

CORPORATE POLICY



Policy Title: **Letter of Credit Policy and Standard Letter of Credit Format**
Policy Category: **Letter of Credit Policy**
Policy No.: FC-001
Department: Finance
Approval Date: May 14, 2012
Revision Date: August 28, 2017
Author: Valerie O'Neill
Related Documents/Legislation:
Staff Report – CORP2017-065
IC-FA2012-035 – Letter of Credit Policy Update
FS2012-010
Municipal Act, 2001

Key Word(s):

POLICY STATEMENT:

Financial Institutions issuing Letters of Credit for acceptance by the City of Waterloo must meet the credit rating criteria and submit the Letter of Credit in a form and content that matches the City of Waterloo's Standard Letter of Credit Format.

PURPOSE:

The primary objective of the Letter of Credit Policy and Standard Letter of Credit Format is to ensure that monies provided as security will be available to the City of Waterloo if required.

The City of Waterloo routinely enters into agreements, such as subdivision and development agreements, where the customer is required to submit Letters of Credit to the City to ensure that financial security is available in the event that they are unable to meet their obligations under the agreement.

This Letter of Credit Policy and Standard Letter of Credit Format are designed to provide adequate protection to the City of Waterloo as well as to be fair, reasonable, and provide some flexibility to our customers.

DEFINITIONS:

Letter of Credit: a document issued by a financial institution on behalf of their client to guarantee payment to the beneficiary (The City). This security can be drawn against should the client fail to meet their obligations under an agreement.

Mandatory Policy, *Municipal Act*: NO

Policy Administration Team, Review Date July, 24, 2017 _____

Corporate Management Team, Review Date _____

- Irrevocable:** cannot be revoked or amended without the agreement of both the beneficiary (The City) and the issuing Financial Institution
- Unconditional:** payable on demand without enquiry by the Financial Institution as to The City's right to make the demand and without recognizing any claim of our customer
- Automatically Renewing:** extended automatically without amendment for one year from any present or future expiration date

SCOPE:

This Letter of Credit Policy and Standard Letter of Credit Format apply to any Letter of Credit required by the City of Waterloo.

Any Letters of Credit held by the City of Waterloo prior to the approval of this Letter of Credit Policy and Standard Letter of Credit Format will continue to be held.

POLICY COMMUNICATION:

The Letter of Credit Policy and Standard Letter of Credit Format will be provided by the Finance Department to any customer required to provide the City of Waterloo with a Letter of Credit.

POLICY:

1) Credit Rating Criteria

Letters of Credit matching the City of Waterloo's Standard Letter of Credit Format will be accepted from Banks and Trust Companies having a credit rating of R-1 (middle) AA or higher.

Letters of Credit matching the City of Waterloo's Standard Letter of Credit Format will be accepted from Credit Unions, provided that:

- The Credit Union is verified as a member of Central 1 Credit Union
- Central 1 Credit Union, rated R-1 (middle) A, maintains or improves upon their rating
- The Credit Union has its Head Office in Ontario
- The cumulative total of all letters of credit from each credit union does not exceed 0.5% of Tier 1 Capital as reported on each credit union's most recent audited financial statements

- The total Credit Union portfolio holdings will not exceed 20% of the total letter of credit portfolio holdings
- Notwithstanding the foregoing, the City of Waterloo reserves the right, in its sole discretion to deny the use of a Letter of Credit from an institution, if, in the opinion of the Chief Financial Officer there is reason to believe the Credit Union will no longer satisfy the above criteria in the near or medium term

Letters of Credit from any other Financial Institution will not be accepted.

2) Standard Letter of Credit Format

A copy of the City of Waterloo's Standard Letter of Credit Format is included as Page 4 of this policy. A template can also be obtained from the Finance Department.

Changes or additions to the text of the Standard Letter of Credit Format will not be accepted.

Site or agreement specific information can be added in the header (RE:) area of the Letter of Credit. This information is not to be added within the body of the document.

All letters of credit must be unconditional, irrevocable, automatically renewing, and permit partial drawings. All letters of credit must be in Canadian dollars.

3) Other allowable Forms of Security

Security will also be accepted in the form of cash, certified cheque, money order, or bank draft, which will be deposited to the City of Waterloo's bank account. No interest will be paid to the customer on these funds.

Letters of Guarantee will not be accepted as they are less liquid and do not provide the same advantages as Letters of Credit.

4) Administration

All letters of Credit or other allowable forms of security will be forwarded to the City of Waterloo Finance Department. The Finance Department is responsible for approving and maintaining the security, and processing all reductions, releases and draws.

All requests for reduction or release will be directed to the appropriate department for verification that obligations have been met.

CITY OF WATERLOO --- STANDARD FORMAT FOR LETTERS OF CREDIT

FINANCIAL INSTITUTION LETTERHEAD

Letter of Credit No:

Total Amount:

Date:

Branch:

To: The Corporation of the City of Waterloo

UNCONDITIONAL IRREVOCABLE LETTER OF CREDIT

RE: (Use this line for any specifics related to the Site or Agreement. Examples:

Address /

Subdivision Phase & Stage / Site Servicing or Performance or Topsoil/Erosion / Site Plan #

Please note: Changes or Additions to the text of the Standard Format below this line will not be accepted)

We hereby authorize you to draw on

_____,
_____,

for account of our
customer,

up to an aggregate amount of _____, dollars
(\$_____) CAD available on demand as follows:

Pursuant to the request of our customer, the said _____, we, the _____ hereby establish and give to you this Unconditional Irrevocable Letter of Credit in your favour in the total amount of _____ (\$_____) CAD which may be drawn on by you at any time and from time to time upon written demand for payment made upon us by you which demand we shall honour without inquiring 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.

Provided, however, that your are to deliver to the _____, _____, _____, at such time as a written demand for payment is made upon us a certificate signed by you 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.

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 by you from time to time.

This Letter of Credit will continue in force for a period of one year, subject only to the conditions hereinafter set forth.

It is a condition of this Letter of Credit that it shall be deemed to be automatically extended without amendment from year to year from the present or any future expiration date hereof, unless at least 30 days prior to the present expiration date or to any future expiration date, we notify you in writing by registered mail addressed to: Chief Financial Officer and Treasurer, The Corporation of the City of Waterloo, 100 Regina Street South, PO Box 337, Stn Waterloo, Waterloo ON, N2J 4A8, that we elect not to consider this Letter of Credit to be renewable for any additional period.

Partial drawings hereunder are permitted.

Drawings must be negotiated not later than close of business on the expiry date or renewed expiry date hereunder as the case may be.

FOR: _____
(FINANCIAL INSTITUTION) _____
(AUTHORIZED
SIGNATURE) _____
(NAME(S)) _____
(TITLE(S)) _____

I(We) have the authority to bind the corporation.

COMPLIANCE:

In cases of policy violation, the City may investigate and determine appropriate corrective action.