Industry Canada Industrie Canada

# Canada Small Business Financing Act *and* Small Business Loans Act

## *Annual Report*

## 1999-2000

Canada

# Canada Small Business Financing Act
## *and* Small Business Loans Act

*Annual Report*

**1999-2000**

The Canada Small Business Financing program is a national program operating in all provinces and territories. Under the Canada Small Business Financing program, financial institutions make term loans of up to $250 000 to small businesses to purchase land, buildings or equipment or to improve buildings and equipment. The Government of Canada underwrites 85 percent of the net losses incurred on defaulted loans. Cost recovery is the goal of operations under the *Canada Small Business Financing Act*. Revenues on loans made are expected to offset claims costs over a 10-year period.

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The Honourable L'honorable
John Manley P.C., M.P. c.p., député

Her Excellency the Right Honourable Adrienne Clarkson, C.C., C.M.M., C.D.
Governor General
Government House
1 Sussex Drive
Ottawa, Ontario
K1A 0A1

Your Excellency:

In accordance with section 18 of the *Canada Small Business Financing Act* (CSBFA), I have the honour to place before Your Excellency a report on the administration of the CSBFA for the 12-month period ended March 31, 2000.

In the past few years, Canada has enjoyed positive economic health. A decisive factor in this result has been the growth and expansion of small businesses. In 1999, small and medium-sized enterprises accounted for virtually all net new jobs created in Canada. Recognizing the importance to Canada's economy of this vital community, the government, through innovative policies, continues to support and nurture it.

In April 1999, the CSBFA became effective. The new Act, based on the parameters of its predecessor, the *Small Business Loans Act* (SBLA), incorporates strengthened measures to ensure that the program benefits its target sector while improving its ability to move toward cost recovery. Further, the new Act introduces provisions that authorize the development of two pilot projects to extend the Canada Small Business Financing (CSBF) program to capital leasing and voluntary sector organizations.

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After a year of operation under the new Act, I am pleased to report that the CSBF program has been successfully implemented. This outcome would not have been possible without the full cooperation of the lenders who deliver the program on behalf of the government and without extensive consultation with stakeholders.

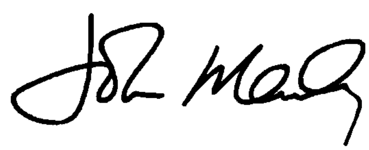
The CSBF program facilitates access to debt financing by small businesses. The gap it fills is as relevant today as it was at the inception of the Small Business Loans program in 1961. In 1999–2000, there were 17 667 loans made under the program, amounting to approximately $1.351 billion in debt financing. The average loan size increased to $76 493.

Lending through the CSBFA has allowed smaller, younger firms in particular to launch themselves, to grow, to hire new employees and to succeed. More than 50 percent of CSBF loans were granted to start-up or new businesses, which demonstrates the CSBFA's success in filling this significant market gap.

CSBFA borrowers expected an average of 3.1 jobs to be created per loan made in 1999–2000. This represents a 15 percent increase over the estimated jobs per loan made in the last year of the SBLA. Borrowers estimated that in 1999–2000 their loans would allow them to create 55 238 jobs.

The establishment of the new CSBF program was just the beginning. Next year, the federal government will be developing proposals for two pilot projects under the program that will undertake to offer small businesses and the voluntary sector access to additional and more effective financing tools, thereby helping these sectors to grow and succeed. Further, through its cost recovery provisions, the program will be contributing to our country's dynamic economy at a low cost to Canadians.

Respectfully submitted,



John Manley
Minister of Industry

# Contents

## Part 2: *Small Business Loans Act*

# Highlights

## Implementation of the New Act

The *Canada Small Business Financing Act* (CSBFA) became effective on April 1, 1999, and was successfully implemented in partnership with lenders. The Act builds on a successful program that has been in place since 1961, and replaces the *Small Business Loans Act* (SBLA).

## Loans Made

Some 17 667 small business loans totalling $1.351 billion were made under the CSBFA during 1999–2000. The average loan size was $76 493.

## Job Impact

Borrowers anticipate that the small business loans made in 1999–2000 will create an estimated 3.1 net new jobs each, for a total impact of 55 238 new jobs across Canada.

## Loan Uses

Of the $1.351 billion in loans made, 62.1 percent of this amount was used to finance the purchase, installation, renovation, improvement and/or modernization of equipment; 21.2 percent went toward financing the renovation, improvement, modernization, construction and/or purchase of real property or immovables; 15.7 percent was earmarked for the making or purchase of leasehold improvements; and the small remainder paid for loan registration fees.

## Firms Using the Program

Small businesses just starting up received more than half the number and value of loans made. The industry sectors making greatest use of the loans made were accommodation, food and beverage services, and retail trade. More than half of all businesses receiving the loans had annual revenues of less than $500 000. Generally, the larger the firm in terms of annual revenues, the larger the loan made.

## Claims Paid

In 1999–2000, 12 claims were paid on loans made under the CSBFA, for a total of $323 451. During the same period, 4 720 claims were paid on loans made under the SBLA totalling $203.1 million.

## Contingent Liability

As of March 31, 2000, the government had a net contingent liability of $296.8 million with respect to $1.04 billion in outstanding loans made under the CSBFA. Contingent liability is used as a measure to control the size of the program over its five-year period and is not an indication of the actual cost of the program.

## Cost Recovery Objective

The Small Business Loans (SBL) program (for loans made from 1995–96 to 1998–99) and the Canada Small Business Financing (CSBF) program were both designed to meet their goal of cost recovery when the loss rate is 6.25 percent. It now appears that loans made in 1995–96 and 1996–97 will have loss rates greater than what is required to be cost recoverable. Significant changes were made to ensure that additional loans made under the program would meet this goal. The many provisions included in the CSBFA that were not found in the former SBLA are designed to achieve this end.

# Part 1: *Canada Small Business Financing Act*

## Background

The *Canada Small Business Financing Act* (CSBFA) was enacted in December 1998 and became effective on April 1, 1999. Industry Canada is the department responsible for administering it. The Act replaces the *Small Business Loans Act* (SBLA) and builds on the successful Small Business Loans (SBL) program, which had been in place since 1961. The CSBFA continues to facilitate asset-based debt financing of up to $250 000 for small and medium-sized enterprises (SMEs) having annual revenues of up to $5 million. It is not available for farming, renting (with some exceptions) or purchase for resale of real estate, or for charitable or religious enterprises. The purpose of the financing is for the establishment, expansion, modernization and improvement of borrowers' businesses. Through a network of 1 500 private sector lenders offering access to the program through some 13 000 points of service, the Canada Small Business Financing (CSBF) program operates in all provinces and territories. The Government of Canada underwrites 85 percent of the net losses incurred by lenders on defaulted loans. The program is designed to be self-sufficient; revenues collected on loans are expected to offset claims costs over a 10-year period.

A comprehensive review of the SBLA in 1998 had confirmed the program's efficiency and effectiveness in filling a gap in debt financing for SMEs. Results from the review, together with recommendations from the Auditor General and the House of Commons Standing Committee on Industry, were used as the basis for developing the new CSBFA.

The new Act's program parameters parallel those of the SBLA, but certain provisions have been included to strengthen its ability to move toward cost recovery. In addition, the CSBFA includes provisions for the creation of pilot projects to test the inclusion of capital leasing and voluntary sector lending within the program's scope.

The program is delivered by private sector lenders and is administered for the government by Industry Canada's Small Business Loans Administration (Administration). Industry Canada manages the program for itself and the regional economic development agencies: Western Economic Diversification Canada, Canada Economic Development for Quebec Regions and the Atlantic Canada Opportunities Agency. Lending institutions lend directly to borrowers and are responsible for all aspects of credit management, including decision making on the loan and realizing on the security when necessary, according to the CSBFA and its regulations.

The Administration registers individual loans made by lenders to small businesses under the legislation (17 667 loans were made in 1999–2000), and audits claims presented by lenders for payment (12 claims were paid on loans made under the CSBFA in 1999–2000). It collects both loan registration fees and annual administration fees from lenders. It also provides lenders with advice on interpreting the Act and regulations. Finally, the Administration collects and publishes detailed statistics on program lending to small businesses and on other related matters in its annual reports.

# Program

## Major Program Parameters

The CSBF program operates according to the following major program parameters:

- **Loan loss sharing ratio:** The government's share of eligible losses is 85 percent for loans in default (after recoveries on security). Lenders are responsible for the remaining 15 percent.
- **Cap on claims:** Each lender has a separate account of loans guaranteed under the program. In case of default, the government pays claims not exceeding 90 percent of the first $250 000 of loans in a lender's account, 50 percent of the next $250 000 and 10 percent of all remaining loans. This means that low-volume lenders are encouraged to participate, while the potential liability to high-volume lenders is capped at an average of 10.6 percent of the value of their guaranteed lending.
- **Percentage of the cost of eligible capital assets accepted for financing:** The maximum amount eligible for CSBFA financing is 90 percent of the cost of the assets.
- **Fees:** The borrower is obliged to pay an up-front, one-time registration fee of 2 percent of the value of the loan extended, with the option to finance this fee under the program. The lender, meanwhile, is charged an annual administration fee of 1.25 percent of the amount of outstanding loans during the term. The lender is permitted to pass this cost to the borrower only indirectly, through the interest rate charged on the loan.
- **Maximum interest rate:** Lenders may not charge interest in excess of 3 percent above the prime lending rate for floating rate loans, or the appropriate residential mortgage rate for fixed rate loans. Most of the loans made in 1999–2000 were floating rate loans.
- **Maximum loan size:** The total value of outstanding loans is capped at $250 000 per borrower.
- **Length of term:** The maximum term length of any loan is 10 years from the date the first principal payment is scheduled to be made.
- **Purpose of loan:** The eligible purposes of CSBF loans are restricted to the purchase of equipment, real property and leasehold improvements; the improvement of real property and equipment; and the financing of program registration fees.

## Significant Changes from SBLA to CSBFA

While the CSBF program's major parameters closely parallel those of the SBL program, a number of improvements were made to streamline the program, consolidate the Act, and assist the program's ability to achieve its goal of cost recovery (see Table I in the CSBFA Tables section for a detailed comparison). Significant changes include the following issues:

- **Due diligence and care:** The CSBF program directs lenders to apply the same due diligence and care to their handling of CSBF loans as they do to non-CSBF loans. This includes securing satisfactory credit references and an assessment of the borrower's ability to repay. Handling of this issue was not as strict under the SBL program.

- **On-site audits:** CSBFA legislation empowers the Minister to conduct on-site audits of lenders' CSBF loan documents and records to verify that the program is being delivered in accordance with the CSBFA and its regulations. There was no such authority under the SBL program.
- **Appraisals:** Appraisals are now required in more situations, including when a going-concern business is being purchased. The requirement for appraisals was more limited under the SBL program.
- **Related borrowers:** Related borrowers are limited to a maximum aggregate outstanding CSBF loan balance of $250 000, unless they are proven to be independent of each other. There was no such restriction under the SBL program.
- **Security:** Security ranking requirements are now clearly defined for various situations not previously addressed under the SBL program.
- **Revision of repayment terms:** Under the SBL program, alterations of repayment terms were permitted only in cases of actual or impending default. Repayment terms may now be altered at any time during the maximum loan term as long as the changes do not compromise the borrower's ability to repay the loan.
- **Claim for loss:** Interim claims for loss can now be made before realizing on personal guarantees and/or finalizing compromise settlements. Under the SBL program, all realization had to be completed before a claim could be made.
- **Administration fee:** Administration fees of 1.25 percent are payable quarterly under the CSBF program, rather than annually under the SBL program.
- **Remedies for non-compliance:** Under the SBL program, only a few specific types of errors could be corrected, and even then, only within a certain time frame. The CSBF program allows for a greater breadth of corrective measures with fewer restrictive time limits. For example, the inadvertent application of an excessive interest rate can be corrected.

## The Crown's Maximum Potential Liability to Approved Lenders

The Crown is contingently liable to approved lenders for the partial reimbursement of losses they may sustain for loans made under the CSBFA according to a particular formula (see the explanation of Cap on claims on page 3). As of March 31, 2000, the government's maximum net contingent liability related to loans made under the CSBFA was $296.8 million. Each lender has a separate account of loans guaranteed under the program during the lending period. While all loans carry the same amount of guarantee, not all loans carry the same amount of government exposure.

The contingent liability of the taxpayer under the program is the maximum amount of money that the government may be called upon to pay to lenders if all CSBF loans were to default simultaneously (without any repayments or without recoveries from guarantees or the sale of assets). However, the experience of the program does not come close to approaching this figure. The contingent liability is used as a measure to control the size of the program over its five-year period and is not an indication of the net cost of the program, which must take into account recoveries made against defaults and fees collected. All loans are subject to both the 2 percent registration fee and the annual 1.25 percent administration fee, which is to be paid quarterly beginning in 2000–01. Therefore, as contingent liability is accumulated, so are fee revenues.

## Cost Recovery Measures

The CSBFA has a number of provisions to help meet the goal of cost recovery that were not included in the SBLA. Lenders must use the same level of due diligence in making CSBF loan decisions and assessing loan repayment as they do when considering conventional loans. There is a provision for auditing a lender's loan files to assist in the monitoring of program compliance.

"Related Borrower" and "Independent Small Business" are two concepts introduced in the new Act to prevent project splitting without stifling successful entrepreneurs who are operating more than one small business at different premises whose projected gross revenues from each other do not exceed 25 percent. There are more situations under the CSBF program where an appraisal is required than under the SBL program. The quality of security required has been improved over SBL program requirements by increasing the number of situations where equal ranking security is required. In addition, the real property for which the CSBF loan is made can be taken as security to finance leasehold improvements to a borrower who is not dealing at arm's length with the landlord.

To speed the payment of claims and reduce the overall cost of interest paid by the Administration, interim payments are now permitted. This provision allows lenders to file claims earlier than they could under the SBLA. The government pays interest on the value of the unpaid principal of the loan from the date interest was last paid by the borrower to the time the associated claim is paid. Further, accelerated claim payments combined with a reduction in the time during which interest on claims is accumulated will reduce interest costs to the Crown.

Determining whether the program is on track to meet its goal of cost recovery requires an ability to forecast the value of claims against and flow of fees from future and existing loans. The evaluation framework of the CSBFA includes the collection and analysis of new data. These will enhance Industry Canada's monitoring and forecasting capacity, and its ability to foresee problematic situations before they materialize. With new major program parameters, the government now can make immediate adjustments, if necessary, to ensure the program meets its goal of cost recovery.

## Monitoring and Forecasting Challenges

In December 1997, the Auditor General of Canada recommended that factors affecting the SBL program's ability to meet its goal of cost recovery should be carefully monitored. Another recommendation was that systems and practices designed to forecast the performance of the program should be developed and implemented. Under the CSBFA, the Administration has been collecting more comprehensive data and with greater frequency to improve its information systems. Moreover, a more robust model for forecasting revenues and expenses has been developed. However, several factors that complicate the Administration's ability to do so with confidence remain.

- Research has demonstrated that a minimum of three to five years under a stable program structure is needed to produce sufficient data for reliable forecasting. The SBL program's parameters changed significantly in 1993 and again in 1995 with the introduction of new administration fees and the reduction in the financing rate and guarantee rate. Further, with the introduction of the CSBFA, significant changes aimed at improving the program's ability to meet its goal of cost recovery were implemented. The newly developed model facilitates the forecasting of revenues and expenses associated with a given value of lending. However, there are insufficient data for the model to reflect the current program confidently.
- Lenders may take as long as three years after a loan defaults to claim their losses, resulting in a reporting lag. The average lag between default and claim under the SBLA was 12.1 months, in part because claims could not be filed before all personal guarantees were realized on the loans, a time-consuming process. Under the CSBFA, interim claims are allowed to be filed before the realization of all personal guarantees. However, claims on defaults of smaller loans are still expected to be received more quickly than those of larger loans. The maturity period of a loan is 10 years after the first repayment is made (a borrower can make his or her first payment up to a year after the loan is disbursed) and, as such, claims could conceivably be filed up to 14 years after the associated loans were made.
- Under the SBLA, lenders were not required to report on outstanding balances on a per-loan basis or by the fiscal year in which loans were made. As a result, it is difficult to analyse the government's revenue stream from administration fees and to review its financial obligations in any one year. However, beginning in 2001, lenders will be required to report on the status of all individual outstanding loans, including their outstanding balances. This will allow for more confident forecasting of claims activity and fee payments.

# Performance

## Economic Environment

The Canadian economy continued to perform well throughout 1999–2000. It expanded by a strong 4.6 percent (annual rate) in the fourth quarter of 1999, marking the 18th consecutive quarter of economic growth, the longest stretch since the 1960s. Growth was led by an increase in business investment and housing construction.

Inflation remained in check. However, higher energy prices put upward pressure on inflation in recent months. A solid 22.4 percent increase in energy prices drove up inflation to 3 percent in March, its largest year-over-year increase since December 1991. Strong growth and higher costs for women's clothing and travel tours also put upward pressure on prices, although an expected appreciation of the dollar offset some of these pressures. On the whole, inflation remained within the Bank of Canada's official 1 to 3 percent target range.

The prime interest rate rose in February 2000, reaching 6.75 percent, following an increase in the Bank of Canada's bank rate. The prime rate is the benchmark for many consumer and small business loans.

The national unemployment rate stood at 6.8 percent in January 2000, the lowest level since April 1976. More than 192 000 net new jobs were created by employer businesses in Canada between the third quarter of 1998 and the third quarter of 1999. This is slightly lower than the 208 000 jobs recorded in 1997–98.

The Canadian dollar continued to hold steady against the U.S. dollar and other major foreign currencies. It was supported by strong economic fundamentals at home and a global rebound in commodity prices. The Canadian dollar value averaged about US$0.67 in 1999.

Small businesses continue to be of vital significance to the Canadian economy, as shown by the following statistics:

- The number of employer businesses in Canada continued to rise, reaching 1 970 099 in September 1999 (Business Register Division of Statistics Canada).
- The number of self-employed workers grew by 2.7 percent from January 1999 to January 2000 (Industry Canada, *Small Business Quarterly*, 2000, Vol. 2, No. 1, p. 1).
- SMEs accounted for virtually all net new jobs created in Canada in 1999.

## Performance Overview

There were 17 667 loans worth $1.351 billion made under the CSBF program in 1999–2000, its first year of operation (see Table II in the CSBFA Tables section for a breakdown by major lenders). This represents decreases of approximately 22 percent and 16 percent in the number and value of loans, respectively, made under the SBLA in 1998–99. The decrease in activity may be attributed mainly to the introduction of the new legislation and the learning process associated with it. However, lending momentum increased during the year. Lenders required time to feel comfortable with the new program. The average loan size grew slightly to approximately $76 500 over the same period. Table 1 on the following page presents a breakdown of lending by loan size.

| Table 1: Number and Value of Loans Made, by Loan Size, 1999-2000 | | |
|---|---|---|
| **Loan size** | **Number of loans** | **Value of loans ($000)** |
| Less than $10 000 | 851 | 5 711 |
| $10 000 or more and less than $25 000 | 3 134 | 54 029 |
| $25 000 or more and less than $50 000 | 4 045 | 146 269 |
| $50 000 or more and less than $75 000 | 2 804 | 169 673 |
| $75 000 or more and less than $125 000 | 3 357 | 326 209 |
| $125 000 or more and less than $250 000 | 2 781 | 475 758 |
| $250 000 | 695 | 173 750 |
| **Total*** | **17 667** | **1 351 399** |

*Details may not add up to totals because of rounding.

The loans made were used for the following purposes:

- Equipment purchase, installation, renovation, improvement and/or modernization accounted for $840 million (62.1 percent) of the 1999–2000 financing. Of this amount, $13.3 million was used to purchase software.
- Real property or immovables required $286 million (21.2 percent) in financing for renovation, improvement, modernization, construction and/or purchase.
- Tenants making or purchasing leasehold improvements took $212 million (15.7 percent) of the financing.
- The financing of the 2 percent registration fees represented $13.4 million (1 percent) of the total amount of loans.

This breakdown represents a small shift in lending use from equipment to real property, immovables and leasehold improvements, relative to financing activity in 1998–99 under the SBLA.

In 1999–2000, 12 claims associated with loans made under the CSBFA were paid, for a total of $323 451. Given the minimal claims activity experienced to date under the program, any detailed discussion related to this activity would be premature. More detailed claims information, such as claims paid by sector and by firm size, will be presented in future annual reports as a greater base of data becomes available.

## Loans Outstanding and Claims Forecast

More than $1.351 billion in CSBF loans were made as of March 31, 2000. Overall loan reductions amount to $314.5 million, an aggregate of $314.2 million in borrowers' repayments and $323 451 in government reimbursements of lenders' loan losses. This suggests that in the CSBF program's first year of operation, the government's claims paid rate was 1 percent on the overall portfolio of loans repaid (see Table 2).

| Table 2: CSBF Loans Outstanding as of March 31, 2000 | | |
|---|---|---|
| Loans made between April 1, 1999, and March 31, 2000 | | $1 351 398 808 |
| Borrowers' repayments | ($314 220 672) | |
| Crown's loss reimbursements | (323 451) | |
| Overall loan reductions | | (314 544 123) |
| Loans outstanding on lenders' books as of March 31, 2000 | | $1 036 854 685 |

The goal of the CSBF program is to run on a cost-recovery basis. This means that for a given portfolio of loans made in a given fiscal year, the cost to the government of paying claims on these loans should be offset by the registration and administration fees collected over the life of these loans.

As of March 31, 2000, the government had a net contingent liability of $296.8 million with respect to the almost $1.04 billion in outstanding CSBF loans. More than $25.2 million in registration fees was collected in 1999–2000, while gross claims paid amounted to $323 451. The net result was a positive balance of almost $25 million.

The monitoring and forecasting challenges mentioned above make it impossible to forecast accurately how this balance might change over time. While administration fees were accumulated on CSBF loans during 1999–2000, lenders are not required to pay these fees until early in 2000–01. Beginning in 2000–01, lenders will be obligated to pay administration fees quarterly.

The SBL program (for loans made from 1995–96 to 1998–99) and the CSBF program were both designed to meet their goal of cost recovery when the loss rate is 6.25 percent.

Given the existing registration and administration fee structure and the comprehensive cost-recovery measures implemented under the CSBFA, the CSBF program is expected to recover its costs over the life of the loans.

## Borrowers, by Age of Enterprise

Lenders are required to report the age of the enterprises for which small business loans are approved under the CSBFA. Business start-ups, which are key targets of the program, received the majority of the number and value of small business loans made in 1999–2000. Moreover, their share of lending activity was greater than it had been recently under the SBLA. The shift occurred more from enterprises that were one to three years old than from those older than three years. Figures 1 and 2 on the following page present the breakdown by firm age of the number and value of loans made in 1999–2000.

Figure 1: Number of Loans Made, by Age of Enterprise, 1999-2000

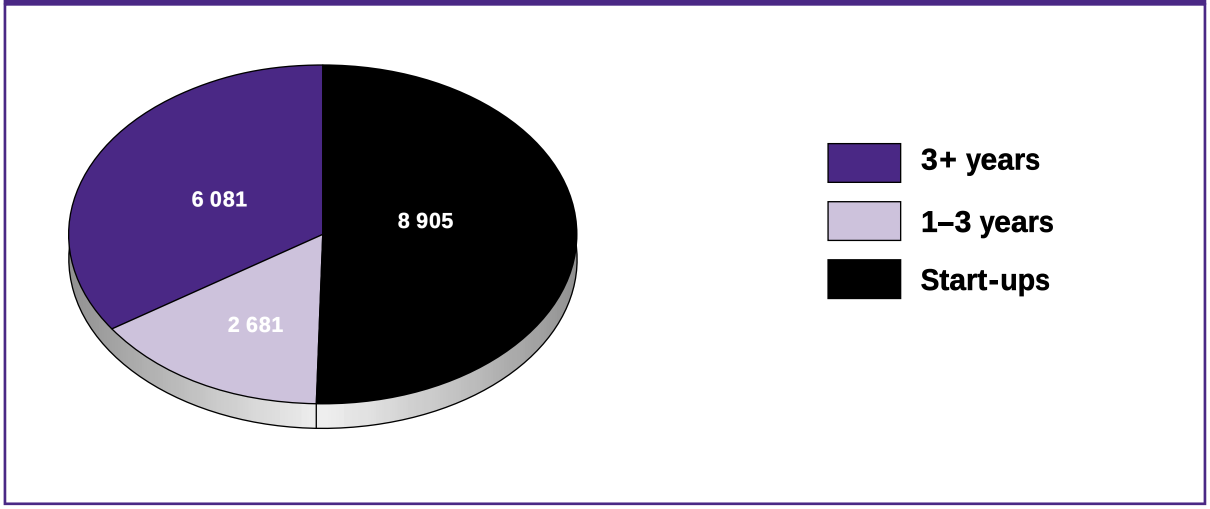
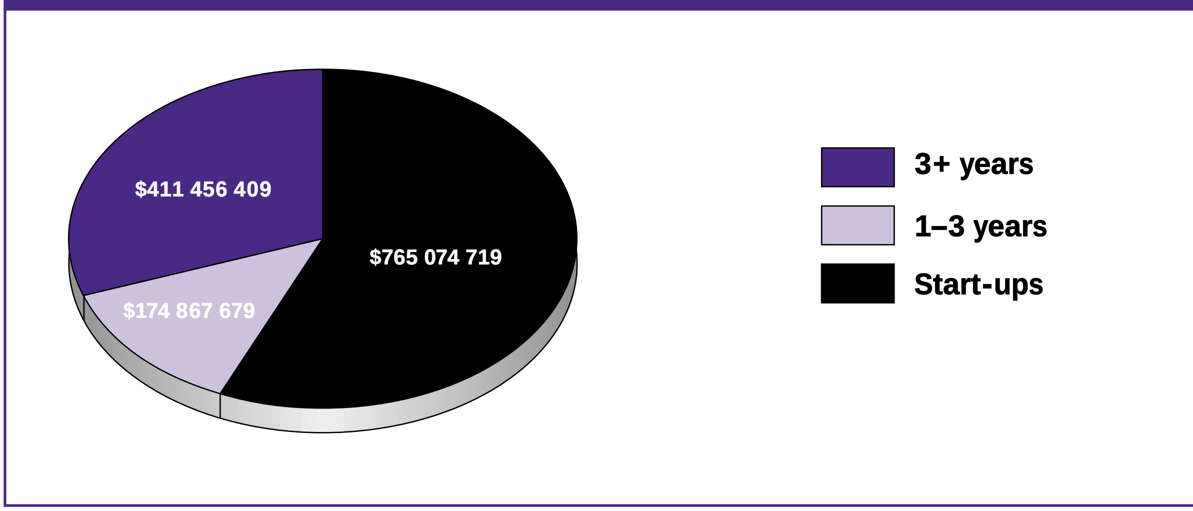



Figure 2: Value of Loans Made, by Age of Enterprise, 1999-2000




## Additional Employment Resulting from Loans

Borrowers must provide lenders with their current number of employees and their estimate of the additional employees they intend to hire as a result of the loan. Lenders in turn forward these figures to the Administration. While these figures are useful in analysing trends, it is important to remember that they are informal estimates and should be interpreted as such.

CSBFA borrowers estimated that the loans they obtained in 1999–2000 allowed them to create an estimated 55 238 new jobs. While this estimate was lower than the estimated 61 650 jobs created as a result of SBLA lending in 1998–99, it translated into more jobs created per loan at 3.1 jobs, compared with 2.7 jobs per loan in 1998–99. A 1996 survey of nearly 700 borrowers determined that borrowers' own initial job creation estimates were conservative; the borrowers tended to hire more employees as a direct result of their loans than they had anticipated. Additional studies addressing job creation, job loss and displacement are planned. Future annual reports will carry enhanced data on jobs created by borrowers.

## Additional Employment Expected, by Sector

The Administration collects comprehensive information from lenders on borrowers, including the sector in which they operate and size of their revenues (see next section). A great deal of work has been undertaken to classify borrowers by industry more accurately and comprehensively. Borrowers that formerly may have been classified in the other services or unclassified categories are now more precisely categorized. As a result, CSBF loan data are more comprehensive. However, the availability of the additional details complicates comparisons with lending activity by industry sector in previous years. Given the very small number of claims received associated with these loans made, it is too early to present data for claims at this time.

A preliminary review of existing data indicates that, in most instances, there have been only minor changes in the relative shares of loans made by industry sector as a result of the transition to the CSBFA from the SBLA. Performance in terms of job creation per loan made varied greatly across industry sector, but generally resembled that experienced in 1998–99. Borrowers in the accommodation, food and beverage services sector accounted for the greatest number and value of loans made under the CSBF program in 1999–2000 and the largest average loan size (see Table 3 on the following page). The retail trade, and the transportation and warehousing sectors were also very active in terms of borrowing under the program. Firms in the accommodation, food and beverage services sector also expected to create more jobs than any other sector as a result of CSBF program lending.

## Additional Employment Expected, by Firm Size

The transition to the CSBFA did not have a significant impact on the relative distribution of lending among firms of different sizes in terms of revenues. The data suggest that firms with revenues of less than $500 000 accounted for more than 50 percent of both the number and value of loans made in 1999–2000. However, the average loan size increased with firm size. These trends parallelled those experienced under the SBL program. There was a slight increase in the average size of firms borrowing under the program in terms of revenues; it was $608 446 in 1998–99 under the SBL program, compared with $631 466 in 1999–2000 under the CSBF program.

The average expected additional employment created by borrowers per loan increased with firm size. Firms with revenues of more than $500 000 were expected to create the largest amount of additional employment. These trends are similar to those experienced in the final year of lending under the SBLA. Table 4 on page 13 presents data on loans made and anticipated employment increases by firm size expressed in revenues.

## Table 3: Loans Made and Additional Employment Expected, by Industry Sector, 1999-2000

| Sector | Number of loans | Value of loans | Average loan size | Expected additional employment | |
|---|---|---|---|---|---|
| | | | | Per loan | Total* |
| | | ($000) | ($) | | |
| Accommodation, food and beverage services | 2 831 | 289 899 | 102 402 | 6.7 | 19 060 |
| Administration and support, waste management and remediation services | 377 | 19 505 | 51 738 | 2.1 | 775 |
| Agriculture (support activities), forestry, fishing and hunting | 973 | 73 378 | 75 414 | 1.7 | 1 606 |
| Arts, entertainment and recreation | 491 | 48 558 | 98 897 | 3.9 | 1 915 |
| Construction | 1 111 | 66 176 | 59 564 | 1.7 | 1 943 |
| Educational services | 157 | 11 651 | 74 209 | 2.9 | 459 |
| Finance and insurance | 107 | 6 343 | 59 281 | 3.4 | 369 |
| Health care and social assistance | 430 | 36 220 | 84 232 | 2.7 | 1 150 |
| Information and cultural industries | 184 | 12 248 | 66 563 | 2.6 | 484 |
| Manufacturing | 1 927 | 158 902 | 82 461 | 3.9 | 7 479 |
| Mining, and oil and gas extraction | 148 | 12 953 | 87 518 | 1.5 | 227 |
| Other services | 1 768 | 119 502 | 67 592 | 2.7 | 4 783 |
| Professional, scientific and technical services | 998 | 65 872 | 66 004 | 3.3 | 3 337 |
| Real estate, and rental and leasing | 344 | 27 624 | 80 302 | 2.2 | 761 |
| Retail trade | 2 797 | 207 069 | 74 033 | 2.6 | 7 187 |
| Transportation and warehousing | 2 589 | 165 433 | 63 899 | 1.0 | 2 629 |
| Utilities | 52 | 3 144 | 60 460 | 1.4 | 71 |
| Wholesale trade | 383 | 26 922 | 70 293 | 2.6 | 1 003 |
| **Total* (all firms)** | **17 667** | **1 351 399** | **76 493** | **3.1** | **55 238** |

*Details may not add up to totals because of rounding.

## Table 4: Loans Made and Employment Data, by Firm Size in Terms of Revenues, 1999-2000

| Annual revenues of firm | Number of loans | Value of loans | Average loan size | Expected additional employment | |
|---|---|---|---|---|---|
| | | | | Per loan | Total* |
| | | ($000) | ($) | | |
| Less than $100 000 | 2 025 | 81 003 | 40 001 | 1.1 | 2 258 |
| $100 000 or more and less than $250 000 | 4 679 | 282 742 | 60 428 | 1.4 | 6 606 |
| $250 000 or more and less than $500 000 | 4 115 | 312 589 | 75 963 | 2.5 | 10 323 |
| $500 000 or more and less than $1 000 000 | 3 422 | 314 452 | 91 891 | 3.7 | 12 672 |
| $1 000 000 or more and less than $2 500 000 | 2 658 | 270 343 | 101 709 | 6.0 | 15 927 |
| $2 500 000 or more | 768 | 90 270 | 117 539 | 9.7 | 7 452 |
| **Total* (all firms)** | **17 667** | **1 351 399** | **76 493** | **3.1** | **55 238** |

*Details may not add up to totals because of rounding.

# View of the Future

## Goals for 2000–01

The Administration has a number of goals related to the delivery of the CSBF program in 2000–01. They centre around the continued implementation of the new elements of the CSBFA, improvement of the Administration's information systems, application of the principles of Government On-Line, improved partnering with lenders, continued development of service standards, and the development of the voluntary sector and capital leasing pilot projects. For more detailed information on the pilot projects, please see next section.

With the successful launch of the CSBFA in 1999–2000, the Administration aims to consolidate its implementation in its second year of operation while maintaining efficient processes. This includes developing a consistent corporate understanding and introducing policies regarding designation of new lenders, interim payments and the conduct of on-site audits. The Administration will install a new information system to improve its program reporting and forecasting ability and better manage program cost and revenues. Once in place, the improved information system will accommodate the payment of annual administration fees quarterly, improved accrual accounting activities, annual reporting by lenders on a loan-by-loan basis, and data collection related to both pilot projects.

The Government of Canada is committed to ensuring that Canadians can carry out all of their transactions with Government On-Line by 2004, with an interim target of 50 percent of transactions by 2002. The Administration is studying the implications of introducing further electronic commerce processes to its operations and those of its clients. The goal is to ensure that the government's commitments regarding on-line transactions related to small business financing can be met.

A comprehensive goal of the Administration for 2000–01 is improved partnering with the lenders who are delivering the program. Lenders need to be regularly informed of developments that could directly affect them. Moreover, the efficient operation and success of the program is helped with ongoing input from the lenders. The Administration plans to develop service standards for the CSBFA, publish information bulletins, and further advance a program to review and deal with issues arising from the delivery of the CSBF program.

## Pilot Projects: Review of the Voluntary Sector and Capital Leasing Pilots

The Act provides authority to develop pilot projects for lending to the voluntary sector and for capital leasing. The purpose of the pilot projects is to identify and test the viability and utility of the program in these areas, which are currently outside the scope of the CSBFA. In undertaking the pilot projects, the federal government seeks to meet the same incrementality and cost-recovery objectives as in the core program.

Industry Canada, as the department responsible for administering the Act, has undertaken extensive research to determine the feasibility and design challenges of these pilot projects. This research has examined the scope and financial structure of the voluntary sector and has probed its financing needs. It has also examined the structure of the leasing industry, the gaps in serving financing needs in the SME community, securitization and other technical issues essential to the implementation of a pilot project for capital leasing. The *Canada Small Business Financing Act: Assessing New Opportunities* (Industry Canada, Ottawa, 2000, **http://strategis.gc.ca/csbfa**) provides summaries of most of the research and early consultations undertaken as part of the process of developing pilot project designs. Further consultations are to take place during summer and fall 2000.

Any pilot project implemented would require an evaluation framework before the launch that is designed to evaluate the success of the pilot project during and after its life span. A framework would predetermine the type of data to be collected to evaluate if a pilot project is being managed efficiently and is achieving its objectives. There would be emphasis on the objectives of cost recovery and the ability to meet a need for our target clientele. This information would also be used to decide whether a pilot project should be permanently amalgamated with the core program.

## Program Review

In contrast to the predetermined end of the SBLA's lending authority, the CSBFA will have a mandatory Program Review every five years, in consultation with Parliament. Critically, the CSBFA will allow the government, through regulation, to alter eligibility criteria for access to program loans. Such changes may be made if research and consultations suggest that they would better assure the program's move toward cost recovery.

## Program Evaluation Framework

Industry Canada is starting a broad program evaluation that will be used to assess the CSBF program over the next four years. Data are being collected and analysed and will be reflected in modifications to annual reports as results become available.

The evaluation will address the following issues:

- the ongoing relevance of increasing access to financing for small businesses and the need for continuing federal government involvement;
- awareness of the program and its effectiveness in achieving its stated goals including incrementality;
- the impact of the program on the creation, maintenance and displacement of jobs; and
- the performance of borrowers.

The evaluation will also report on progress toward achieving cost recovery and on the reliability of the forecasting of program conditions, given the effects of program changes over the past number of years.

To this end, the Administration, in the future, will gather and analyse more data than are currently collected. Part of the evaluative effort will include interviews with stakeholders, a survey of small businesses and a review of other similar programs.

## Upcoming Challenges

In the coming months, the program faces two key challenges related to the designation of lenders under the Act. The MacKay Task Force on the Future of the Canadian Financial Services Sector recommended expansion of membership in the Canadian Payments Association (CPA). In response, the Minister of Finance introduced legislation on June 6, 2000, to reform financial sector regulatory legislation. Included in this package are changes to the *Canadian Payments Association Act*. Because the CSBFA uses CPA membership as a key criterion for designating lenders, implementation of these changes will impact on the CSBFA.

The Department of Finance proposes to include new categories of CPA members: life insurance companies, securities dealers, cooperative credit associations, trustees of a qualified trust, and money market mutual funds. Under the CSBFA definition of lender, all members of the CPA are eligible lenders under the program. Accepting all new non-lending members of the CPA as eligible lenders could potentially increase the risk exposure to the Crown. To address this concern, the proposed financial services reform legislation includes a consequential amendment to section 2 of the CSBFA to modify the definition of lender.

These actions will not affect current CPA members nor new CPA members in the old categories. However, new members in the new categories must fulfil the requirements of the amendment. These measures will mitigate the risk exposure to the Crown, as inexperienced lenders will not have automatic access to the program. Further, this legislation will have no impact on the *Policy Respecting the Designation of Lenders*.

The CSBFA defines three categories of lenders: members of the CPA, members of a central cooperative credit society that is a member of the CPA, and lenders designated by the Minister. While the Act and its regulations provide authority for designating, as lenders, non-members of the CPA, they provide no criteria for doing so. For this reason, guidelines have been created to deal with outstanding applications from organizations wanting to be designated to make loans under the Act. The guidelines seek to ensure that, in designating new lenders, the Minister has reasonable assurance that they demonstrate adequate financial stability and experience. The Minister has full authority to set and alter the criteria of this policy at any time. The goal of putting formal guidelines in place is to provide transparency in program administration.

# CSBFA Tables

## Table I: Comparison of *Canada Small Business Financing Act* and *Small Business Loans Act*: Major Program Differences

| Item | Canada Small Business Financing Program | Small Business Loans Program |
|---|---|---|
| Due diligence and care | Lenders are required to apply same due diligence procedures to CSBF loans as they do to non-CSBF loans. This includes obtaining satisfactory credit references and an assessment of the borrower's ability to repay the loan. | Not specifically addressed. |
| Appraisals | Appraisals are required in four different situations, including when a going-concern business is being purchased. | Appraisals were required only in one situation: non-arm's-length transactions. |
| Eligible assets | Decontamination costs can be financed in certain circumstances. The 50 percent minimum space requirement applies only to purchase of premises and the 100 percent rule applies for improvements. | Decontamination costs were not specifically addressed. The 50/50 rule applied to purchase and improvement of premises loans. |
| Related borrowers | Related borrowers are limited to a maximum loan limit of $250 000 combined, unless they are proven to be independent. | Each borrower's maximum loan amount was limited to $250 000. No restrictions for related borrowers. |
| Security | Security ranking requirements are defined for a comprehensive array of situations. A distinction is made between primary and additional security. Rules for substitution and release of assets are extended to cover more situations. | Security ranking requirements were defined for a limited number of situations. No distinction was made between primary and additional security. Rules for substitution and release of assets covered a limited number of situations. |
| Revision of repayment terms | Repayment terms may be altered at any time as long as the changes do not compromise the borrower's ability to repay the loan. | Changes were permitted only in case of actual or impending default. |
| Claims for loss | An interim claim for loss can be made before realizing on personal guarantees and/or finalizing compromise settlements. Submission deadline of 36 months can be extended with no limitations. Interest on claims is accumulated for 12 months at the full rate and for 12 months at one half the full rate. | All realization had to be completed before submitting a claim for loss. Submission deadline of 36 months could be extended by only six months. Interest on claims was accumulated for 12 months at the full rate and for 24 months at one half the full rate. |
| Adminis-tration fee: 1.25 percent | Beginning in 2000–01, annual administration fees of 1.25 percent will be payable quarterly. | Annual administration fees of 1.25 percent were payable annually. |
| Remedies for non-compliance | Specific remedies are set out for several categories of non-compliance. | Remedies for non-compliance were limited. Correction periods were more restrictive. |
| On-site audits | Legislation permits the Minister to conduct on-site audits of lenders' documents and records to verify that the program is being complied with according to the Act and its regulations. | The Minister had no authority to conduct on-site audits of lenders' documents and records to verify that the program was being complied with according to the Act and its regulations. |

## Table II: Loans Made in 1999-2000, by Region and Lender

| Region | Royal Bank of Canada | | Canadian Imperial Bank of Commerce | | Bank of Montreal | | Bank of Nova Scotia | | Toronto-Dominion Bank | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Number | $000 | Number | $000 | Number | $000 | Number | $000 | Number | $000 |
| **Western Canada** | **971** | **91 027** | **846** | **66 997** | **610** | **48 253** | **775** | **44 282** | **242** | **16 019** |
| British Columbia | 321 | 30 919 | 221 | 19 201 | 305 | 23 890 | 231 | 13 923 | 118 | 6 943 |
| Alberta | 348 | 37 138 | 388 | 31 452 | 191 | 16 033 | 314 | 18 002 | 73 | 5 379 |
| Saskatchewan | 187 | 13 409 | 150 | 9 311 | 60 | 3 118 | 120 | 5 631 | 26 | 2 053 |
| Manitoba | 115 | 9 562 | 87 | 7 033 | 54 | 5 213 | 110 | 6 726 | 25 | 1 645 |
| **Ontario and Territories** | **1 892** | **173 645** | **872** | **81 526** | **626** | **61 583** | **738** | **59 088** | **381** | **34 483** |
| Ontario | 1 882 | 172 721 | 857 | 80 338 | 612 | 60 184 | 736 | 58 979 | 380 | 34 472 |
| Nunavut | 2 | 151 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Northwest Territories | 5 | 434 | 10 | 788 | 10 | 1 105 | 2 | 109 | 0 | 0 |
| Yukon Territory | 3 | 339 | 5 | 401 | 4 | 294 | 0 | 0 | 1 | 11 |
| **Quebec** | **1 190** | **89 450** | **212** | **16 228** | **478** | **41 663** | **156** | **9 025** | **296** | **21 946** |
| **Atlantic Canada** | **614** | **49 731** | **178** | **15 731** | **148** | **13 000** | **560** | **28 626** | **81** | **5 708** |
| New Brunswick | 212 | 16 845 | 18 | 1 695 | 67 | 5 751 | 139 | 6 632 | 25 | 1 718 |
| Nova Scotia | 271 | 21 563 | 86 | 6 207 | 31 | 2 887 | 195 | 10 888 | 34 | 2 099 |
| Prince Edward Island | 30 | 2 138 | 19 | 1 259 | 14 | 938 | 34 | 1 684 | 13 | 1 257 |
| Newfoundland | 101 | 9 184 | 55 | 6 570 | 36 | 3 423 | 192 | 9 421 | 9 | 634 |
| **Total*** | **4 667** | **403 854** | **2 108** | **180 482** | **1 862** | **164 499** | **2 229** | **141 022** | **1 000** | **78 156** |

*Details may not add up to totals because of rounding.

## Table II (cont.): Loans Made in 1999-2000, by Region and Lender

| Region | National Bank of Canada | | HSBC Bank | | Laurentian Bank of Canada | | Other chartered banks | | Caisses Populaires | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Number | $000 | Number | $000 | Number | $000 | Number | $000 | Number | $000 |
| **Western Canada** | **3** | **225** | **152** | **13 913** | **0** | **0** | **13** | **1 621** | **11** | **1 439** |
| British Columbia | 0 | 0 | 94 | 7 662 | 0 | 0 | 10 | 1 209 | 0 | 0 |
| Alberta | 3 | 225 | 51 | 5 279 | 0 | 0 | 3 | 412 | 0 | 0 |
| Saskatchewan | 0 | 0 | 7 | 972 | 0 | 0 | 0 | 0 | 0 | 0 |
| Manitoba | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 11 | 1 439 |
| **Ontario and Territories** | **55** | **6 121** | **96** | **9 587** | **9** | **473** | **38** | **4 209** | **94** | **7 235** |
| Ontario | 55 | 6 121 | 96 | 9 587 | 9 | 473 | 38 | 4 209 | 94 | 7 235 |
| Nunavut | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Northwest Territories | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Yukon Territory | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Quebec** | **364** | **27 418** | **34** | **2 833** | **146** | **12 592** | **17** | **1 706** | **3 203** | **167 670** |
| **Atlantic Canada** | **25** | **2 622** | **8** | **601** | **0** | **0** | **0** | **0** | **46** | **5 005** |
| New Brunswick | 20 | 1 859 | 1 | 11 | 0 | 0 | 0 | 0 | 46 | 5 005 |
| Nova Scotia | 5 | 763 | 6 | 513 | 0 | 0 | 0 | 0 | 0 | 0 |
| Prince Edward Island | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Newfoundland | 0 | 0 | 1 | 78 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Total*** | **447** | **36 387** | **290** | **26 934** | **155** | **13 064** | **68** | **7 536** | **3 354** | **181 349** |

*Details may not add up to totals because of rounding.

## Table II (cont.): Loans Made in 1999-2000, by Region and Lender

| Region | Credit unions | | Newcourt | | Other trust, loan and insurance companies | | Alberta Treasury Branches | | Total* | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Number | $000 | Number | $000 | Number | $000 | Number | $000 | Number | $000 |
| **Western Canada** | **574** | **39 999** | **402** | **28 617** | **9** | **1 496** | **144** | **13 697** | **4 752** | **367 586** |
| British Columbia | 99 | 6 703 | 113 | 8 557 | 7 | 1 131 | 0 | 0 | 1 519 | 120 138 |
| Alberta | 126 | 9 504 | 213 | 15 949 | 2 | 365 | 144 | 13 697 | 1 856 | 153 434 |
| Saskatchewan | 212 | 14 793 | 32 | 2 172 | 0 | 0 | 0 | 0 | 794 | 51 459 |
| Manitoba | 137 | 8 999 | 44 | 1 940 | 0 | 0 | 0 | 0 | 583 | 42 556 |
| **Ontario and Territories** | **54** | **6 353** | **76** | **6 274** | **21** | **3 367** | **0** | **0** | **4 952** | **453 945** |
| Ontario | 54 | 6 353 | 74 | 6 170 | 21 | 3 367 | 0 | 0 | 4 908 | 450 210 |
| Nunavut | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 2 | 151 |
| Northwest Territories | 0 | 0 | 1 | 51 | 0 | 0 | 0 | 0 | 28 | 2 487 |
| Yukon Territory | 0 | 0 | 1 | 53 | 0 | 0 | 0 | 0 | 14 | 1 097 |
| **Quebec** | **0** | **0** | **109** | **10 151** | **21** | **2 264** | **0** | **0** | **6 226** | **402 945** |
| **Atlantic Canada** | **36** | **2 441** | **39** | **3 211** | **2** | **246** | **0** | **0** | **1 737** | **126 922** |
| New Brunswick | 4 | 587 | 24 | 1 906 | 1 | 195 | 0 | 0 | 557 | 42 205 |
| Nova Scotia | 25 | 1 522 | 9 | 823 | 1 | 50 | 0 | 0 | 663 | 47 317 |
| Prince Edward Island | 7 | 331 | 0 | 0 | 0 | 0 | 0 | 0 | 117 | 7 608 |
| Newfoundland | 0 | 0 | 6 | 483 | 0 | 0 | 0 | 0 | 400 | 29 793 |
| **Total*** | **664** | **48 793** | **626** | **48 253** | **53** | **7 372** | **144** | **13 697** | **17 667** | **1 351 399** |

*Details may not add up to totals because of rounding.

# Part 2: *Small Business Loans Act*

## Overview

The *Small Business Loans Act* (SBLA) was repealed on March 31, 1999. It was replaced by the *Canada Small Business Financing Act* (CSBFA). The SBLA was designed to help new and existing SMEs obtain affordable term financing for the purchase and improvement of fixed assets. These business improvement loans were made directly by approved lenders to the small and medium-sized enterprises (SMEs). The pivotal component of the SBLA was the sharing of loan losses, if any, between the lenders and the federal government. In 1995, the government added the goal of cost recovery to the Small Business Loans (SBL) program. Revenues on loans made since April 1, 1995, were expected to offset the value of claims paid by the government over the lifetime of these loans. For reference, Table IV in the SBLA Tables section provides details on how SBL program parameters have changed over the years.

A comprehensive review of the SBLA in 1998 confirmed the program's efficiency and effectiveness in filling a gap in debt financing for SMEs. However, to streamline the legislation and incorporate the review's findings, together with recommendations from the Auditor General and the House of Commons Standing Committee on Industry, it was decided that it was advisable to develop a new Act rather than to amend the SBLA. The new Act's program parameters parallel those of the SBLA, but include certain provisions to strengthen its ability to move toward cost recovery.

From its inception in 1961 until 1993, the SBL program was modest in scope. In these 32 years, approximately 316 000 loans totalling approximately $9 billion were made. Following significant changes in program parameters in 1993, lending ballooned to more than $2.5 billion in 1993–94 alone and to $4.4 billion in 1994–95. In 1995, program amendments were made to place it on a cost-recovery track. Nevertheless, the program continued to achieve its objective of increasing access to financing, and more than 117 000 loans totalling approximately $7.85 billion were guaranteed under the Act after the program was put on a cost-recovery basis in 1995–96.

While lending activity under the SBLA ceased on March 31, 1999, the Small Business Loans Administration (Administration) will continue to receive claims and revenues associated with these loans for many years to come. SBL loans can have maturities of up to 10 years after the first scheduled principal payment, and lenders may take as long as three years after a loan defaults to claim their losses. Claims associated with SBL loans could conceivably be filed up to 14 years after the last of these loans was made.

Historically, peak claims activity has lagged loans activity by three years and is affected by economic cycles. Following an extended period of relatively constant and modest claims activity, the number and value of claims paid approximately doubled in 1996–97 over the previous year. The number and value of claims then jumped further to all-time highs of 5 964 and $246 million, respectively, in 1997–98, and then decreased gradually. This declining trend is expected to accelerate in the years to come as loans are retired, especially those made in 1993–94 and 1994–95, and as a result of the end of the SBL program.

Figure 3 presents the number of loans made under the SBL program from 1990–91 to 1998–99 as well as the number of claims on loans made under the program paid from

1990–91 to 1999–2000. Figure 4 shows similar information for the value of loans made and claims paid over the same period.

Table I in the SBLA Tables section details historical loans and claims activity of the SBL program.

Figure 3: Number of Loans Made from 1990-91 to 1998-99 and SBL Program Claims Paid from 1990-91 to 1999-2000

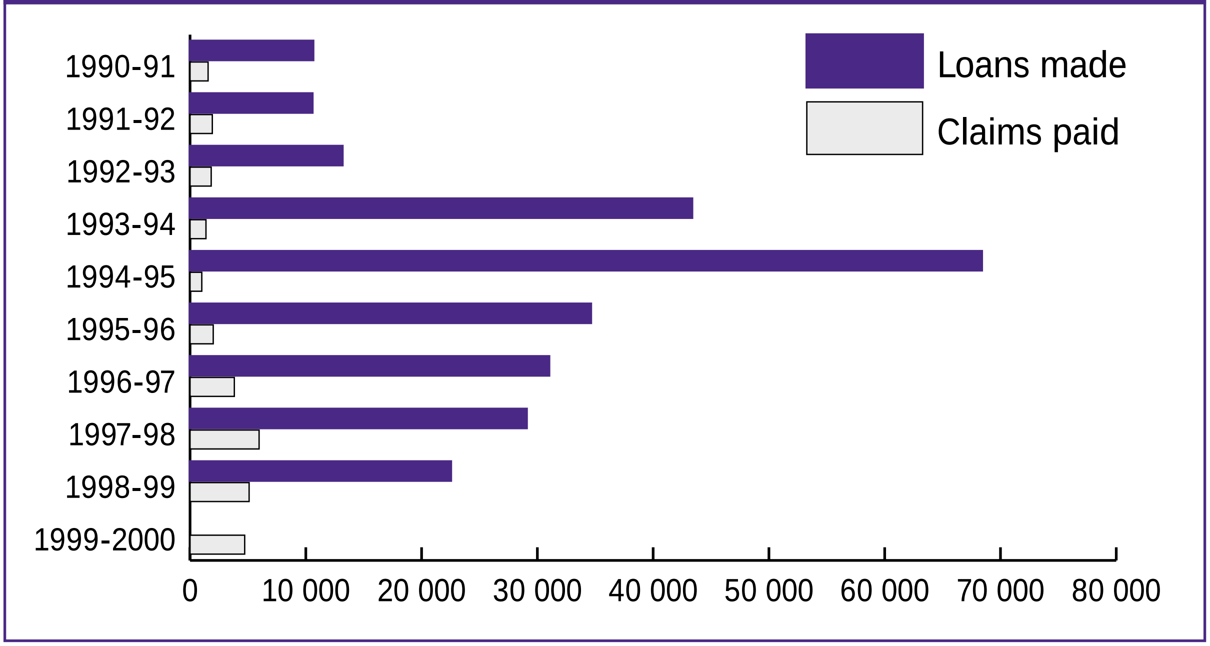
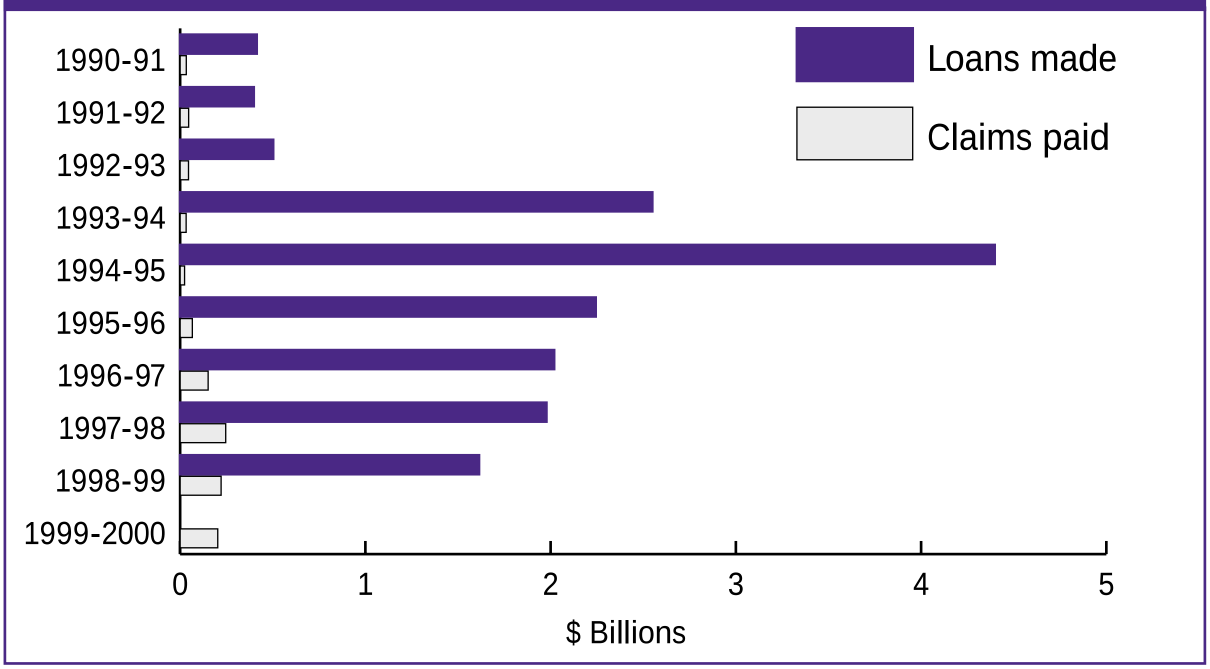



Figure 4: Value of Loans Made from 1990-91 to 1998-99 and SBL Program Claims Paid from 1990-91 to 1999-2000



## SBL Program Lending, by Firm Size

The Administration collects comprehensive information from lenders on borrowers, including their size in terms of revenues and the sector in which they operate. A review of the data suggests that for any fiscal year's lending, the greatest value of claims paid on these loans occurs two to three years later, after which the value of claims paid declines. Historical data on the SBL program suggest that the majority of the value of claims associated with a given fiscal year's lending activity is paid within the following three fiscal years. Table 5 provides a breakdown of the value of claims paid on associated loans made from 1995–96 to 1998–99 by firm size in terms of revenues.

## SBL Program Lending, by Industry Sector

Much work has been undertaken to accurately and comprehensively classify program borrowers by the industry in which they operated. For example, as claims were processed, information on the sector in which the borrowers operate was reviewed and confirmed. One effect of these measures is that data on more recent loans or for which a claim was processed may be classified differently than data on older loans or on those for which no claim has been received. Keeping these differences in mind when analysing activity under the program is important.

Table 6 on page 26 presents data on the value of claims paid on associated loans made from 1995–96 to 1998–99 by firms in the accommodation, food and beverage services, retail trade, transportation and warehousing, manufacturing, and other services categories. Firms in these sectors have been the most active in terms of SBL program lending recently.

## Table 5: Value of Claims Paid on Loans Made from 1995-96 to 1998-99, by Firm Size

| Annual revenues of firm | Fiscal year loans made | Value of loans | Net claims paid in: 1995-96 | 1996-97 | 1997-98 | 1998-99 | 1999-2000 | Total net claims paid* |
|---|---|---|---|---|---|---|---|---|
| | | ($000) | ($000) | ($000) | ($000) | ($000) | ($000) | ($000) |
| **Less than $100 000** | 1995-96 | 867 722 | 307 | 9 786 | 27 265 | 22 269 | 15 792 | 75 418 |
| | 1996-97 | 175 956 | | 27 | 1 410 | 2 803 | 3 027 | 7 267 |
| | 1997-98 | 154 338 | | | 18 | 847 | 2 574 | 3 440 |
| | 1998-99 | 121 153 | | | | 3 | 947 | 950 |
| **$100 000 or more and less than $250 000** | 1995-96 | 367 674 | 0 | 1 785 | 8 788 | 7 278 | 5 517 | 23 368 |
| | 1996-97 | 495 312 | | 31 | 4 135 | 7 961 | 10 025 | 22 152 |
| | 1997-98 | 457 380 | | | 48 | 2 280 | 7 659 | 9 987 |
| | 1998-99 | 353 204 | | | | 0 | 2 612 | 2 612 |
| **$250 000 or more and less than $500 000** | 1995-96 | 343 253 | 0 | 1 965 | 11 384 | 12 415 | 7 338 | 33 103 |
| | 1996-97 | 462 014 | | 108 | 4 990 | 13 081 | 14 322 | 32 501 |
| | 1997-98 | 447 039 | | | 194 | 2 999 | 11 732 | 14 925 |
| | 1998-99 | 374 261 | | | | 63 | 4 544 | 4 607 |
| **$500 000 or more and less than $1 000 000** | 1995-96 | 318 572 | 0 | 868 | 9 211 | 12 446 | 7 828 | 30 353 |
| | 1996-97 | 431 735 | | 62 | 4 797 | 11 162 | 13 438 | 29 459 |
| | 1997-98 | 451 576 | | | 22 | 4 125 | 11 915 | 16 062 |
| | 1998-99 | 358 600 | | | | 17 | 3 225 | 3 242 |
| **$1 000 000 or more and less than $2 500 000** | 1995-96 | 248 772 | 0 | 823 | 6 161 | 6 905 | 5 696 | 19 584 |
| | 1996-97 | 335 191 | | 0 | 2 283 | 8 604 | 8 422 | 19 309 |
| | 1997-98 | 350 931 | | | 64 | 2 998 | 7 896 | 10 958 |
| | 1998-99 | 297 571 | | | | 35 | 2 210 | 2 245 |
| **$2 500 000 or more** | 1995-96 | 97 164 | 0 | 218 | 2 334 | 2 102 | 1 835 | 6 490 |
| | 1996-97 | 118 735 | | 0 | 659 | 2 964 | 2 387 | 6 010 |
| | 1997-98 | 116 046 | | | 0 | 304 | 2 266 | 2 570 |
| | 1998-99 | 108 585 | | | | 0 | 583 | 583 |
| **Total (all firms)*** | 1995-96 | 2 243 157 | 307 | 15 446 | 65 143 | 63 414 | 44 007 | 188 316 |
| | 1996-97 | 2 018 943 | | 228 | 18 274 | 46 575 | 51 620 | 116 697 |
| | 1997-98 | 1 977 309 | | | 346 | 13 553 | 44 043 | 57 942 |
| | 1998-99 | 1 613 373 | | | | 117 | 14 122 | 14 239 |
| | All years | 7 852 782 | 307 | 15 674 | 83 763 | 123 659 | 153 792 | 377 194 |

*Details may not add up to totals because of rounding.

## Table 6: Value of Claims Paid on Loans Made from 1995-96 to 1998-99, by Selected Industry Sectors

| Industry sector | Fiscal year loans made | Value of loans | Net claims paid in: 1995-96 | 1996-97 | 1997-98 | 1998-99 | 1999-2000 | Total net claims paid* |
|---|---|---|---|---|---|---|---|---|
| | | ($000) | ($000) | ($000) | ($000) | ($000) | ($000) | ($000) |
| **Accommodation, food and beverage services** | 1995-96 | 372 516 | 6 | 4 506 | 16 803 | 17 019 | 12 438 | 50 772 |
| | 1996-97 | 380 114 | | 186 | 6 066 | 15 496 | 16 534 | 38 282 |
| | 1997-98 | 351 467 | | | 143 | 5 119 | 13 551 | 18 813 |
| | 1998-99 | 321 145 | | | | 0 | 4 466 | 4 466 |
| **Retail trade** | 1995-96 | 274 026 | 8 | 2 811 | 8 175 | 8 946 | 5 348 | 25 288 |
| | 1996-97 | 272 817 | | 17 | 3 899 | 8 845 | 7 675 | 20 436 |
| | 1997-98 | 269 144 | | | 49 | 2 075 | 6 519 | 8 643 |
| | 1998-99 | 224 810 | | | | 0 | 3 340 | 3 340 |
| **Transportation and warehousing** | 1995-96 | 306 718 | 54 | 703 | 3 054 | 3 585 | 2 984 | 10 380 |
| | 1996-97 | 263 405 | | 0 | 832 | 1 889 | 1 827 | 4 548 |
| | 1997-98 | 241 858 | | | 4 | 741 | 1 357 | 2 102 |
| | 1998-99 | 192 485 | | | | 0 | 475 | 475 |
| **Manufacturing** | 1995-96 | 207 856 | 32 | 1 184 | 5 787 | 6 152 | 6 112 | 19 267 |
| | 1996-97 | 183 948 | | 11 | 1 006 | 4 455 | 7 156 | 12 628 |
| | 1997-98 | 174 555 | | | 7 | 1 644 | 6 287 | 7 938 |
| | 1998-99 | 128 158 | | | | 49 | 1 604 | 1 653 |
| **Other services** | 1995-96 | 333 807 | 14 | 2 094 | 12 339 | 10 966 | 2 705 | 28 118 |
| | 1996-97 | 409 346 | | 0 | 3 347 | 9 870 | 3 681 | 16 898 |
| | 1997-98 | 425 032 | | | 52 | 2 399 | 3 781 | 6 232 |
| | 1998-99 | 376 945 | | | | 68 | 1 455 | 1 523 |
| **Total (all firms in the above industry sectors)*** | 1995-96 | 1 494 923 | 114 | 11 298 | 46 158 | 46 668 | 29 587 | 133 825 |
| | 1996-97 | 1 509 630 | | 214 | 15 150 | 40 555 | 36 873 | 92 792 |
| | 1997-98 | 1 462 056 | | | 255 | 11 978 | 31 495 | 43 728 |
| | 1998-99 | 1 243 543 | | | | 117 | 11 340 | 11 457 |
| | All years | 5 710 152 | 114 | 11 512 | 61 563 | 99 318 | 109 295 | 281 802 |

*Details may not add up to totals because of rounding.

# Legacy of SBLA

## Loans Outstanding and Claims Forecast

Since April 1, 1985, loans worth $19.46 billion were made and registered under the SBLA. Overall loan reductions amounted to $15.63 billion, an aggregate of $14.51 billion in borrowers' repayments and $1.12 billion in government reimbursements of lenders' loan losses (see Table 7). The government's claims paid rate, therefore, was 7.2 percent on the overall $15.63 billion portfolio of loans repaid.

The number and value of outstanding loans have been falling since 1996–97 and 1995–96, respectively. As of March 31, 2000, there were 86 206 outstanding loans, which accounted for an outstanding balance of $3.83 billion. Nearly all of the loans were made in Lending Period 12 (April 1, 1993, to March 31, 1999). As of March 31, 2000, the government's net contingent liability with respect to these outstanding loans (see Table II in the SBLA Tables section) had been reduced to a maximum $959.4 million. Future claim payments on loans outstanding as of March 31, 2000, are estimated at some $313.7 million. This is the amount that could be paid to lenders during the next 10 fiscal years. When this $313.7 million in estimated future claims payments is added to the $1.12 billion already paid in claims as of March 31, 2000, the estimated cumulative loss rate amounts to 7.4 percent on $19.46 billion in loans made since April 1, 1985.

Based on historical data, less than 10 percent of the value of all claims payments associated with SBL loans made in a given fiscal year is expected to be paid by the end of the subsequent fiscal year. The value of claims payments then accelerates. It is expected that over two thirds of the value of all claims payments associated with a portfolio of loans made in a given fiscal year will be distributed in the following three fiscal years. The proportion rises to over 95 percent when examining the following five fiscal years.

Table IIIa in the SBLA Tables section provides a record of recoveries, receipt of fees and claims payments for loans made before April 1, 1995. The introduction of the administration fee in the 1995–96 fiscal year, together with the registration fee, was intended to place the program on a cost-recovery basis over a 10-year period. Table IIIb in the SBLA Tables section provides a record of receipt of fees and claims

| Table 7: SBL Loans Outstanding as of March 31, 2000 | | |
|---|---|---|
| Loans made between April 1, 1985, and March 31, 1999 | | $19 463 429 697 |
| Borrowers' repayments | ($14 505 710 604) | |
| Crown's loss reimbursements* (7.4% of overall loan reductions) | (1 123 217 877) | |
| Overall loan reductions | | (15 628 928 481) |
| Loans outstanding on lenders' books as of March 31, 2000 | | $3 834 501 216 |

*The $1 123 217 877 in loss reimbursements paid by the Crown represents subrogated debts. Included in this amount is $217 712 748, which, in accordance with standard procedures, was written off during the 1999-2000 fiscal year.

payments for loans made after March 31, 1995. It shows that the net position of these loans as of March 31, 2000, was a negative balance of approximately $70 million.

The goal of the program is to run on a cost-recovery basis. This means that for a given portfolio of loans made in a given fiscal year, the cost to the government of paying claims on these loans should be offset by the registration and administration fees collected over the life of these loans. Table 8 presents an accrual breakdown of annual cash flows related to loans made from April 1, 1995, to the end of 1998–99. Revenues at the beginning of this period far exceed expenses as the 2 percent registration fee is collected at the time a loan is registered. As existing loans mature, expenses in the form of claim payments will increase. The cost-recovery goal is for these cash flows to balance over the operating life of the program.

Given that the anticipated loss rate for Period 12 is 8 percent, the SBL program is not expected to meet its goal of cost recovery on SBL loans made from 1995–96 (a loss rate of 6.25 percent is necessary for the program to achieve its goal of cost recovery). As a result of the Program Review in 1998, a number of measures were identified to address this issue. The implementation of the CSBFA introduces measures that will help ensure that the CSBF program meets its goal of cost recovery.

## Table 8: Revenues and Expenses Related to SBL Loans Made from April 1, 1995

| Year loans were made and amount of loans | Type of revenues and expenditures | Year associated registration and administration fees were collected and associated claims were paid | | | | | Cumulative revenues and expenses** |
|---|---|---|---|---|---|---|---|
| | | 1995-96 | 1996-97 | 1997-98 | 1998-99 | 1999-2000 | |
| | | ($) | ($) | ($) | ($) | ($) | ($) |
| **1995-96** $2 243 156 532 | 2% reg fees | 40 526 778 | 3 944 253 | | | | 44 471 031 |
| | 1.25% adm fee* | | 13 763 715 | 22 577 877 | 15 830 893 | 10 283 274 | 62 455 759 |
| | Net claims paid | (307 016) | (15 445 982) | (65 142 719) | (63 413 568) | (44 007 141) | (188 316 426) |
| | Annual cash flow | 40 219 762 | 2 261 986 | (42 564 842) | (47 582 675) | (33 723 867) | (81 389 636) |
| **1996-97** $2 018 941 471 | 2% reg fees | | 36 124 423 | 3 881 886 | | | 40 006 309 |
| | 1.25% adm fee* | | | 12 315 512 | 20 391 322 | 14 334 494 | 47 041 328 |
| | Net claims paid | | (228 030) | (18 273 898) | (46 575 230) | (51 619 897) | (116 697 055) |
| | Annual cash flow | | 35 896 393 | (2 076 500) | (26 183 908) | (37 285 403) | (29 649 418) |
| **1997-98** $1 977 253 779 | 2% reg fees | | | 35 443 404 | 3 733 216 | | 39 176 620 |
| | 1.25% adm fee* | | | | 12 061 587 | 19 970 826 | 32 032 413 |
| | Net claims paid | | | (346 090) | (13 552 899) | (44 042 530) | (57 941 519) |
| | Annual cash flow | | | 35 097 314 | 2 241 904 | (24 071 704) | 13 267 514 |
| **1998-99** $1 593 957 573 | 2% reg fees | | | | 28 603 210 | 3 366 078 | 31 969 288 |
| | 1.25% adm fee* | | | | | 9 841 578 | 9 841 578 |
| | Net claims paid | | | | (117 074) | (14 122 231) | (14 239 305) |
| | Annual cash flow | | | | 28 486 136 | (914 575) | 27 571 561 |
| **Total**** $7 833 308 148 | 2% reg fees | 40 526 778 | 40 068 676 | 39 325 290 | 32 336 426 | 3 366 078 | 155 623 248 |
| | 1.25% adm fee* | | 13 763 715 | 34 893 389 | 48 283 802 | 54 430 172 | 151 371 078 |
| | Net claims paid | (307 016) | (15 674 012) | (83 762 707) | (123 658 771) | (153 791 799) | (377 194 306) |
| | Annual cash flow | 40 219 762 | 38 158 379 | (9 544 028) | (43 038 543) | (95 995 549) | (70 199 980) |

*The distribution of the 1.25 percent annual administration fee among the years loans were made has been estimated for each fiscal year.
**Details may not add up to totals because of rounding.

# SBLA Tables

## Table I: Summary of Operations: SBL Program

| Period or fiscal year | Loans made: Number | Loans made: Amount ($000) | Average loan size ($) | Net claims paid: Number | Net claims paid: Amount ($000) |
|---|---|---|---|---|---|
| January 19, 1961, to March 31, 1990 | 281 855 | 7 724 821 | 32 128 | 12 304 | 271 962 |
| 1990-91 | 10 626 | 413 258 | 38 891 | 1 559 | 33 233 |
| 1991-92 | 10 557 | 397 275 | 37 631 | 1 924 | 45 932 |
| 1992-93 | 13 154 | 502 141 | 38 174 | 1 827 | 45 193 |
| 1993-94 | 43 351 | 2 548 795 | 58 794 | 1 376 | 32 410 |
| 1994-95 | 68 378 | 4 397 126 | 64 306 | 1 015 | 23 962 |
| 1995-96 | 34 613 | 2 243 157 | 64 807 | 2 003 | 65 868 |
| 1996-97 | 31 003 | 2 018 943 | 65 121 | 3 826 | 151 168 |
| 1997-98 | 29 064 | 1 977 309 | 68 033 | 5 964 | 246 050 |
| 1998-99 | 22 521 | 1 613 373 | 71 639 | 5 102 | 221 160 |
| 1999-2000 | | | | 4 720 | 203 101 |
| **Total*** | **545 122** | **23 836 198** | **43 726** | **41 620** | **1 340 039** |

*Details may not add up to totals because of rounding.

## Table II: Loans Advanced, Claims Paid, Repayments Made and Principal Balance of Loans Outstanding

| Lending periods | Loans made | Balance of loans outstanding as at March 31, 2000* | Total principal repayments made | Claims paid by government to lenders as at March 31, 2000 | Principal repayments made by borrowers |
|---|---|---|---|---|---|
| | ($000) | ($000) | ($000) | ($000) | ($000) |
| Periods 1 to 9 inclusive<br>January 19, 1961, to March 31, 1985 | 4 372 704 | 0 | (4 372 704) | (222 001) | (4 150 703) |
| Period 10<br>April 1, 1985, to March 31, 1990 | 3 352 052 | 2 204 | (3 349 848) | (179 104) | (3 170 745) |
| Period 11<br>April 1, 1990, to March 31, 1993 | 1 312 674 | 24 362 | (1 288 312) | (73 119) | (1 215 193) |
| Period 12<br>April 1, 1993, to March 31, 1999 | 14 798 703 | 3 807 935 | (10 990 768) | (870 995) | (10 119 773) |
| Subtotal: Periods 10 to 12<br>April 1, 1985, to March 31, 1999 | 19 463 430 | 3 834 501 | (15 628 928) | (1 123 218) | (14 505 711) |
| **Total**<br>January 19, 1961, to March 31, 1999** | **23 836 134** | **3 834 501** | **(20 001 632)** | **(1 345 219)** | **(18 656 414)** |

*As reported by lenders at time of printing.
**Details may not add up to totals because of rounding.

Table IIIa: Record of Recoveries, Receipt of Fees and Net Claims Paid for Loans Made Before April 1, 1995*

| Period or fiscal year | Recoveries and receipt of fees | | | Net claims paid | | | Recoveries and receipts of fees less net claims |
|---|---|---|---|---|---|---|---|
| | Recoveries of prior years' claims | Registration fees | Total | Gross claims | Recoveries of same year's claims | Net claims | |
| | ($000) | ($000) | ($000) | ($000) | ($000) | ($000) | ($000) |
| January 19, 1961, to March 31, 1990 | 5 832 | 33 345 | 39 177 | 273 626 | (1 664) | 271 962 | (232 784) |
| 1990-91 | 1 729 | 4 179 | 5 908 | 33 600 | (367) | 33 233 | (27 326) |
| 1991-92 | 1 663 | 3 932 | 5 595 | 46 414 | (482) | 45 932 | (40 337) |
| 1992-93 | 1 733 | 4 756 | 6 489 | 45 950 | (757) | 45 193 | (38 704) |
| 1993-94 | 1 939 | 47 082 | 49 021 | 32 852 | (442) | 32 410 | 16 611 |
| 1994-95 | 1 499 | 78 305 | 79 804 | 24 094 | (133) | 23 962 | 55 842 |
| 1995-96 | 1 265 | 13 036 | 14 301 | 65 678 | (116) | 65 561 | (51 260) |
| 1996-97 | 837 | (1) | 836 | 135 572 | (78) | 135 494 | (134 658) |
| 1997-98 | 852 | (1) | 851 | 162 504 | (217) | 162 287 | (161 436) |
| 1998-99 | 869 | 0 | 869 | 97 634 | (133) | 97 501 | (96 632) |
| 1999-2000 | 810 | 0 | 810 | 49 375 | (66) | 49 309 | (48 499) |
| **Total**** | **19 028** | **184 633** | **203 661** | **967 299** | **(4 455)** | **962 844** | **(759 182)** |

*On loans made before April 1, 1993, claims were paid to lenders and the moneys were recovered afterward from the borrower. These moneys are reported as "recoveries." On loans made since April 1993, lenders realize on assets and securities prior to submitting a claim for loss.

**Details may not add up to totals because of rounding.

## Table IIIb: Record of Receipt of Fees and Net Claims Paid for Loans Made After March 31, 1995*

| Fiscal year | Receipt of fees | | | Net claims paid | | | Revenues less expenditures |
|---|---|---|---|---|---|---|---|
| | Registration fees | Administration fees | Total | Gross claims | Recoveries of same year's claims | Net claims | |
| | ($000) | ($000) | ($000) | ($000) | ($000) | ($000) | ($000) |
| 1995-96 | 40 526 | 0 | 40 526 | 307 | 0 | 307 | 40 219 |
| 1996-97 | 40 069 | 13 764 | 53 832 | 15 679 | (5) | 15 674 | 38 158 |
| 1997-98 | 39 325 | 34 893 | 74 219 | 83 832 | (70) | 83 763 | (9 544) |
| 1998-99 | 32 336 | 48 284 | 80 620 | 123 959 | (300) | 123 659 | (43 039) |
| 1999-2000 | 3 366 | 54 430 | 57 796 | 154 031 | (240) | 153 792 | (95 996) |
| **Total**** | **155 623** | **151 371** | **306 994** | **377 809** | **(615)** | **377 194** | **(70 200)** |

*This table provides SBLA's cash flows. It does not reflect future claims for loss in respect of outstanding loans.
**Details may not add up to totals because of rounding.

## Table IV: *Small Business Loans Act*: Program Fact Sheet as of April 1, 1993, and Until March 31, 1999

| Item | A loan made prior to April 1, 1993 | A loan made after March 31, 1993, and before January 1, 1996 | A loan made after December 31, 1995, and before April 1, 1999 |
|---|---|---|---|
| Maximum eligible business size | $2 million in estimated gross annual revenue | $5 million in estimated gross annual revenue | $5 million in estimated gross annual revenue |
| Maximum loan size | $100 000 outstanding in aggregate | $250 000 outstanding in aggregate | $250 000 outstanding in aggregate |
| Maximum interest rate | Prime + 1% | For floating rate loans, prime + 1 3/4% and for fixed rate loans, 1 3/4% over the residential mortgage rate for the applicable term | For floating rate loans, prime + 3% and for fixed rate loans, 3% over the residential mortgage rate for the applicable term (introduced for loans made after March 31, 1995) |
| Government fees | 1% one-time up-front registration fee | 2% one-time up-front registration fee, which may be added to amount of the loan | 2% one-time up-front registration fee, which may be added to the amount of the loan, and a 1.25% annual administration fee will be charged (applies to loans made after March 31, 1995). The 1.25% is to be paid by a lender but cannot be passed on to the borrower except through the interest rate, while respecting the prescribed maximum rates. |
| Refinancing | Not permitted | Up to 180 days prior to loan approval date | Up to 180 days prior to loan approval date |
| Percentage of financing permitted | 80% of equipment<br>90% of land and buildings | 100% of all eligible assets | 90% of all eligible assets |
| Loss-sharing ratio | 85% government/15% lender | 90% government/10% lender | 85% government/15% lender |
| Substitution and release of security | Lender may release any security acquired but through the remaining term shall maintain adequate security pursuant to normal lending practice, for loan repayment | Substitution of security excluding personal guarantees | As at January 31, 1995, substitution of security and secured assets of equivalent value excluding personal guarantees. Secured equipment may be released under prescribed conditions (no default, after two years and outstanding balance reduced appropriately). Release land and premises if expropriated. |
| Maximum loan term | 10 years | 10 years | 10 years |
| Businesses excluded from the program | Finance, insurance, real estate, professions, mining of metals, minerals, non-metallic materials, production of petroleum, natural gas, farming, charitable and religious organizations | Farming as well as charitable and religious organizations | Farming as well as charitable and religious organizations |
| Classes of loans | Land, Premises, Movable Equipment, Fixed Equipment | Land, Premises, Equipment, Fee (2% up-front loan registration fee) | Land, Premises, Equipment, Fee (2% up-front loan registration fee) |