

Welcome to the new CSBFA

This booklet is intended to help you understand and use the *Canada Small Business Financing Act* (CSBFA).

The CSBFA is a continuation of the *Small Business Loans Act*, a federal program that has helped small businesses obtain financing for 38 years. Under the CSBFA, the federal government shares the risk on loans made by lending institutions.

In general, the CSBFA applies to loans:

- up to \$250 000
- to Canadian businesses with annual gross revenues of \$5 million or less
- to finance the purchase or improvement of eligible assets
- for terms of up to 10 years
- registered with the Small Business Loans Administration.

To finance the risk under the CSBFA guarantee, lenders are responsible for collecting and paying a registration fee of 2 percent of each loan made, plus an annual administration fee of 1.25 percent, calculated on the monthly loan balance.

In return, the federal government guarantees 85 percent of the lender's losses in the event of default.

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How to use this booklet*

There are a variety of ways to use this booklet.

For example, if you:

- have a new loan prospect, turn to page 6 and follow the flowcharts and checklists to screen and register a new loan.
- are considering changes to an outstanding loan, turn to page 18 for guidance on how to avoid loss of eligibility.
- are preparing a claim for loss, turn to page 22 to find tips on how to avoid common errors.
- do not have a current need, you may want to flip through the booklet to understand how it can help, then set it aside for future use.
- are familiar with the *Small Business Loans Act* (SBLA), which the CSBFA continues, you can simply review the list of changes contained on pages 4 and 5.

Note: This booklet is designed to answer most questions about the Act, but it is not the actual law. The law is contained in the Act and Regulations. The Lender Guidelines provide interpretations of the Act and Regulations and are updated on a regular basis.

Links to the CSBFA Guidelines

For situations that are unclear, use the references provided to obtain more information from the CSBFA Guidelines. Please see page 7 for an explanation of how the references appear. If you do not have a copy of the Guidelines, refer to your internal operations manual for the appropriate contact person, or visit our Web site at <http://strategis.ic.gc.ca/csbfa>

* Your institution may have its own guidelines on how you can use this program. Consult your internal operations manual or the appropriate individual for this information.

What's new in the CSBFA

This summary of key changes is intended for use by lenders familiar with the *Small Business Loans Act* (SBLA), which the CSBFA replaces.

| CSBFA (new Act) | SBLA (old Act) |
|---|--|
| <p>Due diligence and care Expectations of CSBFA lenders are to:</p> <ul style="list-style-type: none"> • obtain satisfactory credit references • assess customer's ability to repay • apply similar procedures to those applied to non-CSBF loans. | Not specifically addressed. |
| <p>Going concern A going concern is a small business that has operated within 60 days prior to acquisition.</p> | Not addressed. |
| <p>Eligible purposes and assets (Page 10) Only when buying property must 50 percent be required to operate the business. Subsequent improvements can only be to the operational area.</p> | The 50/50 rule applied to all premises loans, regardless of whether they were for purchase or improvement. |
| <p>Non-refundable taxes and customs duties are included in eligible asset cost.</p> | Not addressed. |
| <p>Appraisals are required when:</p> <ul style="list-style-type: none"> • asset purchase is not at arm's length • assets of a going concern are purchased • assets are purchased from a lender • services are provided not at arm's length. | Only a non-arm's length asset purchase was addressed. |
| <p>Expenditures or commitments made within 180 days of the loan approval date are eligible, as long as they were not financed by a term loan.</p> | Expenditures or commitments made within 180 days of the loan date were eligible without restriction. |
| <p>Decontamination can be financed in certain circumstances.</p> | Not addressed. |
| <p>Maximum loan amount Related borrower is defined. (Page 13)</p> | Not addressed. |
| <p>The CSBFA limits loans to related borrowers, including outstanding SBLA loans, to \$250 000 unless they are subject to the independent small business rule as defined in the CSBFA Regulations.</p> | Not addressed. |

| | |
|--|---|
| Security | |
| Security-ranking requirements in various lending situations are set out. | Some situations not addressed. |
| Distinction is made between primary and additional security, making release and substitution rules clear. | Additional security not addressed. |
| Substitution and release of assets rules extended to cover more situations. | Some situations not addressed. |
| Guarantees may be substituted for other guarantees or security on business assets. | Guarantees could only be substituted for other guarantees. |
| Terms and documentation | |
| Loan document contents, but not the form, are specified. | A promissory note was required. |
| Interest rate is set when: <ul style="list-style-type: none"> • loan is made, or • when loan document is signed, if document is to accompany security document for registration. | Interest rate was set when promissory note was signed. |
| Changes to outstanding loans – see also Security (above) | |
| Repayment terms may be altered at any time as long as changes do not compromise the ability to repay. | Changes were permitted only in case of actual or impending default. |
| Claims for loss | |
| Submission deadline is 36 months from the date specified in the demand for payment. | Deadline was 36 months from the default date. |
| An interim claim for loss can be made before realizing on personal guarantees and/or finalizing compromise settlements. | All realization was to be completed before a claim for loss was filed. |
| Interest on unpaid amounts is for: <ul style="list-style-type: none"> • 12 months at the loan rate, and • 12 months at one-half the loan rate. | Interest on unpaid amounts was for: <ul style="list-style-type: none"> • 12 months at the loan rate, and • 24 months at one-half the loan rate. |
| Other | |
| Costs of preparing and registering security documents can be charged to the borrower. | Not addressed. |
| Annual administration fee of 1.25 percent is payable quarterly. | Annual fee was payable annually. |
| Specific remedies are set out for several examples of non-compliance. | List of remedies was much shorter and correction periods more restrictive. |

Making a CSBF Loan

The CSBF Loan screening and registration process is not complicated. Use the flowcharts on the following pages to guide your thinking.

Due diligence and care

Although the CSBFA is intended to make financing available to business that may not otherwise meet commercial lending requirements, lenders are expected to make and manage CSBF Loans with the same care and procedures they would use with any other loan.

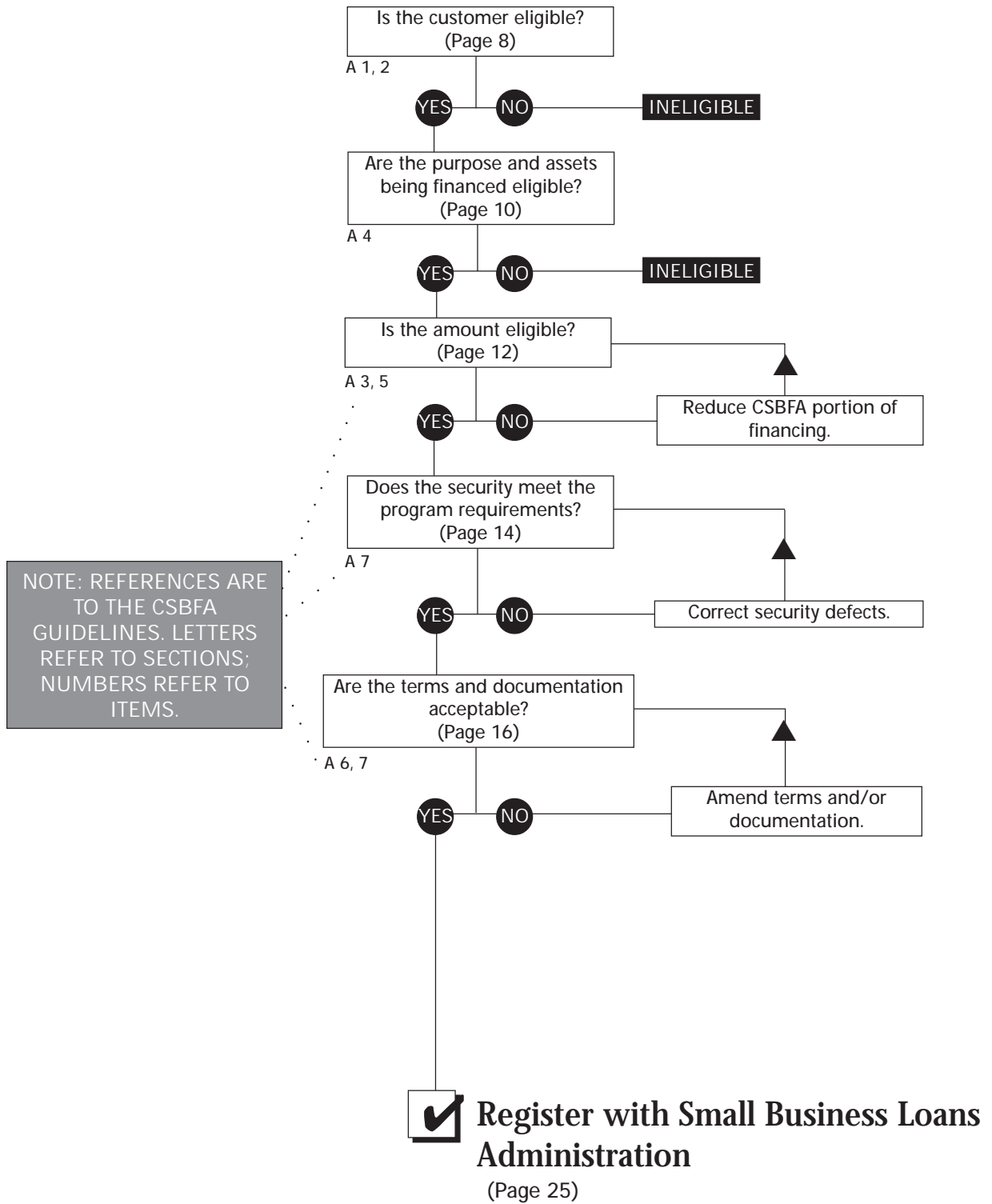
Before making the loan, lenders should:

- check the creditworthiness of the business
- obtain credit references on the key individuals
- assess the business's ability to service and repay the debt, taking into consideration all the other financial obligations of the borrower.

In managing the loan, lenders should:

- ensure their assessments are documented
- obtain documentation showing asset cost and payment
- register necessary security instruments
- ensure that changes to the terms and conditions of an outstanding loan do not diminish security or the ability to repay.

The process for making a CSBF Loan



Customer eligibility

The program is intended to assist Canadian small businesses.

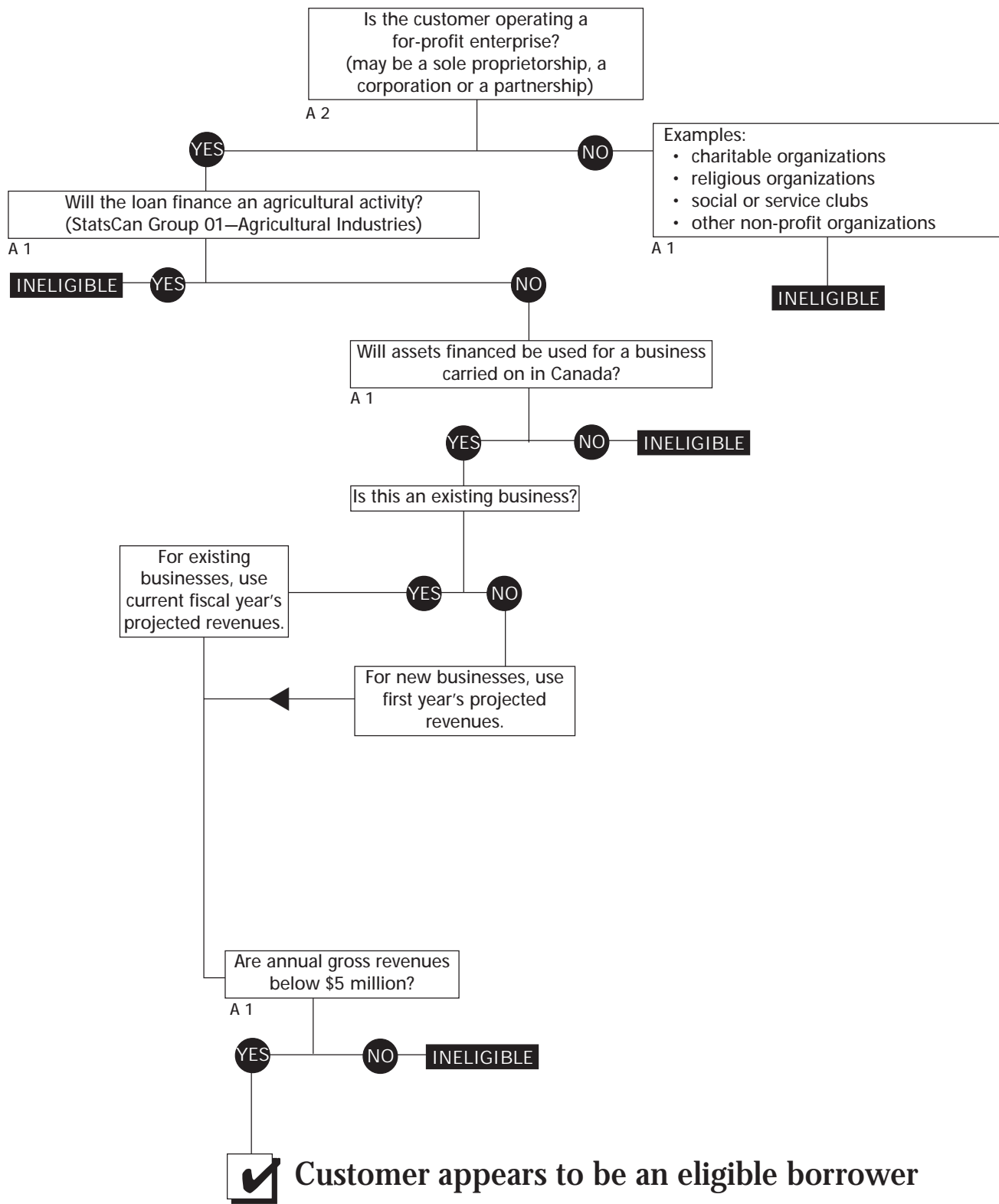
Virtually all small businesses are eligible to receive a loan under the CSBFA, but there are some restrictions.

To be eligible, a customer's business must:

- be for profit
- be non-agricultural
- carry on business primarily in Canada
- have annual gross revenues below \$5 million.

Note that a borrower must satisfy all of these conditions.

Is the customer eligible for a CSBF Loan?



Eligible purposes and assets

The Act is intended to help small businesses buy or improve tangible capital assets to be used in Canada for a new or existing business.

Working capital needs, such as inventory financing, are not eligible for loans under the Act.

Classes of CSBF Loans

Eligible assets fall into three classes:

- real property
- leasehold improvements
- equipment.

In addition, the 2 percent loan registration fee may be financed as part of a CSBF Loan.

Lenders may include more than one class of asset in a single loan registration. Note that each class carries certain security requirements, described later in this booklet.

Maximum loan amount

There are two criteria to consider in determining the maximum loan amount:

- outstanding aggregate CSBF Loans and SBLA Loans to a borrower and related borrowers cannot exceed \$250 000, and
- the loan amount cannot exceed 90 percent of the eligible cost of the financed assets.

The eligible cost of the asset can include related:

- installation charges (if invoiced and capitalized)
- freight and transportation charges
- non-refundable customs duties and taxes.

The eligible cost cannot include:

- any discounts, rebates or allowances
- the borrower's labour costs.

If the borrower is buying

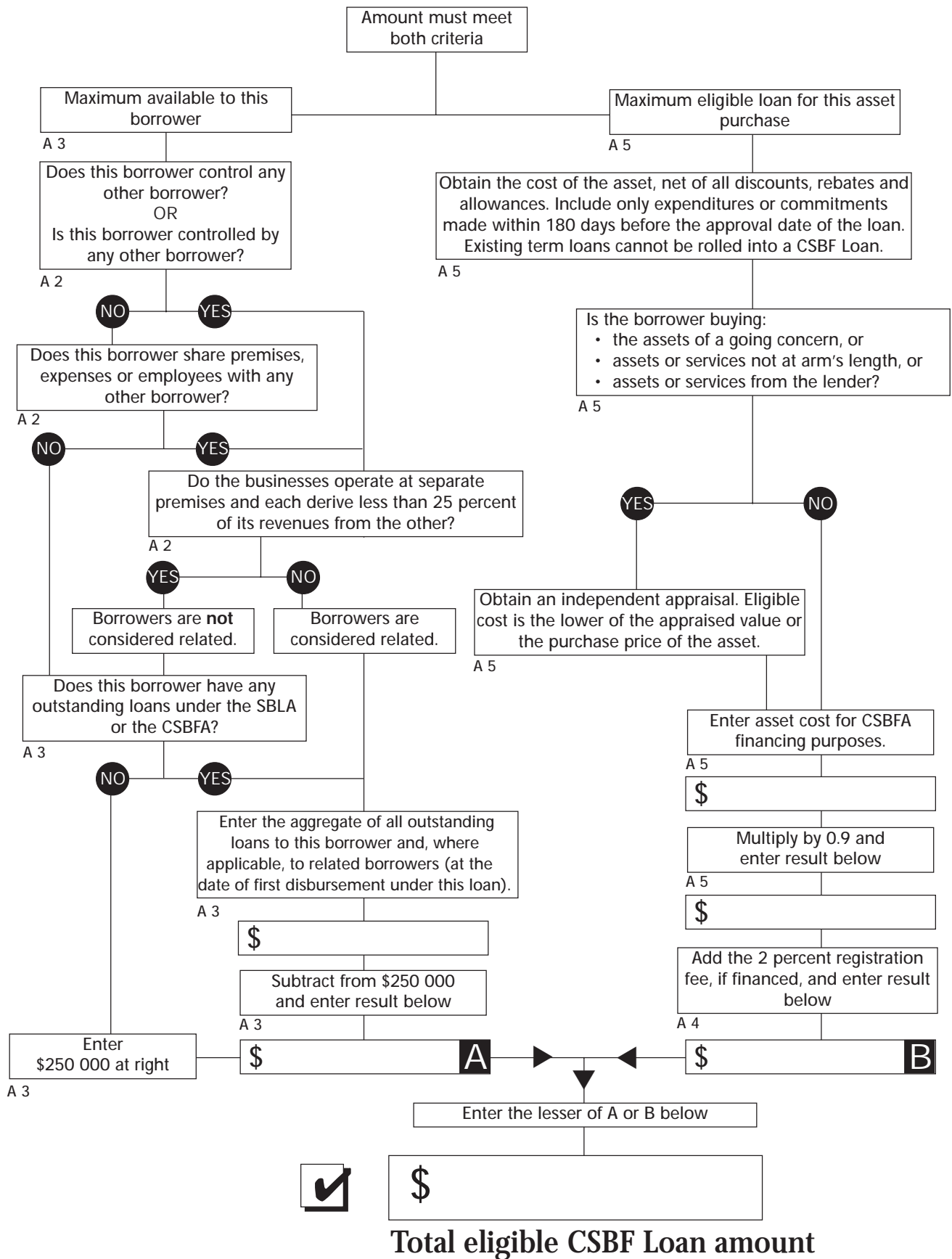
- the assets of a going concern, or
- assets or services not at arm's length as defined in the *Income Tax Act* (Section E), or
- assets or services from the lender,

the eligible cost is the lower of the purchase price or an independent appraisal.

In the event of a claim for loss, the lender must supply the following documentation:

- proof of the eligible cost (e.g. invoice, purchase contract)
- the appraisal, if required, and
- proof of payment.

Determining the maximum eligible loan amount



Securing a CSBF Loan

Security for loans is divided into two groups.

Primary security is mandatory.

- If the loan is used to finance real property or equipment, primary security will consist of a first charge on the assets being financed.
- If the loan is used to finance leasehold improvements or computer software, primary security can be on:
 - the assets financed, or
 - other business assets of the borrower (alternate security).

Additional security is optional. In addition to primary security, the lender may take:

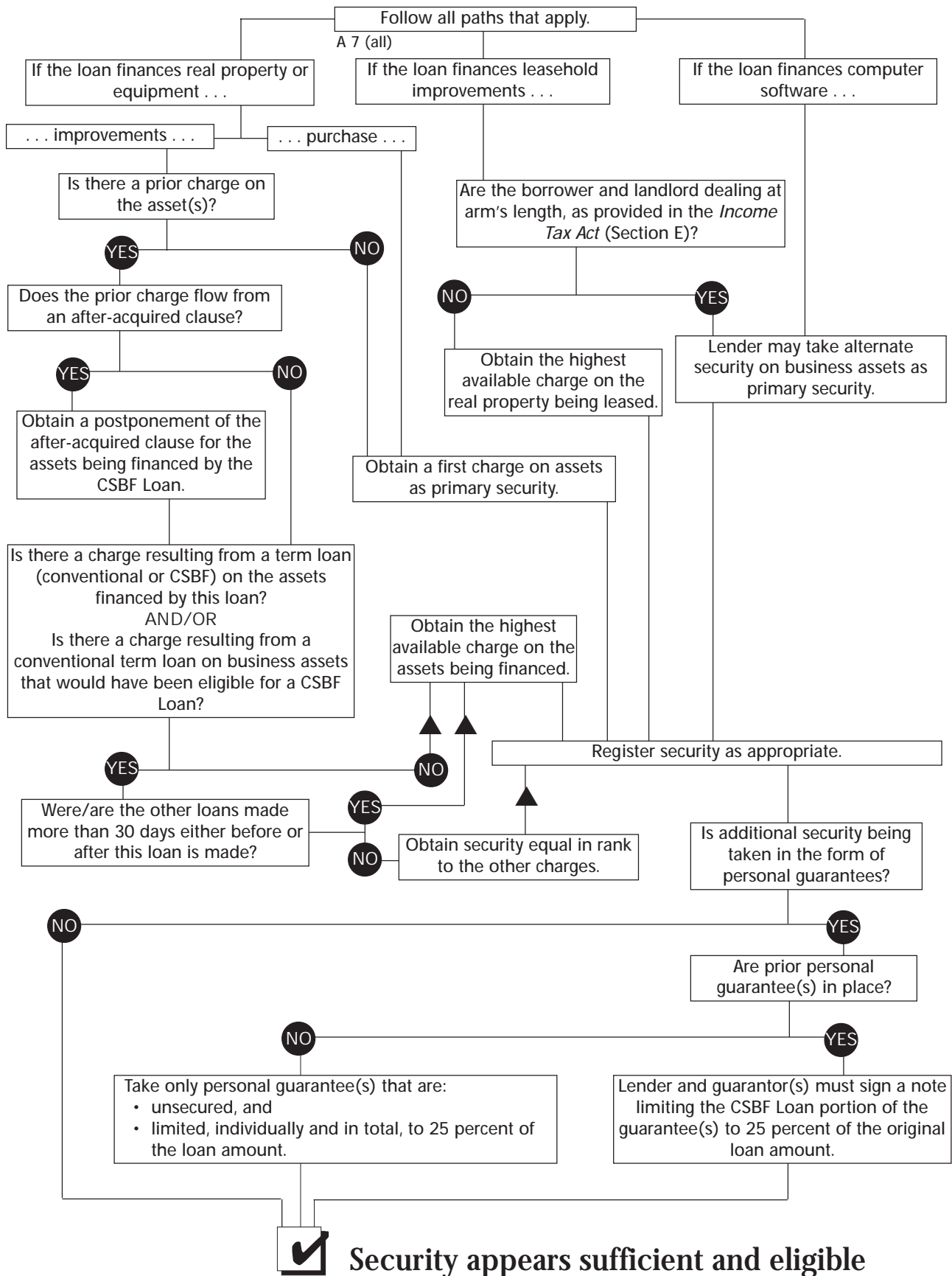
- security on any other business assets of the borrower
- any other secured or unsecured corporate guarantees, and
- one or more personal guarantees, provided they are:
 - unsecured, and
 - do not exceed, individually and in total, 25 percent of the original loan plus interest and costs.

To preserve eligibility in the event of a claim for loss, lenders must ensure that:

- the kind and priority of the security taken satisfies the Act and Regulations
- security is not released prematurely (see page 18), and
- personal guarantees do not exceed the 25-percent limit.

Note: Personal guarantees do not limit the liability of sole proprietors or unlimited partners in a partnership.

Is the security sufficient and eligible?



Terms and documentation

The Act specifies that each CSBF Loan must be:

- a term loan for a period not to exceed 10 years
- to finance assets needed for the operation of a Canadian business, and
- subject to a maximum interest rate.

Only fees specifically permitted by the Act may be charged to the borrower.

These include:

- the 2 percent registration fee
- the 1.25 percent annual administration fee
- reasonable fees for preparing and registering security documents.

The terms of the loan must be documented at the time the loan is made.

The borrower and lender may agree to change the original terms of the loan during the life of the loan agreement. In this case, the lender should refer to page 18 of this booklet to ensure the loan remains eligible under the Act in the event of a claim for loss. Any change should be fully documented.

Terms and documentation checklist

- | | | |
|-------------------------------------|---------------------|---|
| <input checked="" type="checkbox"/> | Ten-year term: | The loan will be paid in full within 10 years, beginning from the date of the first scheduled payment. |
| <input checked="" type="checkbox"/> | Amortization: | If the loan has been amortized over a period of more than 10 years, a balloon payment has been scheduled before the end of the 10-year term. |
| <input checked="" type="checkbox"/> | Principal Payments: | Principal payments are scheduled at least annually, but do not have to be equal. Blended payments of interest and principal are acceptable. |
| <input checked="" type="checkbox"/> | Fixed Rate Loan: | If fixed, the interest rate will not exceed the lender's residential mortgage rate plus 3 percent. Use the mortgage rate for the equivalent term in effect at the date the loan is made or on the date the loan agreement is signed if it must be registered with the security document. |
| <input checked="" type="checkbox"/> | Floating Rate Loan: | If floating, the interest rate will not exceed the lender's prime lending rate on each day the loan is outstanding plus 3 percent. |
| <input checked="" type="checkbox"/> | Security: | Kind and priority of security is as specified in the Regulations. Appropriate security documents have been executed and registered. Fees charged for preparing and registering security instruments are no higher than those for a similar non-CSBF loan. |
| <input checked="" type="checkbox"/> | CSBFA Fees: | The 2 percent registration fee has been collected and remitted to Small Business Loans Administration within three months from the date of first disbursement. The annual administration fee of 1.25 percent is included in the interest rate. |
| <input checked="" type="checkbox"/> | Insurance: | If life and/or disability insurance is agreed upon and the premiums are expressed as a percent of the loan amount, these are shown separately from the interest rate. |
| <input checked="" type="checkbox"/> | Other Fees: | No other fees have been charged. |
| <input checked="" type="checkbox"/> | Documentation: | On or before the date the loan is made, the lender and borrower have signed a document that states: <ul style="list-style-type: none">• loan amount• rate of interest• repayment terms• frequency of principal payments• date of first principal payment. |

Changes to outstanding loans— retaining program eligibility

The intent of the Act is to give lenders and borrowers flexibility to respond to changing circumstances over the term of a CSBF Loan.

Changes need not be communicated to the Small Business Loans Administration provided:

- the reasoning and the changes themselves are documented, and
- the revised loan would pass the eligibility tests required for a new CSBF Loan.

When considering changes to outstanding loans, special care should be taken:

- to avoid exceeding the interest rate maximums
- to avoid extending the term beyond 10 years, and
- to ensure security remains adequate and eligible.

Checklist for changes to outstanding loans



Ten-year term:

Small Business Loans Administration must approve any change that extends the term of a loan beyond 10 years. Make the request in the last two years; include grounds and documentation.



Interest Rate:

If the interest rate is changed from fixed to floating or vice versa, ensure the new loan agreement specifically observes the prescribed rate ceiling.



Substituting
Primary Security:

Substitute assets only if:

- the nature of the security is the same (for example, a mortgage for a mortgage)
- the new assets are of equal or greater value, and
- security ranking on the new assets is the same or higher.



Substituting
Additional Security:

No restrictions on substitution.



Releasing
Primary Security:

Release primary security assets only if:

- the loan is in good standing, and
- the outstanding loan amount has been reduced by an amount equal to the original cost of the assets being released, or
- the assets are being sold to an arm's length party and all proceeds of the sale will be used to reduce the CSBF Loan, or
- the assets are being sold to a non arm's length party and the proceeds will reduce the loan by the higher of the sale price or an independent appraisal.



Releasing
Additional Security:

Release additional security only if:

- for assets, the loan is in good standing, and
- for a guarantee, the principal amount of the loan has been reduced by 50 percent.



REMEMBER:

Where other business assets have been taken as primary security for a leasehold improvement or computer software loan, be sure to observe the rules for substitution and release of primary security.

When substituting or adding personal guarantees, ensure that they are:

- unsecured, and
- specifically limited to 25 percent, individually and in total, of the original amount of the CSBF Loan.

Claim for loss procedure

A claim for loss is made after the following have occurred:

- default by the borrower
- notice of default and demand for repayment
- expiration of the time specified in the notice of default, and
- efforts by the lender to realize on the assets and guarantees taken to secure the loan.

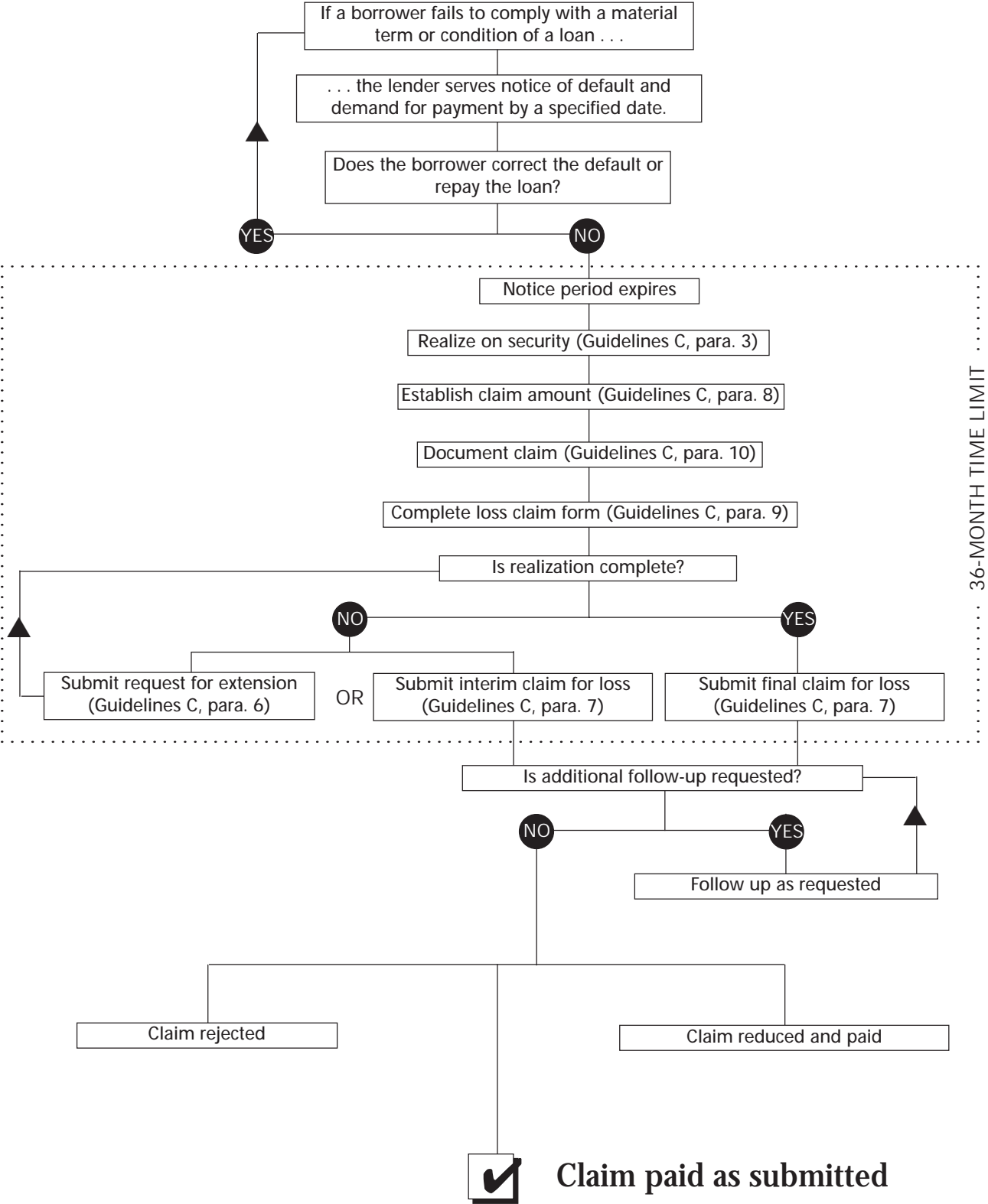
There are two types of claim for loss:

- a final claim for loss means the lender has realized on all the security, guarantees and personal liability of sole proprietors or general partners.
- an interim claim for loss means the lender has realized on the primary security, but has not fully implemented a compromise or realized on the additional security, guarantees or personal liability of sole proprietors or general partners.

A claim for loss or a request for an extension to the loss submission deadline must be submitted within 36 months of expiration of the period specified in a notice of default.

Since most loans are repaid without recourse to the claim for loss process, the claims procedure is not covered in detail in this learning guide. Please refer to the relevant CSBFA Guidelines sections (noted opposite) for instructions on establishing and documenting losses.

Typical claim for loss procedure



Common causes of claims reductions and declines

Only a small percentage of loans registered under the Act result in claims for loss. Of these, most are paid without adjustment.

Where a lender has not adhered to the requirements of the Act, however, the Small Business Loans Administration has no alternative but to reduce or decline the lender's claim.

The purpose of this section is to list common causes of claims reductions and declines and to suggest remedies. The list is in three sections:

- non-correctable errors, which make a loan ineligible for any claim.
- correctable errors, which may be corrected to retain program eligibility. To catch these errors, some lenders routinely review each CSBF Loan file within a year of registration.
- claims processing errors, which delay claims payments. During the delay, lenders:
 - do not have use of the funds being claimed
 - continue to pay the 1.25 percent annual fee
 - risk expiry of the interest reimbursement period.

Many causes of claims reductions and declines stem from fundamental mistakes made long before the loan goes into default. To lessen the chance that a future claim will be reduced or declined, refer to this list when

- considering a new loan, or
- making changes to an outstanding loan.

Causes of claims reductions and declines and suggested remedies

Causes

Suggested remedies

Non-correctable errors

Errors that make a loan ineligible for any claim:

- ineligible borrower (see page 8)
- borrower has annual gross revenues of more than \$5 million (see page 8)
- ineligible purpose (see page 10)
- total loans exceed \$250 000 maximum (see page 12)
- independent appraisal required but not done (see page 12)
- all assets were purchased more than 180 days before loan approval date (see page 13).

De-register and manage as a conventional loan.

Claim or extension not submitted in time frame (see page 21).

No remedy.

Correctable errors

No evidence of asset purchase or payment.

See page 12. This fault occurs most often with property and leasehold improvement loans. Some lenders reduce this risk by advancing funds against receipts and later convert the documented file to a CSBF Loan.

Some assets were purchased more than 180 days before loan approval date (see page 13).

De-register ineligible portion of the CSBF Loan.

Loan exceeds prescribed percentage of asset cost.

See page 13 and Guidelines C, para. 5.

Personal guarantees exceed maximum.

See page 15 and Guidelines C, para. 5.

Ineligible fee charged.

See page 17 and Guidelines C, para. 5.

Security not taken or defective.

Correct defects (see page 15).

Loan terms and/or documentation faulty. Common errors include:

- payments not scheduled at least annually
- loan term exceeds 10 years
- interest exceeds maximum rate.

See page 17 and Guidelines C, para. 5. Ensure that:

- demand loan form of promissory note is not used
- insurance costs are not shown as part of the loan interest rate
- when changing the term of a fixed rate loan, the interest rate reflects the mortgage rate for the new term.

| Causes (continued) | Suggested remedies (continued) |
|---|--|
| Processing errors Payment reversal after five days. | CSBF Loan payments reversed by the lender after five working days must be credited to the loan, reducing the amount claimed correspondingly. |
| Additional realization proceeds. | Ensure all assets held as security and all guarantees are accounted for in the realization documentation. |
| Sharing of realization proceeds. | See Guidelines C, para. 4 for requirements. |
| Realization costs claimed twice. | Calculation error. Costs that have been deducted from the realization proceeds cannot also be added to the amount claimed. |
| Ineligible or unsupported realization costs. | See Guidelines C, para. 3, C, para. 9 and C, para. 10. |
| Claim loss documentation incomplete. | See Guidelines C, para. 9 and C, para. 10. |



CANADA SMALL BUSINESS FINANCING ACT LOAN REGISTRATION FORM

Note: You must read the attached instructions and fill in all of the boxes or use N/A if not applicable, otherwise the form will be returned.

| LENDER | | | | FOR OFFICE USE ONLY | |
|--|---------------------------------|--|---|---|--|
| 1 Lender's name and address (print) | 2 CPA transit no. | | | | |
| Postal code | 3 Lender's loan or folio no. | | | | |
| | | | | | |
| BORROWER | | | | | |
| 4 Name and address of the entity directly obligated to repay the loan (print) | | | 5 Telephone no. | | |
| Postal code | | | 6 GST registration no. | | |
| | | | R T | | |
| | | | or <input type="checkbox"/> Exempted from GST | | |
| 7 Operating name of business (if different from the name reported in Line 4) | | | | | |
| 8 Type of borrower (should correspond to Line 4) | | | 9 Borrower's estimated annual gross revenue | | |
| <input type="checkbox"/> Sole proprietor <input type="checkbox"/> Partnership <input type="checkbox"/> Limited company | | | \$ _____ <i>Cannot exceed \$5,000,000</i> | | |
| 10 Industrial sector (use one of the letters from A to S as per instructions and print a concise description of the main activity of the business resulting from the loan) | | | 11 Type of project being financed (check only one box) | | |
| Sector | Description of activity | | <input type="checkbox"/> Start-up <input type="checkbox"/> Expansion / Improvements <input type="checkbox"/> Purchase of assets of a going concern If purchase of assets of a going concern, check one box under (a) and complete (b) a) <input type="checkbox"/> Arm's length <input type="checkbox"/> Non-arm's length b) Percentage of loan, if any, used for expansion / improvement ▶ % | | |
| <input type="checkbox"/> | | | | | |
| 12 Number of years the business seeking the loan has been operating. Indicate NEW if the loan applies to the purchase of a going concern. | | | 13 Assets located on an Indian Reserve | | |
| <input type="checkbox"/> New <input type="checkbox"/> 1 to 3 years <input type="checkbox"/> More than 3 years | | | <input type="checkbox"/> Yes <input type="checkbox"/> No | | |
| 14 Type of operation | | 15 If franchise or operating under a management contract: Name and address of franchisor or contractor | | 16 Number of current full-time equivalent employees on the payroll at time of loan application | |
| <input type="checkbox"/> Franchise <input type="checkbox"/> Operating under a management contract with supplier of assets <input type="checkbox"/> Other | | Postal code | | 17 Number of additional persons to be employed (full-time equivalent) as a direct result of this loan | |
| | | | | | |
| LOAN | | | | | |
| 18 Aggregate amount of guarantees or suretyships obtained for the loan to be registered | | | 19 Rank of asset security obtained | | |
| Personal \$ _____ Corporate \$ _____ <input type="checkbox"/> None <i>Personal guarantees or suretyships cannot exceed, in aggregate, 25% of line 32</i> | | | <input type="checkbox"/> First charge <input type="checkbox"/> Equal ranking <input type="checkbox"/> Other | | |
| 20 Term of loan (in months) | 21 Date of approval of the loan | 22 Date of first loan disbursement | 23 Interest margin in addition to the floating prime rate or fixed mortgage rate | | |
| Cannot exceed 120 | Year Month Day | Year Month Day | <input type="checkbox"/> Floating (prime rate) + _____ % = _____ % <input type="checkbox"/> Fixed (mortgage rate) <i>Cannot exceed 3%</i> <i>Total interest rate</i> | | |
| 24 If applicable, charges payable by the borrower to the lender for: | | | | | |
| a) Taking security | | b) Life or disability insurance | | | |
| \$ _____ | | Expressed as an annual premium \$ _____ Expressed as a percentage of the loan % _____ | | | |

| CLASS OF LOAN | | AMOUNT OF LOAN TO BE REGISTERED | |
|---------------|---|---------------------------------|---|
| 25 | Purchase of / Improvements to real property or immovables (owner) | \$ | 33 Registration fee (2% of Line 30) cheque payable to Receiver General \$ <i>Do not round to nearest dollar</i> |
| 26 | Leasehold improvements (tenant) - New + | \$ | |
| 27 | Leasehold improvements (tenant) - Purchase of existing improvements + | \$ | |
| 28 | Equipment (excluding software) | + \$ | 34 Percentage of asset cost financed by the CSBF loan % <i>Cannot exceed 90%</i> |
| 29 | Software | + \$ | |
| 30 | Sub-total (Lines 25 to 29) | = \$ | |
| 31 | CSBF loan fee financed (if applicable) maximum 2% of Line 30 | + \$ | |
| 32 | TOTAL AMOUNT OF LOAN TO BE REGISTERED (add Lines 30 and 31) | = \$ | |

BORROWER'S ACKNOWLEDGEMENT AND CONSENT

I, the borrower (or responsible officer of the company),

1) certify that:

- a) the elements financed in Lines 25 to 29 include only the eligible costs as defined in the attached instructions and do not include any incidental fees other than non-refundable taxes and custom duties;
- b) the total amount of the proposed loan and the principal amount outstanding, in respect of the borrower and all borrowers related to that borrower within the meaning of the Regulations, does not exceed \$250,000 (including outstanding SBLA loans);
- c) if the loan is to finance the purchase of real property or immovables:
 - at least 50% of the area is used for or is intended to be used within 90 days after the final disbursement, for the operation of the small business; Yes Not Applicable
- d) if the loan is to finance the purchase or improvement of real property or immovables or leasehold improvements:
 - the assets are not intended to be resold, leased or subleased within 3 years after the day on which the loan is made except for small businesses in the health care, hospitality or mini-storage industries; Yes Not Applicable
- e) if the loan or part of the loan is to finance leasehold improvements, the borrower and the landlord are at arm's length. Yes No Not Applicable

| |
|----------|
| Initials |
| |
| |
| |

2) consent to:

- 1) the audit by Industry Canada representatives of the loan approval and administration file held by the lender in respect of the loan.
- 2) the release by Industry Canada of information with respect to the borrower's or related borrower's outstanding loans to another lender to whom the borrower applies for a loan.

It is an offence to make any false statements or misrepresentations on this registration form and is subject to punishment as stated in section 16 of the Canada Small Business Financing Act.

| | | |
|--|---|----------------------|
| Name of borrower or responsible officer of the company (print) | Signature of borrower or responsible officer of the company | Date |
| | | Year Month Day |
| | | |
| | | Date |
| | | Year Month Day |
| | | |

LENDER'S ACKNOWLEDGEMENT

I, responsible officer of the lender, certify that:

- a) to the best of my knowledge, the information contained herein is complete and accurate;
- b) the loan was approved in accordance with the due diligence requirements of the Canada Small Business Financing Regulations;
- c) the loan complies with all the eligibility requirements of the Canada Small Business Financing Act and Regulations;
- d) no fees or charges other than those authorized by the Act and Regulations and declared on this form have been paid or are payable by the borrower.

| | | |
|---|---------------|---|
| Name of responsible officer of the lender (print) | Title | Date |
| | | Year Month Day |
| | | |
| Signature | Telephone no. | Enter the fax number where acknowledgement can be sent after business hours |
| | | FAX no. |
| | | |

MAKE LENDER'S CHEQUE PAYABLE TO "RECEIVER GENERAL FOR CANADA" and send with form to:

Small Business Loans Administration
8th Floor East
235 Queen Street
Ottawa, Ontario K1A 0H5

INFORMATION ON THE PROGRAM AND FORMS AVAILABLE AT:

<http://strategis.ic.gc.ca/csbfa>



INSTRUCTIONS FOR THE LENDER

1. Indicate the name, address and postal code of the lender branch where the loan was authorized / approved.
2. Enter the transit number approved by the Canadian Payments Association (**8 digits**) that matches the address reported in Line 1.
3. Enter the **complete** loan number or folio assigned to the loan by the lender. Do not submit registration form until the loan number has been assigned by the lender.
4. Enter the name, address and postal code of the entity directly obligated to repay the loan. For a business operating as a sole proprietorship or partnership, enter the name(s) of the proprietor or partners.
5. Enter the telephone number of the borrower.
6. Enter the Goods and Services Tax (GST) number assigned to the borrower by the Federal Government (9 digits), **not** the Provincial Sales Tax number. If the business is exempted from obtaining a GST number, please indicate so. If new and not yet received but applied for, indicate "to follow" and forward GST number when received.
7. Provide the operating name of the business if the name is different from the legal entity or person(s) directly obligated to repay the loan (e.g. a franchise name).
8. Check **only one** of the boxes. (Should correspond to Line 4.)
9. Indicate the business's **estimated** gross annual revenue for the fiscal period, of not less than 52 weeks, in which the loan is approved by the lender. The amount **cannot exceed five million dollars**.
10. Indicate in the box which of the following industrial sectors (**one only**) best describes the borrower's main business activity resulting from the loan (use the letter, not the SIC or NASIC), and **write a concise and clear description** of the main activity (please print).

| | |
|---|---|
| A - Agriculture (support activities), Forestry, Fishing and Hunting | K - Real Estate and Rental and Leasing |
| B - Mining and Oil and Gas Extraction | L - Professional, Scientific and Technical Services |
| C - Utilities | M - Administrative and Support, Waste Management and Remediation Services |
| D - Construction | N - Educational Services |
| E - Manufacturing | O - Health Care and Social Assistance |
| F - Wholesale Trade | P - Arts, Entertainment and Recreation |
| G - Retail Trade | Q - Accommodation Services |
| H - Transportation and Warehousing | R - Food Services and Drinking Places |
| I - Information and Cultural Industries | S - Other Services |
| J - Finance and Insurance | |
11. Identify the type of project for which the loan is made:
 - a) start-up;
 - b) expansion or improvement; or
 - c) purchasing assets of a going concern: Going concern is defined as a business that has carried on operations at any time within 60 days prior to purchase or in the case of a small business that operates on a seasonal basis, during the season prior to purchase.If the loan is in respect of purchasing assets of a going concern:
 - check one box under a) to indicate if it has been purchased at arm's length or not, and
 - enter in b) the percent of the loan used for expansion / improvement if any. Enter **N/A** if the whole loan is in respect of purchasing assets of a going concern.
12. Check the appropriate box to indicate the number of years the business seeking the loan has been operating. Indicate **New** if the loan applies to the purchase of a going concern.
13. Check the appropriate box. This refers to the location of the assets.
14. Check **only one** of the boxes. Operating under a management contract with a supplier of assets means: an agreement between a supplier of assets (e.g. vending machines) and the borrower, with the right for the asset(s) to be exploited in a territorial area, whereby the borrower also enters into a contract with the supplier for the placement of the asset(s) and servicing, collecting revenues and for other administrative services related to the daily conduct of the business.
15. If operating under a franchise agreement or a management contract with the supplier of the assets financed by the loan, enter the name, address and postal code of the legal entity operating as the franchisor or as the management contractor.
16. Indicate the number of persons (including the owner) on the payroll of the business at the time of application. A full time employee counts as one (1) employee. A part time employee counts as one third (1/3). Round off to the nearest whole number.
17. Indicate the number of additional persons (full-time or equivalent) to be employed as a direct result of this loan.
18. If applicable indicate the total amount of guarantees or suretyships obtained. Personal guarantees or suretyships **must be unsecured and cannot exceed (in aggregate) 25%** of the amount of the loan to be registered in Line 32. Corporate guarantees or suretyships may be secured but cannot exceed the full amount of the loan.
19. Check the appropriate box(es).
20. Indicate the number of months covered by the term of the loan. **Cannot exceed 120 months as of the first scheduled payment of principal.**
21. Enter the date of the final approval of the loan by the responsible officer of the lender. (*A CSBF loan approved before April 1, 1999 and disbursed between March 31 and July 1, 1999 is to be governed under the rules of the SBL Act*).
22. Enter the date of the first disbursement of the loan **by the lender to the borrower (do not enter the loan approval date)**. The loan is to be registered within three months following the day of the first disbursement.
23. Enter the % **above** the prime rate or the residential mortgage rate charged to the borrower.
24. If applicable, enter
 - a) the amount charged by the lender for taking and preparing security;
 - b) the amount of life and disability insurance expressed as an annual premium **or** a percentage of the loan.
- 25.-29. Enter only the amount loaned against each class of asset which was financed by the loan to be registered (**maximum 90% of the eligible costs**).

25. Amount of loan to be used to purchase a property, or to make improvements to a property where the borrower is the owner.
26. Amount of loan to be used to make improvements to a property where the borrower is a tenant.
27. Amount of loan to be used to purchase existing improvements to a property where the borrower is a tenant.
28. Amount of loan to be used to purchase, install and/or improve equipment, excluding software.
29. Amount of loan to be used to purchase or develop, and to install software required for the business operation.
30. The amount reported in Line 30 must be detailed in Lines 25, 26, 27, 28 or 29.
31. Enter the part of the Registration fee (maximum 2% of the sub-total reported in Line 30) which is financed by the loan.
32. The amount reported in Line 32 represents the total amount guaranteed under the CSBFA.
33. The Registration fee, representing 2% of the sub-total amount of the loan (Line 30), must equal the lender's cheque attached to the Loan Registration form.
34. Indicate the % of the total cost of eligible assets that are financed by the loan. **The amount financed cannot exceed 90%.**

INSTRUCTIONS FOR THE BORROWER

Eligible costs

For the purposes of the elements shown in Lines 25 to 29, costs include: transportation, freight and installation costs as well as architectural, engineering, design fees and non-refundable taxes and custom duties but reduced by the amount of: grants, discounts, refunds and reimbursements or any type of applicable credits directly related to the assets financed. Any other costs not listed in this definition are considered ineligible incidental fees.

Related borrowers

For the purpose of the Regulations, borrowers who are operating a small business at different premises and neither one derives more than 25% of its actual or projected gross revenues from the other are considered independent small businesses and not related borrowers.

Two or more borrowers are related, if:

- there is an element of control between them, either as a sole proprietor, partner or through a related group such as a corporation or a partnership; or
- a person who is not in partnership with the borrower but who is operating or intends to operate a business, has agreed to share, with the borrower, management services, administrative services, facilities or overhead expenses for the operation of their respective small business.

Purchase of real property or immovables

A loan may not be made to finance the purchase of real property or immovables (land and/or buildings) unless, at the time the loan is approved by the lender, the borrower intends to use at least 50% of the area of the real property or immovables for the operation of the small business within 90 days after the final disbursement under the loan agreement.

Sale, leasing and subleasing of assets

If a loan is made to finance real property or immovables or leasehold improvement, the borrower cannot intend to:

- sell the assets financed within 3 years after the day on which the loan is made; or
- lease or sublease the real property or immovables within three years after the day on which the loan is made except if the borrower is operating a small business in the health care, hospitality or mini-storage industries. These industries are classified under the 1980 Standard Industrial Classification published by Statistics Canada under the Major Group 86, 91, 92 and 479 respectively.

Leasehold improvement not at arm's length

If the loan is made to finance leasehold improvements and the relation between the tenant and landlord is not at arm's length as defined in the Income Tax Act, the lender must secure the loan by a mortgage on the real property or immovable that is the subject of the leasehold improvement.

Offences and punishments

It is an offence to:

- make a false statement or misrepresentation, furnish false or misleading information;
- dispose of assets taken as security without the consent of the lender and with fraudulent intent; or
- use the proceeds of the loan, with fraudulent intent, for a purpose that does not fall within the scope of the loan.

A borrower who commits an offence:

- is guilty of an indictable offence and liable to a fine of up to \$500,000 or to imprisonment of up to five years, or to both; or
- is guilty of an offence punishable on summary conviction and liable to a fine of up to \$50,000, or to imprisonment of up to six months, or to both.