

Letter of Credit Policy Update

In review of the DC deferral policy, staff also looked at financial security required from the purpose-built rental development and assisted home ownership development projects. Under the Region's deferral policy, the developers are required to provide security for the deferred DCs in the form of a letter of credit (LOC) from financial institutions accepted by the Region in accordance with the Regional LOC policy (CS-32-98) or a deferral agreement registered on title. One of the major challenges faced by the relatively smaller scale projects undertaken by non-residential or not-for-profit housing providers is the ability to provide financial securities from financial institutions acceptable to the Region under the current policy when the registration on title is not available.

The Region's LOC policy was last updated in 1998 as approved by Council through CS-32-98 (re: 1997 Annual Report on Cash Management and Investments). The current policy was established based on the premise of Halton's investment policy, the preservation of capital and is consistent with the prudence exercised in all of Halton's fiscal policies. The policy sets out a list of primary financial institutions acceptable to the Region with a minimum asset threshold of \$30 billion (U.S.) and a credit rating of R-1 (Mid) or higher. In addition, based on on-going discussions with local credit unions leading up to the policy update in 1998, the policy was expanded to allow a LOC from an Additional Class of financial institutions based on certain conditions. The conditions include a minimum asset threshold of \$40 million with a LOC cap of \$100,000 from an individual financial institution and an aggregated LOC cap of \$1.0 million from this class.

Based on this policy, the Region currently holds \$367 million of LOC, the majority of which is related to the development allocation program and service constructions for new development. All of the LOCs have been provided from the banks that are regulated by the federal Office of the Superintendent of Financial Institutions (OSFI) as Schedule I, II, and III Banks. Most of the LOCs currently held by the Region are from Schedule I Banks (including Canadian top 5 banks) (92%) followed by Schedule II Banks (subsidiaries of foreign banks) (5%) and Schedule III Banks (foreign banks) (3%).

There are no LOCs provided from financial institutions within the Additional Class. Based on the Region's experiences, these financial institutions, namely credit unions, often could not meet the restrictive conditions of the current policy (i.e. \$100,000 LOC cap) given the value of the Regional DCs. Since 2010, there were four not-for-profit housing development projects carried out or proposed in Halton with the Regional DC

value ranging from approximately \$240,000 to \$1.4 million. These are well above the \$100,000 cap for a financial institution or the class cap of \$1.0 million.

An update to the LOC policy is required in order to ensure the policy remains relevant to current financial market and actual transactions experienced by the Region. In particular, the credit union sector has undergone significant changes over the past few years in Ontario. As a result of consolidation through mergers and acquisitions, there has been a steady decline in the number of credit unions from 191 in 2009 to 118 as of 2014. However, total assets have risen by 40% and the average size of a credit union has grown significantly. As of 2014, there were 59 credit unions (50% of total 118) holding over \$38 billion in assets or 94% of sector assets. The individual asset holding of these 59 credit unions ranges from \$100 million to almost \$10 billion.

In the interest of providing additional support for the purpose-built rent and assisted home ownership DC deferral policy as set out in Report No. FN-15-17 and taking into consideration the recent trends in credit unions in Ontario and the value of the Regional DCs, staff reviewed options to adjust the current conditions. Based on this review, it is recommended that the conditions for the financial institutions within the Additional Class be adjusted as follows:

- The minimum asset threshold of \$40 million be increased to \$100 million;
- The individual financial institution's LOC cap of \$100,000 be increased to a maximum of \$2.0 million at the discretion of the Commissioner of Finance and Regional Treasurer; and
- An aggregated LOC cap for the class of \$1.0 million be removed.

In addition, it is also recommended that the LOC policy be adjusted to reflect the primary financial institutions that are regulated by OSFI.

The following table compares the existing policy to the proposed policy.

	Existing Policy	Proposed Policy
Accepted Financial Institutions	<p>A. Primary financial institutions:</p> <ul style="list-style-type: none"> – ABN AMRO Bank Canada – Banca Commerciale Italiana – Bank of America Canada – Barclays Bank Canada – Banque Nationale de Paris Canada – B. T. Bank Canada – Canadian Imperial Bank of Commerce – Chase Manhattan Bank Canada – Chemical Bank Canada – Citibank Canada – Credit Suisse Canada – Deutsche Bank Canada – Dresdner Bank Canada – First Chicago NBD Bank Canada – The Hongkong Bank of Canada – J.P. Morgan Canada – Mellon Bank Canada – Bank of Montreal – National Westminster Bank of Canada – Bank of Nova Scotia – Republic National Bank of New York (Canada) – Royal Bank of Canada – Societe General Canada – Swiss Bank Corp Canada – Toronto Dominion Bank – Union Bank of Switzerland <p>B. New class of financial institutions in accordance with criteria as set out in CS-32-98 (included in Threshold below)</p>	<p>A. Schedule I & II Banks as regulated by the federal Office of the Superintendent of Financial Institutions (OSFI); and</p> <p>B. Additional Class of financial institutions in accordance with criteria as set out below</p>
Threshold	<p>A. Primary Financial Institutions:</p> <ul style="list-style-type: none"> • Require a minimum of R-1 (Mid) as provided by Dominion Bond Rating Service (DBRS) or an equivalent agency • Minimum of \$30 billion (US) in world-wide assets • For financial institutions that are subsidiaries operating in Canada with parent companies domiciled in a foreign country, a country rating of 70 	<p>A. Schedule I & II Banks:</p> <ul style="list-style-type: none"> • Require a minimum of R-1 (Mid) as provided by DBRS or an equivalent agency

	Existing Policy	Proposed Policy
	<p>or higher based on Institutional Investor magazine</p> <p>B. New Class of Financial Institutions:</p> <ul style="list-style-type: none"> • Must have a minimum of \$40 million in total assets • Value of LOC accepted from individual financial institution cannot exceed \$100K • Aggregated total of all LOC within this Type cannot exceed \$1 Million 	<p>B. Additional Class:</p> <ul style="list-style-type: none"> • Must have a minimum of \$100 million in total assets • Value of LOC accepted from individual financial institution shall be up to a maximum of \$2.0 million at the discretion of the Commissioner of Finance and Regional Treasurer (Treasurer), and • Must provide all information required by the Treasurer in order for the Treasurer to determine the applicant's eligibility for the LOC

The following Attachment #4-A sets out the revised LOC policy and 4-B is a standard format of LOC.

Letter of Credit Policy

A Letter of Credit (LOC) is a form of security issued by a Financial Institution that guarantees payment or performance by allowing the beneficiary (The Region) the right to draw upon the security.

Where financial security is required by the Region, LOC will only be accepted in accordance with the following terms and conditions:

- A. Unless otherwise directed by Council, LOC will only be accepted by the Region from:
 - Schedule I Banks: domestic banks authorized under Schedule I of the *Bank Act* to accept deposits; and
 - Schedule II Banks: foreign bank branches of foreign institutions that have been authorized to under Schedule II of the *Bank Act* to do business in Canada
- B. The Schedule I and II Banks must:
 - Be federally regulated financial institutions under the Office of the Superintendent of Financial Institutions (OSFI) or its successor; and
 - Have a credit rating of at least R-1 (Mid) as provided by the Dominion Bond Rating Service (DBRS) or an equivalent rating by one of the other acceptable agencies (i.e. Moody's or Standard and Poors).
- C. LOC provided from Schedule I and II Banks do not have an upset limit.

Notwithstanding clauses A. B. C., an Additional Class of financial institutions will be maintained whereby a LOC may be accepted from a financial institution, provided that all of the following conditions are met:

- a) Financial institution must have a minimum of \$100 million in total assets;
- b) The total value of LOCs accepted from individual financial institutions within this class shall be up to a maximum of \$2.0 million at the discretion of the Commissioner of Financial and Regional Treasurer (Treasurer); and
- c) The applicant within this class must provide all information required by the Treasurer in order for the Treasurer to determine the applicant's eligibility for the LOC.

In the event that a financial institution fails to maintain eligibility, the Region may require a new LOC from an acceptable financial institution. This LOC will be provided to the Region within 30 days of the request. If the replacement LOC is not received, the Region reserves the right to immediately draw upon the original LOC.

LOC that the Region currently holds will not be subject to the revised policy as set out in Report No. FN-15-17.

The LOC to be provided to the Region shall be an Unconditional Irrevocable Standby LOC with an annual automatic renewal provision and conform to the standard format provided in Attachment #4-B. Any deviations from the said approved form of LOC shall be reviewed and approved by the Treasurer.

Format For The Letter Of Credit

BANK NAME
BANK ADDRESS
DATE OF ISSUE:
DATE OF EXPIRY:
LETTER OF CREDIT #:
AMOUNT: \$

CUSTOMER NAME:
CUSTOMER ADDRESS:

BENEFICIARY: The Regional Municipality of Halton
 1151 Bronte Road
 Oakville, ON L6M 3L1

UNCONDITIONAL IRREVOCABLE STANDBY LETTER OF CREDIT

We hereby authorize The Regional Municipality of Halton to draw on BANK NAME, for the account of our customer, CUSTOMER NAME, up to an aggregate amount of _____ Canadian dollars (\$____) available on written demand as follows:

Pursuant to the request of our customer, the said CUSTOMER NAME, we, the BANK NAME, hereby establish and give to you an unconditional, irrevocable standby letter of credit in your favour in the total amount of \$_____, which may be drawn on by you at any time and from time to time upon written demand for payment made upon BANK NAME, LOCATION OF BRANCH by you, which demand we shall honour without enquiring whether you have a right as between yourself and our said customer to make such demand, and without recognizing any claim of our said customer, or objection by it to payment by us.

Provided, however, that you are to deliver to the BANK NAME, LOCATION OF BRANCH at such time as a written demand for payment is made upon us, a certificate signed by the Region's Director of Financial Planning & Budgets agreeing and/or confirming that monies drawn pursuant to this Letter of Credit are to be used to perform any outstanding obligations of our said customer to you as set out in _____ (Identifier (i.e.) File #, Agreement Date...)

It is understood and agreed that the obligation of the undersigned under this Letter of Credit is an obligation to pay money only and that in no circumstances shall the undersigned be obliged to perform or cause to perform any of our customer's actual obligations to you.

The amount of this Letter of Credit shall be reduced from time to time as advised by notice in writing given to us from time to time by you.

This Letter of Credit will continue up to DATE OF EXPIRY and will expire at the close of business on that date and you may call for payment of the full amount outstanding under this Letter of Credit at any time prior to the close of business on that date should this Letter of Credit not be renewed.

This Letter of Credit shall be deemed to be automatically extended for one year from the present or any future expiration date hereof, unless 30 days prior to any such date we shall notify you in writing by registered mail or courier that we elect not to consider this Letter of Credit renewed for any such additional period. Upon receipt by you of such notice, you may draw hereunder by means of your demand accompanied by your written certification that the amounts drawn will be retained and used by you to meet obligations incurred or to be incurred in connection with the above identified matter; further, that you will release any amount(s) not required by you to our customer.

Partial drawings are permitted.

We hereby agree that drawings under this Letter of Credit will be duly honoured upon presentation, and shall state that they are drawn under BANK NAME, Letter of Credit # _____ dated _____.

AUTHORIZED BANK SIGNATURE