

CANADA SMALL BUSINESS FINANCING LIMITS INCREASE

By *Bruce Duggan*

Obtaining business financing in this present market is challenging. Commercial banks may require financial ratios that cannot be met by an expanding business, they may require personal guarantees with a mortgage against a family home that one spouse may not be prepared to give or they may no longer want exposure in particular market segments. There are many reasons why a business may not be able to satisfy the commercial lending requirements of banks. However, there is a government programme designed to increase available financing to business, and its benefits have just been enhanced.

Limits Increased To \$500,000

As of the beginning of April 2009, the Canada Small Business Financing Act (“CSBFA”) was amended to increase financing limits to a maximum of:

- a. \$500,000.00 for the purchase or improvement of real estate or
- b. \$350,000.00 for the purchase or improvement of leasehold improvements and equipment.

There are several advantages to CSBFA financing:

- a. the interest rate is a maximum of Prime + 3% either as a fixed or floating rate,
- b. terms range up to 10 years,
- c. personal guarantees are limited to 25% of the loan,
- d. the borrower’s equity in the assets can be as low as 10%, and
- e. banks will not charge fees, other than possibly a fee for preparing documents.

These credit terms are only available to small and medium sized businesses because of a federal government guarantee given to the bank that reduces the bank’s risk. And that is the limit of the federal government’s involvement. A borrower still applies to a bank and it is the bank that is responsible for administering and making decisions about the loan.

Advantage of the CSBFA Programme

The structure of a CSBFA loan can be more favourable to some borrowers than a comparable traditional commercial loan. With the current prime rate at historic lows, commercial bank rates appear to be moving to interest rates of prime + 3% in any event for most lines of credit. Entrepreneurs know that banks will likely require an unlimited personal guarantee. Often CSBFA loans are not a first choice for either borrowers or bankers; however, when there are limited options, CSBFA loans do permit credit where none would otherwise have been available. And here lies one of the strengths of the CSBFA programme: **the ability to add CSBFA financing from a new bank on top of an existing, ongoing lender.**

The CSBFA programme requires that a bank obtain only the highest available security interest in the asset to be financed, with certain limitations. This additional layer of new CSBFA financing is used most often where equipment or leasehold improvements have been previously financed and CSBFA financing is used to pay for additional improvements to the same asset.

How To Qualify

The requirements for a borrower remain unchanged and not onerous. To qualify, a borrower must have annual gross revenues not exceeding \$5,000,000.00 and must use the eligible assets in a business operating primarily in Canada for profit. The borrower does have to pay a one-time government fee of 2% of the loan amount, however this can be added to the amount borrowed. The fee is used by Industry Canada to defray some of the government's loan guarantee costs to banks. And the bank must still be satisfied that the borrower has the capacity to repay the loan. It is because the bank's risk is largely covered by the government's loan guarantee that the bank's decision to extend credit is easier to make.

Eligible Assets

The assets eligible for CSBFA financing have to fit within any or all of three categories:

- a. equipment,
- b. leasehold improvements or

c. real property.

These broad categories will permit CSBFA financing for the purchase of an existing business as well as non-arm's length transactions. A borrower can finance either the purchase or improvement of any eligible assets, or both.

There are some limits. Working capital requirements, such as for inventory or account receivables cannot be financed under the CSBFA, nor can software licences. Proprietary software itself is an eligible asset.

Time Lines

CSBFA loan advances must be made within six months from the borrower's purchase commitment. There will, of course, be the usual, mandatory pile of paperwork documenting both the loan and the borrower's corporate authority to borrow, but beyond that the borrower need only provide proof of the purchase and cost of eligible assets.

Small and medium sized businesses are a very important part of our economy. It is Industry Canada's mandate, using the CSBFA programme, to increase the availability of commercial credit to Canadian business to encourage business growth and new jobs. The recent doubling of the maximum CSBFA lending limits to \$500,000.00 will help keep the CSBFA relevant and useful.

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