

# Canada Small Business Financing Program



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Communities Credit Union

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# Main Objectives:

- To increase availability of financing for the establishment, expansion, modernization and improvement of small business.
- To facilitate access to loans that would not otherwise be available to small businesses or would only obtain under less favourable terms.
- To stimulate economic growth and create jobs among small and medium sized enterprises.



# Eligibility and Other Criteria

- Businesses operating for profit with gross annual revenues of \$5 million or less
- Borrower can be sole proprietor, partnership or corporation
- Non-eligible businesses:
  - Farming
  - Religious/charitable organizations
  - Not-for-profit organizations



# Eligibility and Other Criteria (continued)

- **Maximum amount of the loan: \$500,000** (including related borrowers)
  - (Of which no more than \$350,000 can be used for leasehold improvements and equipment)
- **Related borrowers:**
  - Companies are related borrowers if they cannot pass the independent small business test.
- **Independent Small Business Test:**
  - they are operating separate small businesses at different premises; and
  - neither business derives more than 25% of its actual or projected gross revenues from the other



# Eligibility and Other Criteria (continued)

- **Financing limited to 90% of the cost of the eligible assets:**
  - Real Property (land, building)
  - Leasehold Improvements
  - Equipment (new or used)
- **180-day rule:**
  - Lender may include expenditures/commitments made within 180 days prior to the date on which the loan is approved.
- **Proof of purchase and payment must be obtained:**
  - Cancelled cheque, Debit/Credit Card, Line of Credit, Cash payment, Sales contract.



# Ineligible Items

- Working capital
- Improvements to a family dwelling for non commercial purposes
- Purchase of shares in a corporation
- Permits & licenses used in the operation of eligible assets
- Franchise fees
- Feasibility studies
- Professional fees (e.g., legal, accounting and appraisal)
- Survey costs
- Building permits
- Vehicles for personal use
- Supplies (e.g., paper, staplers, pens, uniforms, erasers, menus, photocopies)
- Intangibles (e.g., research/ development costs, prepaid expenses, goodwill)
- Improvements to real property or immovables, where the vendor as the owner of that real property or immovable is selling those improvements
- Labour costs of the borrower, its employees, shareholders and directors of a corporate borrower.



# Calculating the Eligible Amount

- **Step 1: Eligible costs of assets purchased**
  - 90% of the total amount (less refundable taxes) of the invoice/purchase contract, for which there is proof of payment.
  - \* Note: For those loans that require an appraisal, the eligible cost is the lesser of the cost of eligible assets (less refundable taxes) and the appraised value of the eligible assets.
- **Step 2: Eligible proof of payment, is the lesser of:**
  - Proof of payment that equals the amount of the invoice/purchase contract (less refundable taxes), and
  - the amount of payment if it is less than the amount of invoice/purchase contract (less refundable taxes)
- **Step 3: Eligible amount of the loan, is the lesser of:**
  - Step 1: the eligible cost of assets purchased, and
  - Step 2: the eligible proof of payment



# Terms of the Loan and Fees

- Maximum Government Guarantee: 10 years
- Minimum of one payment of principal and interest scheduled per year
- Interest rate
  - Maximum variable rate: Prime lending rate + 3%
  - Maximum fixed rate: Single family residential mortgage rate + 3%
- Registration fee paid by the borrower
  - 2% of the total loan amount (can be financed)





# Due Diligence

- **General principle**
  - Lenders must apply the same care and procedures in making and administering a CSBF loan as they would for a conventional loan
- **Procedures must include, but are not limited to:**
  - Credit check on the borrower/guarantor
  - Repayment ability of the borrower



# Specific Criteria (Real Property)

- **The 50% Rule:**

The borrower is using, or will be using, at least 50% of the area for the operation of the business within 90 days after final disbursement under the loan agreement. The area in excess of the operational area is not subject to the 3 years rule and can be leased.

- **The 3-year rule:**

- At the time the loan is made, it is not the intention of the borrower to sell, lease or sub-lease the operational area for which the loan is made, for the next three years. The following industries are eligible to finance premises for leasing purposes: mini-storage, health care and hospitality.



# Lending Example

**\$200,000** Building Purchase

**\$50,000** Equipment Purchase

**\$50,000** Leasehold improvements

	Traditional	CSBFP
Building	\$120,000 (60%)	\$180,000 (90%)
Equipment	\$25,000 (50%)	\$45,000 (90%)
Leasehold Improvements	\$0	\$45,000 (90%)
	<b><u>\$145,000</u></b>	<b><u>\$270,000</u></b>
Fees	\$0	\$5,400 (100%)
	<b><u>\$145,000</u></b>	<b><u>\$275,400</u></b>

