amount of Borrowings outstanding under any facility, when converted to the Equivalent Amount in Canadian currency, exceeds the amount available under such facility, the Borrower shall immediately repay such excess or shall secure such excess to the satisfaction of the Bank.

GENERAL ACCOUNTS

The Borrower has or will establish current accounts with the Bank in each of Canadian currency and US currency (each a "General Account") for the conduct of the Borrower's day to day banking business. If the balance in a General Account:

BANK OFFER LETTER CASE

- (a) is a credit, the Bank may apply, at any time in its discretion, the amount of such credit or part thereof, rounded to the nearest \$10,000 in Canadian currency or US currency, as applicable, as a repayment of Borrowings outstanding by way of NBP Loans or NBUSBR Loans, as applicable, under Facility (1), or
- (b) is a debit, the Bank may, subject to availability, make available a Borrowing by way of an NBP Loan or NBUSBR Loans, as applicable, under Facility (1) in an amount, rounded to the nearest \$10,000 in Canadian currency or US currency, as applicable, as is required to place the General Account at not less than a zero balance.

CONDITIONS PRECEDENT

The availability of any Borrowing is conditional upon the receipt of:

- (a) a duly executed copy of this agreement;
- (b) the security provided for herein, in form and substance satisfactory to the Bank, registered as required to perfect and maintain the security created thereby and such certificates, authorizations, resolutions and legal opinions as the Bank may reasonably require; and

SECURITY

Security for the Borrowings and all other obligations of the Borrower to the Bank shall include:

- (a) General security agreement on the Bank's form signed by the Borrower constituting a first ranking security interest in all personal property of the Borrower.
- (b) Registered security interest in the warehouse equipment.
- (c) Joint and several personal guarantees of both principals include security interests in their principal residences. The principal's spouses will be required to get independent legal advice with respect to the principal residences.
- (d) In lieu of the above, the firstborn son or daughter of one of the officers of the Borrower, to be held in the Bank's designated Safekeeping area, until such time as all amounts under this facility, together with interest thereon, have been fully repaid.

BANK OFFER LETTER CASE

REPRESENTATIONS AND WARRANTIES

The Borrower represents and warrants to the Bank, that:

- a) it is a corporation duly incorporated, validly existing and duly registered or qualified to carry on business in Canada;
- b) the execution, delivery and performance by it of this agreement have been duly authorized by all necessary actions and do not violate its constituting documents or any Applicable Laws or agreements to which it is subject or by which it is bound; it has filed all material tax returns which were required to be filed by it, paid or made provision for payment of all taxes and Potential Prior-Ranking Claims (including interest and penalties) which are due and payable, and provided adequate reserves for payment of any tax, the payment of which is being contested.

REPORTING COVENANTS

The Borrower covenants and agrees with the Bank, while this agreement is in effect, to provide the Bank with:

- (a) monthly Borrowing Limit Certificate, substantially in the form of Schedule "B", within 20 days of each month end;
- (b) monthly internally prepared financial statements for the Borrower, within 30 days of each month end;
- (c) monthly Compliance Certificate, within 20 days of each month end, certifying compliance with this agreement including the financial covenants set forth below;
- (d) annual audited financial statements for the Borrower, within 60 days of each fiscal year end;
- (e) annual budgeted balance sheet and P&L and cash flow statements from the Borrower, prepared on a monthly basis for the next following fiscal year, within 60 days of each fiscal year end; and such other financial and operating statements and reports as and when the Bank may reasonably require.

GENERAL COVENANTS

The Borrower covenants and agrees with the Bank, while this agreement is in effect:

- (a) to pay all sums of money when due by it under this agreement;
- (b) to provide the Bank with prompt written notice of any event which constitutes, or which, with notice, lapse of time, or both, would constitute an Event of Default;

BANK OFFER LETTER CASE

- (c) to give the Bank 30 days prior written notice of any intended change in the ownership of its shares and not to consent to or facilitate a change in the ownership of its shares without the prior written consent of the Bank;
- (d) to keep its assets fully insured against such perils and in such manner as would be customarily insured by companies carrying on a similar business or owning similar assets; The Borrower further agrees to obtain life insurance policies for a principal amount of \$200,000 upon the lives of each of the principals.
- (e) to comply in all material respects with all Applicable Laws including, without limitation, all Environmental Laws;

not to, without the prior written consent of the Bank, grant, create, assume or suffer to exist any mortgage, charge, lien, pledge, security interest or other encumbrance affecting any of its properties, assets or other rights;

not to, without the prior written consent of the Bank, sell, transfer, convey, lease or otherwise dispose of any of its properties or assets other than in the ordinary course of business and on commercially reasonable terms;

not to, without the prior written consent of the Bank, merge, amalgamate, or otherwise enter into any other form of business combination with any other Person;

not to, without the prior written consent of the Bank, pay any dividends to any shareholders, or repay any shareholder loans;

to provide the Bank with prompt written notice of any non-compliance by the Borrower with any Environmental Laws

FINANCIAL COVENANTS

The
Borrower covenants and agrees with the Bank, while this agreement is in effect to maintain:

- (i) a ratio of Current Assets to Current Liabilities of not less than 1.8:1;
- (ii) Net Worth of at least \$700,000.

Nothing contained in the foregoing Covenants sections shall limit any right of the Bank under this agreement to terminate or demand payment of, or cancel or restrict

BANK OFFER LETTER CASE

availability of any unutilized portion of, any demand or other discretionary facility made available under this agreement.

EVENTS OF DEFAULT

Without limiting any other rights of the Bank under this agreement, if any one or more of the following events (herein an "Event of Default") has occurred and is continuing:

- (a) the Borrower fails to pay when due any principal, interest, fees or other amounts due under this agreement;
- (b) the Borrower breaches any provision of this agreement or any security or other agreement with the Bank or any subsidiary or affiliate of the Bank;
- (c) the Borrower defaults in the payment of any indebtedness to any Person other than the Bank, or in the performance or observance of any agreement in respect of any such indebtedness where, as a result of such default, the maturity of such indebtedness is or may be accelerated;
- (d) any representation or warranty made or deemed to have been made herein or in any certificate or security provided for herein shall be false or inaccurate in any materially adverse respect;
- (e) there is, in the sole opinion of the Bank, a major undesirable development in the financial condition, operation or ownership of the Borrower;
- (f) the Borrower is unable to pay its debts as such debts become due, or is, or is adjudged or declared to be, or admits to being, bankrupt or insolvent;
- (g) any notice of intention is filed or any voluntary or involuntary case or proceeding is filed or commenced for (i) the bankruptcy, liquidation, winding-up or dissolution;

then, in such event, the ability of the Borrower to make further Borrowings under any Credit Facility which is a term facility under this agreement shall immediately terminate and the Bank may, by written notice to the Borrower, declare the Borrowings outstanding under any such Credit Facility to be immediately due and payable. Upon receipt of such written notice, the Borrower shall immediately pay to the Bank all Borrowings outstanding under any Credit

GENERAL

Expenses

The Borrower agrees to pay all fees (including legal fees), costs and expenses incurred

BANK OFFER LETTER CASE

by the Bank in connection with the preparation, negotiation and documentation of this agreement and the security provided for herein and the operation or enforcement of this agreement and the security provided for herein.

Review

The Bank may conduct reviews of the affairs of the Borrower from time to time, as and when determined by the Bank, for the purpose of evaluating the financial condition of the Borrower. The Borrower shall make available to the Bank such financial statements and other information and documentation as the Bank may reasonably require and shall do all things reasonably necessary to facilitate such review by the Bank.

Set Off

The Bank is authorized, but not obligated, at any time, to apply any credit balance, whether or not then due, to which the Borrower is entitled on any account in any currency at any branch or office of the Bank in or towards satisfaction of the obligations of the Borrower due to the Bank under this agreement. The Bank is authorized to use any such credit balance to buy such other currencies as may be necessary to effect such application.

Severability

If any provision of this agreement is or becomes prohibited or unenforceable in any jurisdiction, such prohibition or unenforceability shall not invalidate or render unenforceable the provision concerned in any other jurisdiction nor invalidate, affect or impair any of the remaining provisions of this agreement. This agreement constitute the whole and entire agreement between the parties in respect of the Credit Facilities. There are no verbal agreements, undertakings or representations in connection with the Credit Facilities.

Term of the Agreement

This agreement will expire one year from the date of signing hereof.

Governing Law

This agreement shall be construed in accordance with and governed by the laws of Canada applicable therein.

We acknowledge and accept the foregoing terms and conditions as of

Raleigh Import-Export Inc.

By: _____

Name: _____

BANK OFFER LETTER CASE

Schedule "A" to the agreement dated November 16, 2021, between Raleigh Import-Export Inc., as Borrower, and Northern Bank of Canada, as the Bank.

DEFINITIONS

For the purpose of this agreement, the following terms and phrases shall have the following meanings:

"Acceptable Countries Persons" means Persons whose chief operating activities are located in Australia, Belgium, France, Italy, New Zealand and the United Kingdom;

"Applicable Laws" means, with respect to any Person, property, transaction or event, all present or future Applicable Laws, statutes, regulations, rules, orders, codes, treaties, conventions, judgments, awards, determinations and decrees of any governmental, regulatory, fiscal or monetary body or court of competent jurisdiction in any applicable jurisdiction;

"Contaminant" includes, without limitation, any pollutant or dangerous substance, or contaminant including any of the foregoing as defined in any Environmental Law;

"Current Assets" means, at any time, those assets ordinarily realizable within one year from the date of determination or within the normal operating cycle, where such cycle is longer than a year;

"Current Liabilities" means, at any time, amounts payable within one year from the date of determination or within the normal operating cycle, where such cycle is longer than a year (the operating cycle must correspond with that used for current assets);

"Domestic Countries Persons" means Persons whose chief operating activities are located in Canada or the U.S.;

"Environmental Activity" means any activity, event or circumstance in respect of a Contaminant;

"Equity" means the total of share capital, (excluding preferred shares redeemable within one year) contributed surplus and retained earnings;

"Good Accounts Receivable" means accounts receivable of the Borrower excluding (i) EDC Accounts Receivable, (ii) the entire amount of accounts, any portion of which is outstanding more than 90 days after billing date, (iii) all amounts due from any affiliate, (iv) bad or doubtful accounts, (v) accounts subject to any security interest or other encumbrance ranking or capable of ranking in priority to the Bank's security, (vi) the amount of all holdbacks, contra accounts or rights of set-off on the part of any account debtor, or (vii) any accounts which the Bank has previously advised to be ineligible;

"Good Domestic Accounts Receivable" means Good Accounts Receivable owing by Domestic Countries Persons;

BANK OFFER LETTER CASE

"Good Foreign Accounts Receivable" means Good Accounts Receivable owing by Acceptable Countries Persons;

"Potential Prior-Ranking Claims" means all amounts owing or required to be paid, where the failure to pay any such amount could give rise to a claim pursuant to any law, statute, regulation or otherwise, which ranks or is capable of ranking in priority to the Bank's security or otherwise in priority to any claim by the Bank for repayment of any amounts owing under this agreement;

"NBP" and "Northern Bank Prime" each means the annual rate of interest announced by the Bank from time to time as being a reference rate then in effect for determining interest rates on commercial loans made in Canadian currency in Canada;

"NBUSBR" and "Northern Bank US Base Rate" each means the annual rate of interest announced by the Bank from time to time as a reference rate then in effect for determining interest rates on commercial loans made in US currency in Canada;

"Tangible Net Worth" means the total of Equity less intangibles, deferred charges and leasehold improvements. For the purpose hereof, intangibles are assets lacking physical substance;

"Total Liabilities" means all liabilities, exclusive of deferred taxes and Postponed Debt;

"US" means United States of America.

"Whoever reads this first" (in the in-class or webinar offering), turn your microphone on and say "hey, I won the prize from the case" or type the same in the chat or come and see the instructor.

BANK OFFER LETTER CASE

SCHEDULE B BORROWING LIMIT CERTIFICATE

I, _____, the _____ of Raleigh Import-Export Inc., (the "Borrower")

hereby certify as of month ending _____

1. I am cognizant of the _____ provisions of the agreement (the "Agreement") dated _____, between Raleigh Import-Export Inc., as Borrower, and Northern Bank of Canada (the "Bank"), as the Bank, and have made reasonable investigations of corporate records and inquiries of other officers and senior personnel of the Borrower. Terms defined in the Agreement have the same meanings where used in this certificate.

The Borrowing Limit is _____, calculated as

\$ total accounts _____ \$

total accounts receivable owing by Domestic Countries Persons
excluding _____
Accounts Receivable \$ EDC

Less: (a) Domestic Countries Persons accounts, any portion of which (\$
) exceeds 90 days

(b) Domestic Countries Persons accounts due from affiliates (\$
)

(c) "Under 90 days" Domestic Countries Persons accounts (\$
) where col-

lection is suspect

(d) Domestic Countries Persons accounts subject to prior (\$
)
encumbrances

(e) Holdbacks, contra-accounts or rights of set-off (\$
)

(f) other ineligible Domestic Countries Persons accounts (\$
)

Plus: (g) Under 90 day portion of Domestic Countries Persons \$
accounts

included in (a) above, which the Bank has designated as nevertheless good

BANK OFFER LETTER CASE

Good Domestic Accounts Receivable	A \$
marginable	Good
Domestic Accounts Receivable at 75% of A	B \$
Total accounts receivable owing by Acceptable Countries Persons excluding \$	
<hr/>	
EDC A/R	
Less: (a) Acceptable Countries Persons accounts, any portion of which (\$ _____) exceeds 90 days	
(b) Acceptable Countries Persons accounts due from affiliates (\$ _____)	
(c) "Under 90 days" Acceptable Countries Persons accounts (\$ ____) where collection is suspect	
(d) Acceptable Countries Persons accounts subject to prior encumbrances (\$ _____)	
(e) Holdbacks, contra-accounts or rights of set-off (\$ _____)	
(f) other ineligible Acceptable Countries Persons accounts (\$ _____)	
Plus: (g) Under 90 day portion of Acceptable Countries Persons accounts included in (a) above, which the Bank has designated as nevertheless good	\$ _____
Good Foreign Accounts Receivable	C \$ _____
marginable Good Foreign Accounts Receivable at 65% of C	D \$ _____
Total EDC Accounts Receivable	E \$ _____
marginable EDC Accounts Receivable at 90% of E	F \$ _____
Less: Potential Prior-Ranking Claims	I (\$ _____)
Borrowing Limit (B + D + F + H – I)	\$ _____
Less: Facility (1) Borrowings	(\$ _____)
Margin Surplus (Deficit)	\$ _____

BANK OFFER LETTER CASE

2. Annexed hereto are the following reports in respect of the Borrower:

- (a) aged list of accounts receivable and accounts payable,
- (b) listing of Potential Prior-Ranking Claims,
- (c) Re EDC – Direction of Proceeds (Form E6) and copy of Schedule B.

The reports and information provided herewith are accurate and complete in all respects and all amounts certified as Potential Prior-Ranking Claims are current amounts owing and not in arrears.

Dated this _____ day of _____, 20

Per: _____