



CANADA SMALL BUSINESS FINANCING PROGRAM (CSBFP)

Making a Loan

Overview

- The CSBFP
- Eligibility criteria
- Registration, administration and reporting
- Resources

Lenders should always refer to the [Act](#) and [Regulations](#), as they constitute the legal authority for the program. They contain the procedures and conditions for making and administering CSBFP loans and for submitting and substantiating claims for loan losses.

The CSBFP

- Increases access to financing for small businesses
- The risk is shared between Innovation, Science and Economic Development Canada (ISED) and the lenders
- Operates across Canada through a [network of lenders](#)
- Helps create jobs

Eligibility criteria

Eligible lenders

- Members of the Canadian Payments Association
- Members of a central co-operative credit society that is a member of the Canadian Payments Association
- Any other organization designated by the Minister

What's in it for lenders

- Can acquire new clients/members and meet the growing needs of businesses
- Share the risk with ISED
- In case of default by a borrower, ISED will reimburse a **maximum of 85% of the lender's net eligible loss** up to the maximum Minister's Liability towards the lender. The [limitation of the Minister's liability](#) to each lender is calculated on the total of CSBFP loans made and registered for each five year lending period.

The role of ISED

- Design the program and legislation
- Promote awareness of the program
- Register loans and collect registration and administration fees
- Review and pay lender's claims for eligible losses on defaulted loans
- Ensure compliance with the [Act](#) and [Regulations](#)

The role of lenders

- Make all credit decisions & disburse funds (lender's funds)
- Apply same [due diligence](#) as for conventional loans
(must include but not be limited to credit references & repayment ability of borrower)
- Register loans, remit registration fees, report & pay administration fees
- [Realize](#) all securities and guarantees on defaulted loans
- Submit the [claim for loss](#) (If realization of guarantees is not complete, an [interim claim for loss](#) can be submitted with a holdback)

Eligible Businesses

- Start-ups or existing businesses with gross annual revenues of \$10 million or less
- Borrowers can be sole proprietors, partnerships, corporations or cooperatives
- Farming businesses are ineligible. Refer to the Canadian Agricultural Loans Act (CALA) Program
- Service Industries Incidental to Agriculture are eligible
- Related borrowers may each access the maximum loan amount as long as they pass the independent small business test

Maximum amounts for term loans

Maximum of \$1,000,000 of which:

- \$1,000,000 can be for the purchase and improvement of real property of which the borrower is or will become the owner
- Within the maximum limit of \$1,000,000 above, a maximum of \$500,000 can be for purposes other than the purchase and improvement of real property. (e.g. leasehold improvements and equipment)
- Within the maximum limit of \$500,000 above, a maximum of \$150,000 can be used to finance intangible assets and working capital costs

Maximum amounts for lines of credit

Over and above the maximum term loan amount of \$1,000,000, a maximum line of credit of \$150,000, which can be used to finance working capital costs necessary to cover day-to-day operating expenses of a business

Term loan classes

A CSBFP term loan may be used to finance:

- real property
- leasehold improvements
- equipment
- intangible assets
- working capital costs
- 2% registration fees

The assets financed must be used for the operation of the small business.

50% rule and 3 year rule

- **50% rule:** real property can be financed provided that at least 50% of the property is used to operate the business
- **3 year rule:** the intention of the borrower cannot be to sell, lease or sub-lease the operational area for the next three years

365 day rule

A lender may include expenditures or commitments made within 365 days (previously 180 days) prior to the date on which the term loan is approved.

Ineligible expenditures for a term loan

- Pre-existing term loan
- Pre-existing line of credit
- Shares
- Vendor take back financing
- Exchange or Barter
- Etc. (refer to [Guidelines](#))

Proof of purchase/payment

Term loans

Eligible expenditures must be supported by proof of purchase (invoices, purchase agreements, etc.) in the name of the borrower. The invoices and purchase agreements must provide details of the items being purchased (e.g., make, model, serial numbers, etc.) or the work being done.

Lines of credit

The borrower needs to sign an attestation indicating that the line of credit will only be used to pay for working capital costs; and the working capital costs paid through the line of credit were not incurred more than 365 days prior to date the line of credit was authorized.

Determining the eligible term loan amount

The eligible amount of the loan is the *lesser of*:

- the eligible cost of assets purchased
- the eligible proof of payment

Appraisals

A lender must obtain an appraisal for:

- non-arm's length transactions
- purchases of all, or substantially all, of the assets of a going concern
- purchases from the lender or its representative, of an asset that is or was used to secure a conventional loan from the same lender

Determining the eligible term loan when an appraisal is required

The eligible cost will be the lesser of:

- the cost of purchasing the asset, or services to improve the asset
- the appraised value of the asset, or the services to improve the asset

Other appraisal requirements

The appraisal must be:

- received by the lender before the disbursement of the loan funds for the corresponding expenditure
- made not more than 365 days before the CSBFP loan disbursement date
- made by an appraiser who is a member of a professional association who is at arm's length from the borrower when the term loan is used to finance real property

Other appraisal requirements (cont.)

The appraisal must be:

- for an equipment loan, an appraisal can be made by an expert in the field (a supplier of similar equipment, auctioneer, etc.), who is at arm's length from the borrower
- for a leasehold improvements loan, an appraisal can be made by a general construction contractor, a construction estimator, an engineer, an architect, a contractor of that specific leasehold improvement (e.g., a plumber, bricklayer etc.), construction consultant or interior designer
- for intangible assets or a working capital loan, an appraisal can be made by an appraiser that has experience in evaluating such assets, such as a chartered accountant or a chartered business valuator

Repayment terms

Term Loans: The maximum term (length of government coverage) is 15 years for all loan classes. The repayment of the term loan can be amortized over a period longer than 15 years. At least one payment of interest and one payment of principal must be scheduled to be made each year.

Lines of Credit: The maximum loan term is 5 years (length of government coverage), beginning on day the line of credit is opened by the lender. Before the opening of the line of credit, the lender and the borrower must sign a document setting out, the authorized amount of the line of credit, the rate of interest and the terms of the line of credit.

Payments may be adapted to a borrower's needs (i.e., blended, seasonal or escalating).

Rate of interest

Term loans:

The maximum floating rate is the lender's prime rate in effect on each day of the CSBFP loan term plus 3% (including the 1.25% annual administration fee).

The maximum fixed rate is the lender's posted single family residential mortgage rate plus 3% (including the 1.25% annual administration fee).

Lines of credit:

The maximum floating rate is the lender's prime rate in effect on each day the line of credit is open plus 5% (including the 1.25% annual administration fee).

Lenders may charge interest rates lower than the regulated maximums.

Other fees and charges

The lender can request from the borrower fees, service fees, and/or charge of any kind that are equal to or less than the amount typically charged for similar conventional loans or lines of credit.

Security

The types of security for CSBFP loans are as follows:

- primary security
- additional security
- guarantees (personal and corporate)

Lenders must ensure that the security is made valid and enforceable as of the date of the first disbursement on the CSBFP loan and at all times during the duration of the loan, including at the time of realization of the security.

Primary security

This security is mandatory.

- Must be of first rank and valid and enforceable
- Alternate security
- Equal ranking security
- 30 days equal ranking applies to loans financed on eligible assets within 30 days of disbursement of the CSBFP loan
- Highest available rank, if prior security exists
- After-acquired clause

Primary security (continued)

- If a CSBF term loan is made to finance the purchase of computer software, leasehold improvements, intangible assets and/or working capital costs, the lender must take security (e.g., General Security Agreement) in any assets of the small business.
- The same requirement applies to taking security for a CSBF line of credit.

Site visit suggested checklist

The program's [Site Visit Suggested Checklist](#) clarifies the type of information which should be verified during a site visit. It is recommended that lenders refer to this form for the wording and content.

Additional security

The lender may further secure the CSBFP loan or line of credit with additional security on any other assets of the business.

Personal assets cannot be used to secure a CSBFP loan or line of credit.

Substitution and release of security

Assets taken as primary security can be substituted by other business assets provided that certain conditions are met.

The lender can substitute additional assets or guarantees for any other assets or guarantees, provided certain conditions are met.

The lender may release any secured assets or guarantees without substitution or replacement, provided certain conditions are met.

Guarantees

A lender may further secure a CSBFP loan or line of credit by way of a personal or corporate guarantees.

Personal guarantees

A lender can take **unsecured** personal guarantees up to the original amount of the loan disbursed.

Corporate guarantees

A lender may take **secured or unsecured** corporate guarantees up to the original amount of the loan disbursed.

Registration, administration and reporting

Loan registration

For a term loan or line of credit to be considered registered under the program:

-Term loans:

- the first disbursement has been made
- the loan must be registered within 6 months after the first disbursement date

-Line of credit:

- the line of credit has been opened
- The line of credit must be registered within 6 months of the day the line of credit was opened

CSBFP online loan application

Lenders can register term loans or lines of credit in [the CSBFP Online Loan Application](#), a secure web-based environment, which allows lenders to:

- submit new, modify existing, withdraw pending, and de-register registrations
- receive and print registration confirmations and modification acknowledgements
- view the status of registrations and claims
- submit Claim for Loss documents
- submit and track registration fee transfers as well as modified term loan and line of credit amounts
- request and receive refund payments for decreased term loan and line of credit amounts

Registration fees

Term loans

The registration fee is 2% of the total amount of the term loan

Lines of credit

The registration fee is 2% of the authorized line of credit amount

A line of credit can be renewed for an additional 5-year period provided that:

- The renewal occurs prior to the expiry of the 5 year period
- A new registration form has been submitted
- An additional 2% registration fee has been paid on the renewed authorized amount

Administration fees

Term loans

The annual administration fee of 1.25% is calculated on the end-of-month loan balances.

Lines of credit

The annual administration fee of 1.25% is calculated on the daily outstanding balance.

Administration fees must be paid on all term loans and lines of credit including those in default, in realization process, and those for which an [interim claim](#) has been paid. This fee can only be charged to the borrower as part of the interest rate. This fee is payable within 2 months after the end of each quarter of the government fiscal year.

Refund of registration fee and/or administration fee

For a CSBFP term loan:

A written request for a refund of registration and administration fees must be made by the lender (not the borrower) within one year of the date of the first disbursement of the loan funds:

For a CSBFP line of credit:

A written request for a refund of registration and administration fees must be made by the lender (not the borrower) within one year following the date the line of credit was opened.

Transfer of term loans and lines of credit

Between borrowers:

- Transfers between borrowers and release of original borrower is permitted if certain conditions are met
- Lenders should inform the CSBFP Directorate in writing
- Lenders are required to provide the documentation in the event a claim for loss is filed

Between lenders:

- Lenders acquiring the loan or line of credit must complete the form which must be signed by both lenders and the borrower.
- Lenders are required to provide the documentation in the event a claim for loss is filed

Resources

Visit the [CSBFP website](#)

- Bookmark the [Toolbox for Lenders](#) page
- [Order the CSBFP pamphlet](#) and [the Services for Small Business Pamphlet](#)
- Access the program [Bulletins](#) and [Overview and Highlights](#)
- Read our [Realizing on a CSBFP Loan](#) presentation
- [Subscribe](#) to our newsletter for lenders

Resources to share with small businesses:

[Business Benefits Finder](#)

[Canada Business App](#)

[Services & information for businesses](#)

Contact us - Toll-free: 1-866-959-1699 - csbfp-pfpec@ised-isde.gc.ca