



July 4, 2022

Canada Small Business Financing Program

The amendments to the *Canada Small Business Financing Regulations* and *Canada Small Business Financing Act* came into force on July 4, 2022. They provide lenders and small businesses with additional financing products, new class of loans, increased loan amounts and terms, improved loan conditions and decreased administrative burden. Below is a detailed summary of the amendments.

Maximum loan amount

New financing amounts: The maximum loan amount for a borrower (and related borrower) has been increased from \$1 to \$1.15 million which includes the following:

- \$1 million for term loans of which a maximum of \$500,000 includes:
 - equipment and leasehold improvements loans (up from \$350,000); and
 - \$150,000 for intangible assets and working capital costs.

Plus

- \$150,000 for lines of credit for working capital costs (which is over and above the \$150,000 that can be used for working capital costs under the term loan product).

Term loans

1. **New financing classes:** Intangible assets and working capital costs can be financed as a term loan and are defined as follows:
 - **intangible asset:** a non-monetary asset without physical substance that can be sold, transferred, licensed, rented or exchanged or that arises from a contractual or other legal right. Examples: franchise fees, goodwill, incorporation costs, permits and licenses used in the operation of eligible assets, capitalized research/development costs.
 - **working capital costs:** costs to fund the day-to-day operating expenses of a business. Examples: inventory, expenses related to the creation and development of software and websites, printed materials (brochures, flyers, business cards, menus, photocopies), professional fees (e.g., legal, accounting, appraisal), research and development costs, payroll, rent.

2. **Maximum loan term (government coverage period):** On or after July 4, 2022, all term loans to finance real property, leasehold improvements, equipment, intangible assets and working capital costs can be made for a maximum 15 year term.

Implementation: On or after July 4, 2022, equipment and leasehold improvement loans already registered, or disbursed and not registered, may be amended to the new 15 year term.

3. **Eligible expenditures – Appraisal**

Eligible expenditures: The time period to finance expenditures or commitments for any term loan has been increased from 180 days to 365 days prior to the date the term loan is approved.

Appraisals: In the event a lender is required to obtain an appraisal to finance a term loan, the date that the appraisal is made has been changed from 180 days before the term loan is **approved** to 365 days before the term loan is **disbursed**.

Implementation: These new provisions for eligible expenditures and appraisals described above apply only to term loans that have the date of first disbursement on or after July 4, 2022.



4. Maximum interest rate and fees

- The maximum interest rate for term loans continues at prime + 3% (or the single family residential mortgage rate + 3%);
- The 2% registration fee continues to apply;
- The 1.25% annual administration fee applied to the end-of-month loan balances continues to be in effect.

5. **Registration:** The period to register a term loan has been increased from three to six months from the date of the first loan disbursement.

Implementation: If a loan was disbursed prior to July 4, 2022 and has not been registered, the loan may be registered within the 6 month period described above.

6. Security

- For real property and equipment term loans, a lender must continue to take security in the assets financed.
- For leasehold improvement, computer software, website, intangible assets and working capital costs, a lender must take security in any assets of the small business for the value of the loan (e.g., a General Security Agreement).

Implementation: These new security provisions described above apply only to term loans that are disbursed on or after July 4, 2022.

7. **Default:** Default occurs when a borrower fails to comply with a material term of the loan agreement (e.g., failure to make a payment). When this happens, lenders will no longer be required to give a borrower a notice of default AND a demand for repayment.

The lender will only need to provide the borrower with a demand for repayment of the outstanding loan amount within a specified period of time. The claim must be submitted within 60 months after the day on which the last payment on the loan is received.

Implementation: This new requirement applies to term loans registered after July 4, 2022 and currently registered CSBFP term loans for which the last loan payment is after July 4, 2022.

8. **Claim process and documents:** The requirement to provide documentation that substantiates the cost and proof of payment of the purchase has been reduced from 100% to 75% of the principal amount outstanding on the loan as of the date of the last payment of principal and/or interest and applies to initial, interim and additional claims.

Implementation: This new requirement will apply to term loans registered after July 4, 2022 and to CSBFP term loans already registered for which the last loan payment is on or after July 4, 2022.

Line of credit

9. **New financing product:** A line of credit may be made for **working capital costs**, that is, costs necessary to cover day-to-day operating expenses of a business. Examples are: inventory, expenses related to the creation and development of software and websites, printed materials (brochures, flyers, business cards, menus, photocopies), professional fees (e.g., legal, accounting, appraisal,), research and development costs, payroll, rent.

10. **Eligible expenditures:** A line of credit may be used to pay for ongoing expenditures or commitments that arise or were invoiced no more than 365 days prior to the date the line of credit was authorized.



- 11. Line of credit term (government coverage period):** The maximum term for a line of credit is 5 years beginning on the day after the line of credit is opened by the lender.
- 12. Renewal of a line of credit:** Before the end of the five years from the date the line of credit is opened, the lender and borrower have the following options:
- Re-register the line of credit for a new period of 5 years in which case a new registration form and a registration fee of 2% on the renewed authorized line of credit amount will be required to be submitted to the CSBFP;
 - Convert the line of credit amount to a CSBFP term loan with a maximum 10-year CSBFP coverage and that meets the following conditions:
 - The interest rate must not be greater than prime rate plus 5%;
 - The terms of loan conversion are set out in a document signed by the lender and the borrower and that provides a minimum of one principal and interest payment each year, with the first payment scheduled to be made within one year of the date the conversion;
 - Enter into an agreement to repay the balance of the line of credit with a conventional loan.
- 13. Interest rate and fees**
- The maximum interest rate for lines of credit is prime + 5%;
 - The registration fee for lines of credit will be 2% of the authorized amount;
 - The annual administration fee for lines of credit is 1.25% on the daily outstanding amount or the average daily balance for each month.
- 14. Registration:** A line of credit must be registered within 6 months from the date the line of credit is opened by the lender. A new registration form for lines of credit has been developed.
- 15. Security:** For a line of credit, a lender must take security in any assets of the small business for the authorized amount of the line of credit (e.g., a General Security Agreement).
- 16. Default:** Default occurs when a borrower fails to comply with a material term of the line of credit agreement (e.g., failure to make payment). The lender will only need to provide the borrower with a demand for repayment of the balance due on the line of credit as of the date of default within a specified period of time. The claim must be submitted within 60 months after the day on which the last payment on the line of credit is received.
- Implementation:** This new requirement applies to lines of credit registered on or after July 4, 2022.
- 17. Claim process documents:** Lenders are not required to substantiate the cost and proof of payment for expenditures on the line of credit. Instead, the lenders must submit an attestation form signed by the borrower at the time the line of credit is registered stating that:
- the line of credit is to be used to pay for working capital costs of the day-to-day operational expenses of the small business;
 - the expenses paid through the line of credit did not arise and were not invoiced more than 365 days before the line of credit was authorized.
- 18. CSBFP liability limit for each lender:** The CSBFP's liability for lines of credit for a lender is limited to 15% of the total amount of the lines of credit authorized and registered by that lender. This liability for lines of credit is separate and apart from a lender's liability calculation for its term loans registered with the CSBFP. The line of credit liability commences in the current five-year C5 lending period which ends on March 31, 2024.



Other changes applicable to term loans and lines of credit

Release of a guarantor: A lender may release a guarantor or modify the guarantee if the loan is in good standing. The condition that the borrower repaid the loan at least 50% of the principal amount has been removed.

Non-compliance: The non-compliance provisions have been amended to take into account regulatory amendments to appraisal, primary security, outstanding loan amount, maximum term of loans and lines of credit.

Transfer of loans: The sections relating to the transfer of loans between lenders and borrowers allow for the changes to the Minister's liability, the start date of the 15-year loan term and term for the line of credit, and the new maximum loan amounts.

Additional changes: Other changes provide additional clarifications so that the provisions in the regulations apply to term loans and lines of credit, reduce redundant text, and remove outdated references.

Forms – Guidelines– Toolbox for lenders

Some of the following pages on the [Canada Small Business Financing Program](#) have already been updated to incorporate the changes resulting from the amendments to the Canada Small Business Financing Regulations outlined in this Bulletin. Other pages will be updated over the next few months.

- CSBFP Guidelines
- Forms (Registration, Claims etc.)
- Toolbox for lenders
- Presentations

www.canada.ca/csbfp

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