RECENT DEVELOPMENTS IN SME DEBT FINANCING : THE SUPPLY SIDE

A REPORT TO THE BUSINESS DEVELOPMENT BANK OF CANADA

JULY 2000

SECOR

Table of Contents

1. SECOR'S MANDATE

- The Business Development Bank of Canada asked SECOR to conduct a survey of selected financial institutions and small business organizations to:
  - determine any major changes in the offer of SME financing, particularly credit, over the last five years;
  - document any structural factors that suggest a change in availability and quality of SME financing;
  - identify trends and developments likely in the next five years.
- Both cyclical and structural factors were to be examined for their importance in accounting for changes in SME credit availability in the last five years.

2. Approach and Methodology

Approach

SECOR conducted the survey through face-to-face or telephone interviews of senior personnel of representative organizations. Secondary sources were researched for additional data on credit availability and trends.

Methodology

- Thirteen organizations were surveyed. Of this number, ten were SME financing suppliers.
  - Three were chartered banks, three were insurance companies, two were credit unions, and two were leasing companies;
  - The other three respondents were small business organizations or knowledgeable observers.
- The themes covered in the interviews included:
  - The overall view of the respondent on SME financing in Canada today;
  - How sources of supply have shifted over the last five years and why;
  - What new instruments and delivery channels may have been introduced over the last five years;
  - What are likely trends over the next five years.
- The following financing instruments were surveyed:
  - Debt:
    - term lending;
    - working capital and operating loans;
    - commercial mortgages;
    - credit cards and personal lines of credit;
  - Asset-based financing (primarily leasing).
- The list of questions covered during the interviews is found at Appendix 1.

3. Executive Summary

Evolution of SME Financing Offering

In the second half of the 90s, Canada enjoyed significant economic growth: the GDP grew at an average rate of 3.4% per annum, capital expenditures grew at 10% per annum and the CIBC SME economic activity index rose 4.2% in 1999 and the number of SMEs grew an average annual rate of 1.3%, since 1995. Over that same period the overall value of debt financing to SMEs, including credit, leasing and other forms of financing, grew at an average annual rate of 7.0% to reach $115 B in 1998.

Despite this observed growth, the financing organizations surveyed by SECOR have not changed their market share of SME debt financing, with the notable exception of the leasing companies. Most respondents believe that the growth in the market for the last 4 years has been driven by economic growth and the sustained upturn, rather than by entry of new suppliers.

The debt financing market continues to be dominated by the domestic banks, holding steady at around 50% of the market. The leasing companies have experienced significant growth over that period, going from a 9% share in 1994 to 15% in 1998. However, the dominant credit supplier varies by region and tends to be regionally based organization: Desjardins in Quebec, the ATB in Alberta and the Credit Unions in BC, and the Prairies. The chartered banks are the leading suppliers in Ontario and Atlantic Canada.

Factors Affecting Evolution in SME Financing

While the bulk (80%) of the debt capital supplied remains in the form of commercial loans, the lending institutions are trying to move away from standard term loans towards a suite of financing products, which includes credit. This evolution is driven by the increasing sophistication of the SME borrowers and the banks' strategy to treat SMEs as large personal financial services customers, rather than business customers. Entrepreneurs, for their part, are increasingly looking for alternative sources of financing and have turned to vendor financing, long-term leases and personal credit to finance their operations.

Clear gaps remain between the demand for debt financing and the current supply. Start-ups and knowledge-based firms claim to have the most difficult time finding financing because of their lack of tangible assets or track record.

Lenders stated that pricing is not a strategic tool: higher prices (interest rates) do not necessarily adequately compensate for higher risks. Another significant trend is the move to standardized risk scoring within the banks which has reduced volatility for the lenders, but limited the access to capital for some firms. Government involvement through loan guarantee programs or the Business Development Bank is generally viewed favorably by the lending institutions as a mechanism to close certain market gaps.

Future Trends in SME Financing

Over the next few years lenders are expected to continue to innovate, particularly in two key areas: 1) product development, 2) distribution channels.

The banks are tailoring their products to the needs of SMEs and looking to bundle these products with personal financial services, such as credit cards or investment products; the Credit Unions are also looking to develop their SME product offering via investments in back office systems.

In terms of distribution channels, the lenders will be looking to achieve two outcomes: 1) serve their SME clientele more fully through retail outlets and 2) develop their direct channels, particularly the Internet-based channels.

Full interactivity through the Web, in the view of many, will represent the most significant change in the SME financing market in the next 5 years.

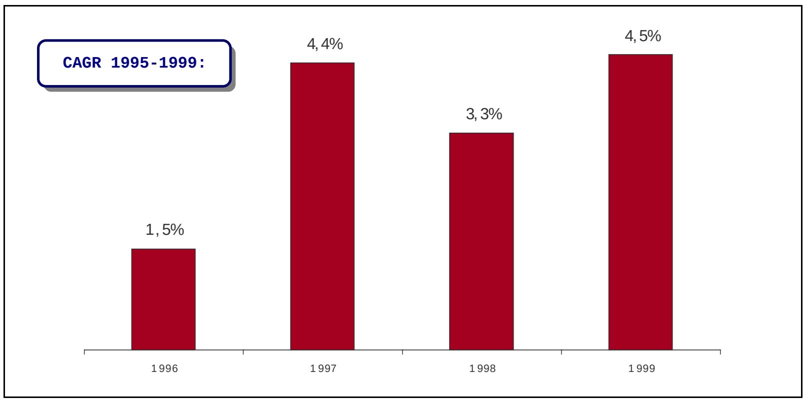
4. FINDINGS

4.1 GROWTH IN SUPPLY OF SME FINANCING IN CANADA

4.1.1 Economic Growth

Over the 1995 to 1999 period, economic growth in Canada was relatively strong at a compound annual growth rate (CAGR) of 3.4% (see Chart 1).

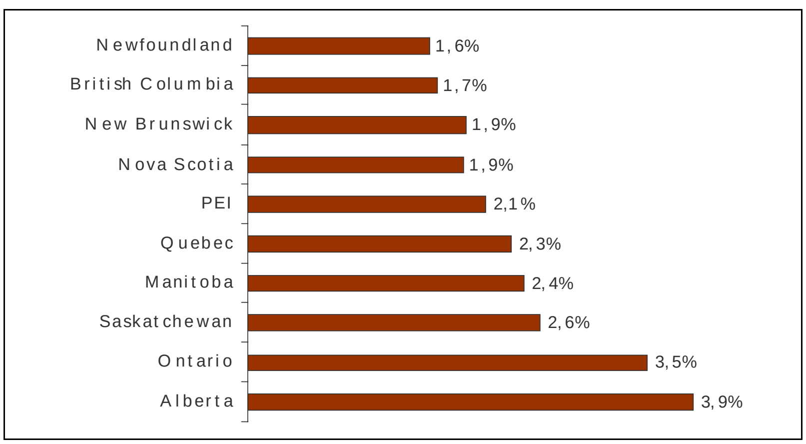
CHART 1: GDP GROWTH CANADA
(1996-1999)



Source: Statistics Canada.

This growth was also relatively well distributed across Canada, although British Columbia and the Atlantic Provinces lag the West and Central Canada (see Chart 2).

CHART 2: GDP GROWTH BY PROVINCE
(CAGR [1] 1994-1998)

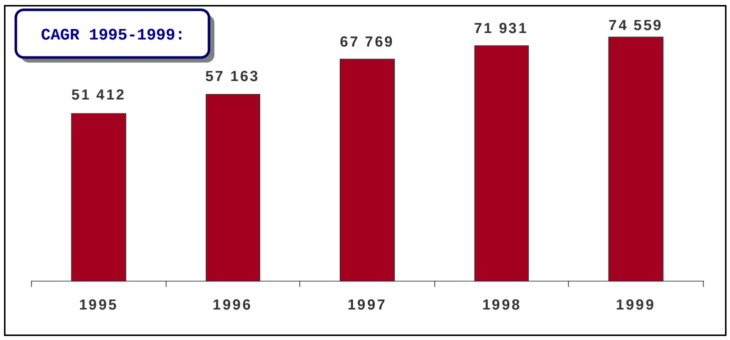


Source: Statistics Canada.

[1] *CAGR : Compound Annual Growth Rate*

Another important trend to note is the increase in capital expenditures, particularly on machinery and equipment, which have grown at a rate of 9.7% per year (see Chart 3). The leasing companies, in explaining their strong growth over the last few years, cited this trend.

CHART 3: CAPITAL EXPENDITURES IN CANADA - MACHINERY & EQUIPMENT
(1995-1999; $ MILLIONS)

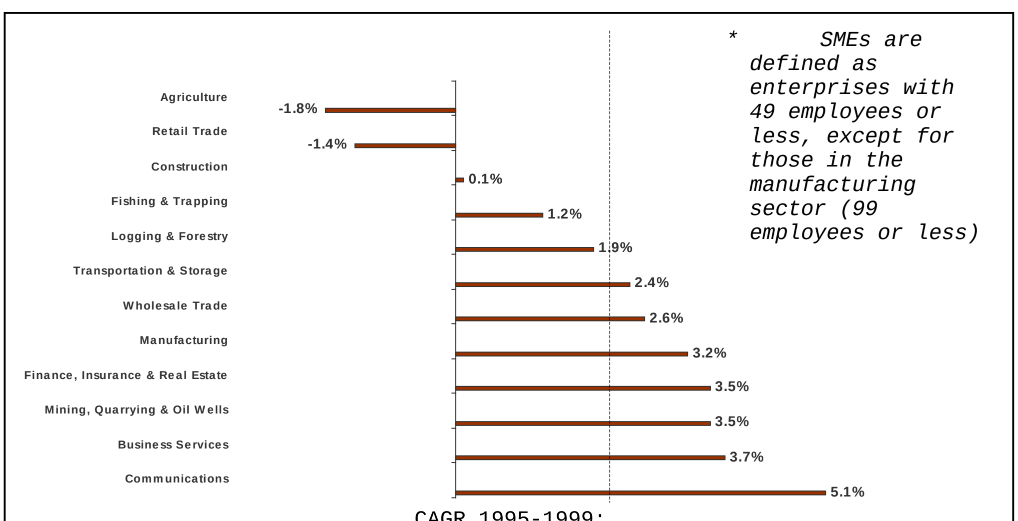


Source: Statistics Canada.

4.1.2 Growth of SMEs and SME Financing

According to the respondents, SMEs grew cyclically with the economy. Only one respondent cited a possible structural factor accounting for a faster rate of SME growth: the trend toward large firm outsourcing non-core functions. This trend has resulted in the formation of new SMEs to supply business or other professional services. However, the consensus among suppliers was that SME firm growth has tracked not outpaced economic growth.

CHART 4: GROWTH IN SMES
(CAGR 1995-1999)

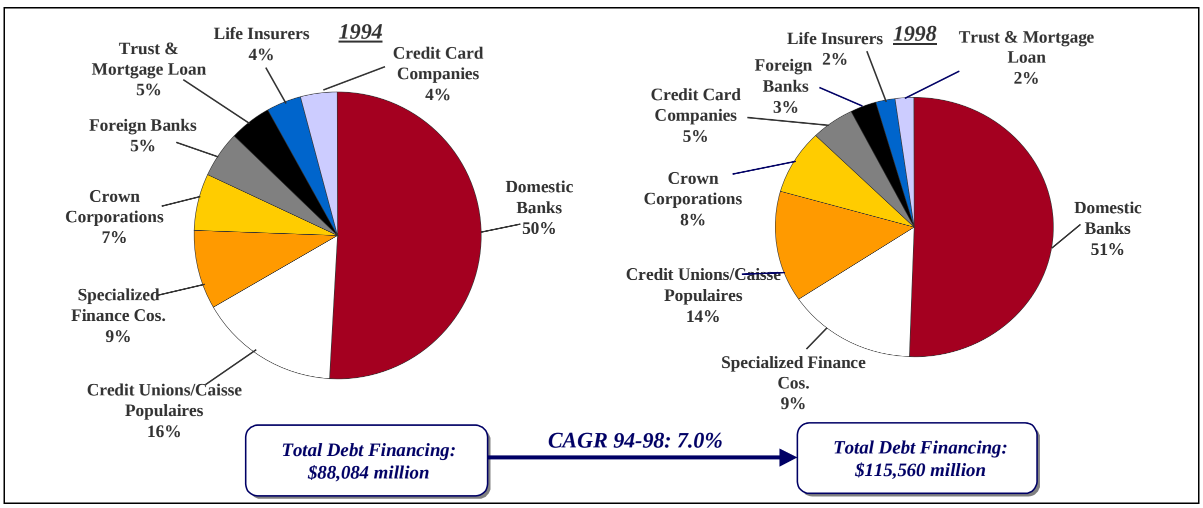


Source: Statistics Canada

In fact, the CIBC Small Business Economic Activity Index rose by 4.2% in 1999 and is expected to rise by 3.8% this year. Furthermore, statistics show that the number of SME firms has grown an average annual rate of 1.3% since 1995 (see Chart 4).

Credit statistics suggest that the SME loan market has grown at 7% CAGR, faster than the overall economy (see Chart 5). This may suggest that demand has been increasing more quickly in the SME sector. It may also suggest that SMEs are getting access to debt financing more easily than in the early 90s. However, our respondents, with the exception of the specialized finance companies, did not believe that they were doing significantly more lending to this market than in previous periods.

CHART 5: TOTAL SME BUSINESS DEBT FINANCING BY TYPE OF INSTITUTION
(IN MILLIONS CAD)



Source: Conference Board of Canada (preliminary)

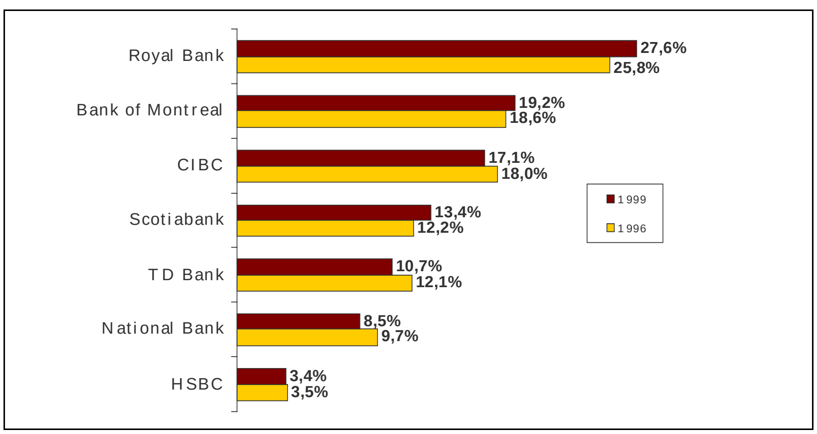
4.1.3 Evolution of Suppliers

Most respondents believe that the growth in the market for the last 4 years has been driven by economic growth and the sustained upturn, rather than by entry of new suppliers. The most significant trend has been the growth in market share of the specialized finance companies such as GE Capital or CIT/Newcourt. These companies moved from a 9% share in 1994 to a 15% share in 1998 (see Chart 5); they appear to have stolen market share from the credit unions, trust & mortgage loans and the insurance companies. Membership in the finance and leasing industry association has almost tripled since 1993.

More foreign (American) finance companies are coming into the Canadian market[2]. Companies such as Heller, Finova, Congress are cited as aggressive suppliers of term lending and specialized asset-based financing. The success of these suppliers may be due to the increasing sophistication of SME borrowers who are turning more frequently to long-term equipment financing packages and solutions from finance companies or from vendors. The financing companies themselves have been innovative in their ability to offload risk while maintaining their margins. The domestic banks have re-entered the leasing market, alone or in alliances (as in the case of BMO) with suppliers such as CIT/Newcourt, although this is not a major part of the banks' business.

Despite the recent success of the leasing companies, the chartered banks continue to dominate the SME debt financing (see Chart 5), with roughly a 50% market share. In 1999, the Royal Bank of Canada had the largest share of chartered bank SME financing market with 28%, up from 26% in 1996 (see Chart 6). BMO and CIBC were vying for the second position, while Scotia bank, TD and the National Bank were 4th, 5th and 6th, respectively, HSBC came in seventh.

CHART 6: MARKET SHARES OF DOMESTIC BANKS FOR LOANS UNDER $1 M



Source: Canadian Bankers Association.

2 *Wells Fargo, which led the way three years ago in entering the SME loan market electronically has not apparently met with much success. Other foreign suppliers have not copied its example, and the informal consensus amongst the respondents is that it has not been particularly successful, possibly due to lack of demand.*

The credit unions have not yet become significant suppliers on a national level, although they are making major investments in centralized back office services which will permit them to compete more aggressively with the chartered banks in specific regions such as BC and Saskatchewan. Their strength is variable across the country, greatest in Quebec and in the West, and not as present in Ontario.

In fact, the picture varies greatly across the regions; the leading SME financing organizations tend to be regional players (see Chart 7). In the Atlantic region and in Ontario the chartered banks dominate; while local institutions dominate in the other provinces, the Credit Unions in BC and the Prairies, the Alberta Treasury Branch in Alberta and Les Caisses Desjardins in Quebec.

CHART 7: REGIONAL LEADERS IN SME FINANCING
VALUE OF LOANS UNDER $1 MILLION OUTSTANDING, 1999 & 1997
($ MILLIONS)

Atlantic			Quebec			Ontario		
	1999	***1997***		***1999***	***1997***		***1999***	***1997***
RBC	999	1 035	Desjardins**	10 608	10 640	RBC	5 084	4 964
Scotiabank	818	850	NBC	3 431	3 533	CIBC	3 602	3 860
BMO	669	585	RBC	1 750	1 933	BMO	3 527	3 220
CIBC	441	424	BMO	1 506	1 462	Scotiabank	2 881	2 166
Credit Unions	435	291	BDC	1 251	1 017	TD	2 558	2 694
Manitoba & Saskatchewan			**Alberta**			**B.C. & Territories**		
	1999	***1997***		***1999***	***1997***		***1999***	***1997***
Credit Unions	3 926	3 129	ATB***	2 090	1 915	Credit Unions	3 512	2 839
FCC*	1 800	1 360	RBC	1 787	1 717	RBC	2 076	2 156
RBC	1 510	1 435	Credit Unions	1 252	989	BMO	1 705	1 780
CIBC	767	683	BMO	1 101	971	CIBC	1 439	1 356
BMO	706	688	CIBC	1 056	984	HSBC	814	782

* It is assumed that all loans are below $1M

** According to Desjardins, 74% of its loans outstanding are below $1M for 1999. For 1997, the percentage was estimated at 90%.

*** Estimate based on same ratio as that used in Mackay Task Force Report

Sources: CBA, IGIF, BDC Annual Report 1999, FCC Annual Report 1998-99, Credit Union Central of Canada, ATB Annual Report 1999; 1997 data from Mackay Task Force Background Paper #1 (Exhibit 3.30)

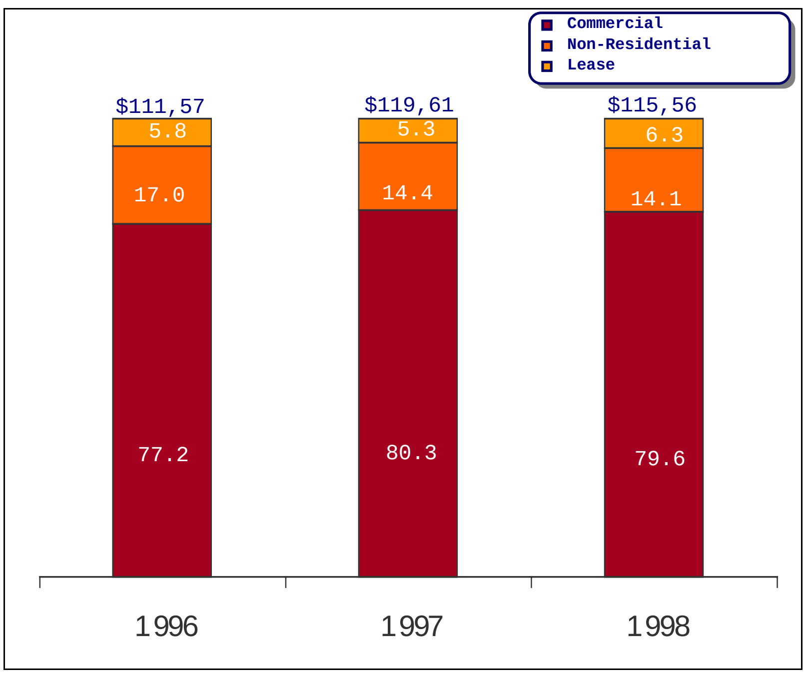
4.2 ACCESS TO CAPITAL

4.2.1 Availability of Debt Capital

Most of our respondents believe that there is sufficient debt capital available to SMEs across the country. There does not appear to be significant regional variations, particularly given the increased use of more uniform credit scoring models and systems.

One respondent noted that in fact the demand for debt capital is not as strong as the demand for other services and "solutions". Many SME customers are less interested in obtaining a conventional term loan, although this is still the product most widely purchased by bank SME customers (see Charts 8 and 9).

CHART 8: SME BUSINESS DEBT FINANCING – BY TYPE
($ MILLIONS)

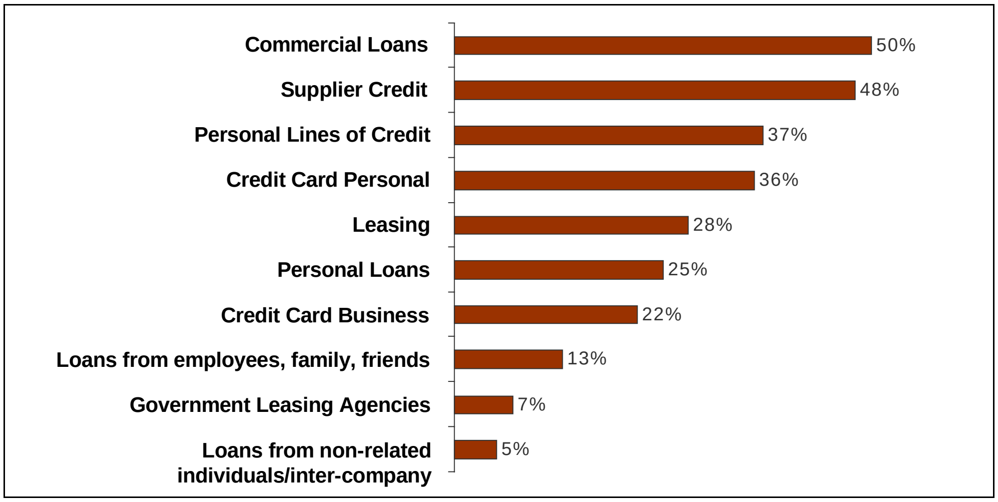


Source: Conference Board of Canada (preliminary)

The user perspective on capital availability differs from the supplier perspective. According to industry observers, many SMEs state that since the mid-90s, it has not been as easy to get access to debt financing as it was before the recession. The suppliers note that risk scoring and risk management have become more sophisticated, which has increased consistency of access across the country, but has also raised the access floor, deterring a number of potential applicants.

Significant numbers of SMEs resort to alternative methods of financing to supplement or substitute commercial loans, including vendor financing and personal credit (see Chart 9).

CHART 9: PROPORTION OF FINANCING PRODUCTS USED BY SMES
(1998, % OF RESPONDENTS)



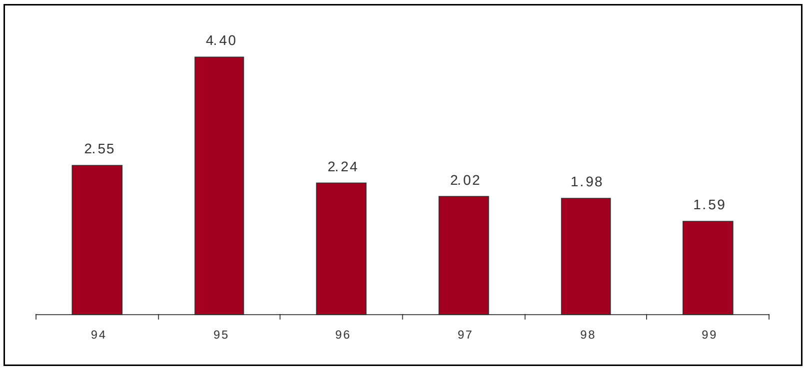
Source: Thompson & Lightstone Company

As a complement to traditional sources of debt financing, the federal government launched a loan guarantee program, the Small Business Loans Act (SBLA)[3]. This program was delivered through traditional channels, such as the chartered banks, the credit unions and other sources of debt capital. The SBLA was recently replaced by the Canadian Small Business Financing Act (CSBFA).

The value of the loans authorized annually through the SBLA fell continuously from 1994 to 1999, going from $2.5 B in 1994 to $1.6 B in 1999, with the exception of 1995 which saw the value of loans virtually double over the previous year (see Chart 10). This drop is essentially due to program modifications introduced by the government restricting the supply, not a drop off in demand.

[3] *The SBLA is the predecessor to the Canadian Small Business Financing Act currently on the books.*

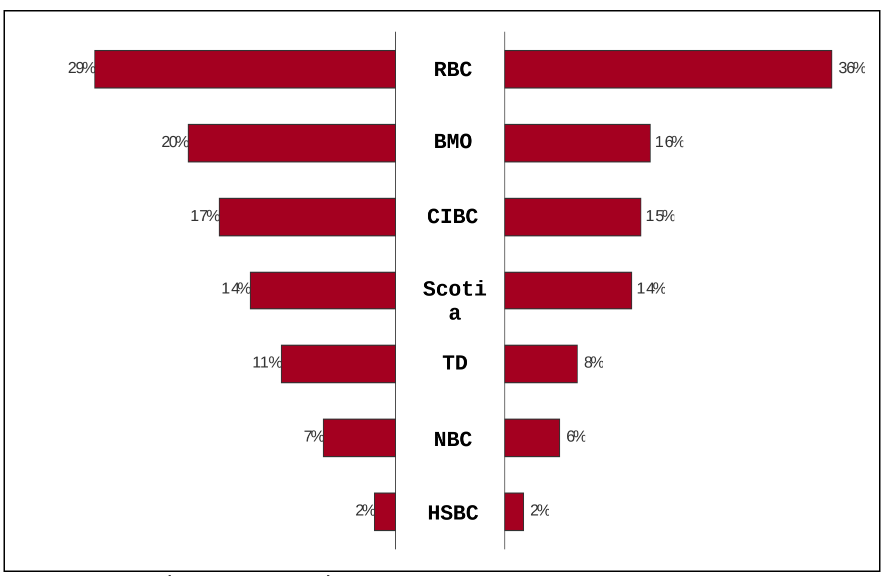
CHART 10: VALUE OF LOANS AUTHORIZED BY YEAR THROUGH SBLA
(IN BILLIONS $)



Source: Industry Canada

In 1999, the chartered banks authorized 80% of all the loans guaranteed under the SBLA. Of this amount, RBC authorized 36%. The next closest were BMO and CIBC with 16% and 15% respectively (see Chart 11). Furthermore, RBC held 29% of all outstanding loans to the chartered banks under $250 K in 1999, whereas the BMO and CIBC held 20% and 17% respectively. This suggests that RBC may be, relatively speaking, over-represented through the SBLA, while BMO and CIBC may be under-represented.

CHART 11:
MARKET SHARE OF CHARTERED BANK LOANS OUTSTANDING, UNDER 250$K IN 1999 — VALUE OF SHARE OF SBLA LOANS GRANTED THROUGH CHARTERED BANKS IN1998-99

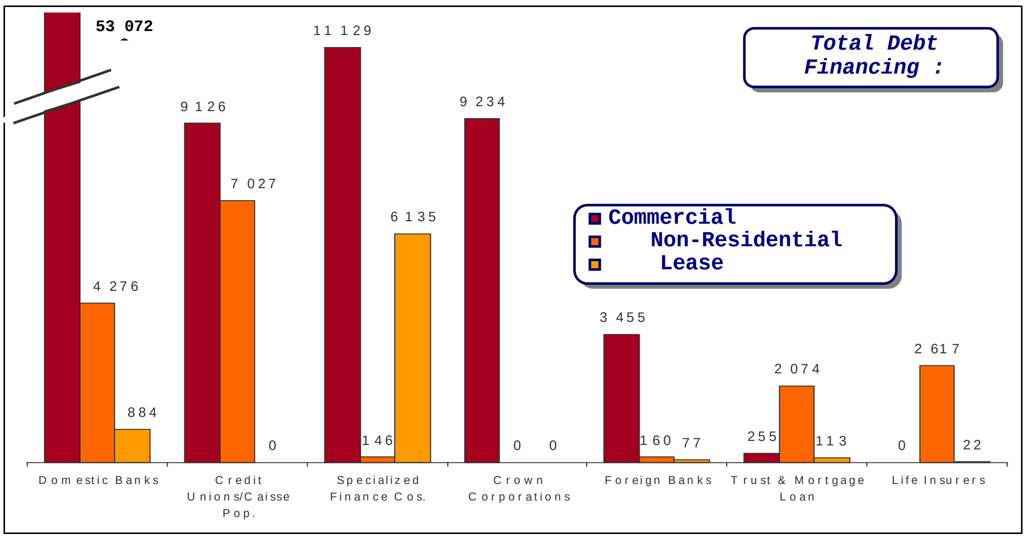


Sources: Industry Canada, CBA

4.2.2 Bank versus Non-bank Suppliers

Domestic chartered banks continue to dominate the SME loan market, with a 62% share. Specialized finance companies have about 85% of the SME leasing market. Second tier suppliers such as the credit unions and crown corporations have a significantly smaller share of the loan market. Insurance companies, which have traditionally been in the commercial mortgage market, are retiring from this market and, in general, are not players in SME financing (see Chart 12).

CHART 12: TOTAL SME BUSINESS DEBT FINANCING BY TYPE OF INSTITUTION
(1998, IN MILLIONS CAD)



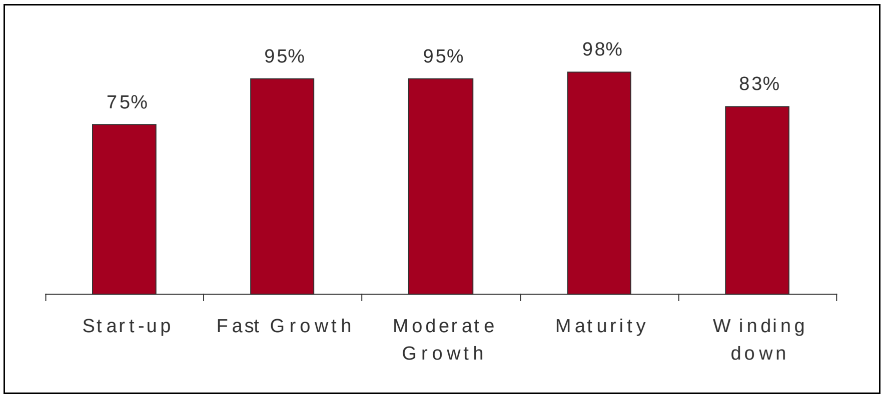
Source: Conference Board of Canada (preliminary).

One respondent noted the increasing competition from credit card suppliers who market directly to personal customers. MBNA and others have entered the market with lines of credit attached to cards, and SME owners are using these to finance their business. This is a growing trend.

4.2.3 Market Gaps

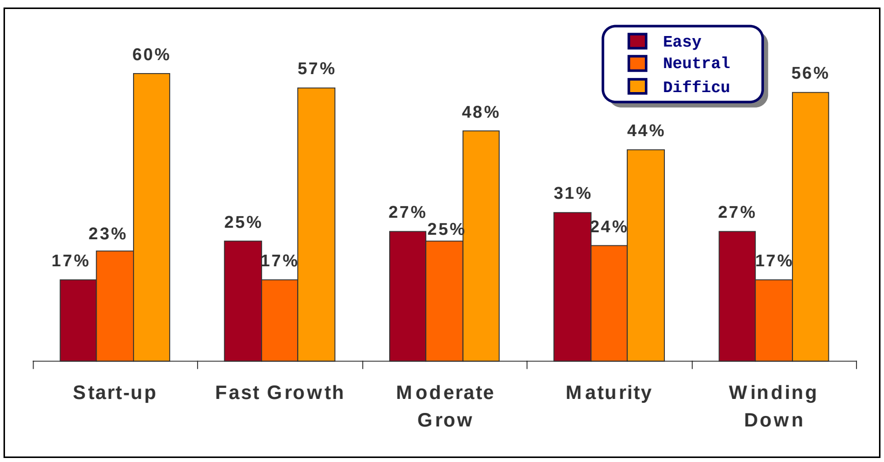
Respondents generally agreed that SMEs at the start-up stage still have difficulty getting access to debt financing. This view is echoed in the Thompson and Lightstone survey of SMEs (see Charts 13 and 14). The high fixed cost of the initial valuation means that suppliers are correspondingly more conservative in their assessment.

CHART 13: FINAL LOAN APPROVAL RATES BY LIFECYCLE STAGE
(1998, % OF RESPONDENTS)



Source: Thompson & Lightstone Company.

CHART 14: PERCEPTION OF EASE/DIFFICULTY OF OBTAINING FINANCING FOR SMALL BUSINESS
BY CURRENT BUSINESS LIFECYCLE STAGE
(1998, % OF RESPONDENTS)

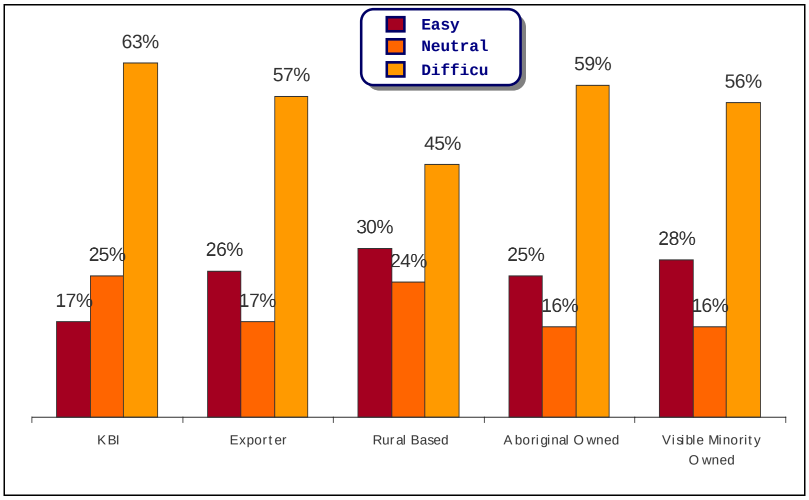


Source: Thompson & Lightstone Company.

The Thompson and Lightstone survey also states that small KBI[4] enterprises face the toughest task obtaining financing (see Chart 15); this is due, typically, to the inherent risks of their business (no tangible assets, significant start-up and development costs, the downside associated with losing key personnel). The lending institutions have, by and large, chosen to set up distinct business units to serve the KBI market. In fact, the SME financing executives surveyed for this report have little involvement in KBI financing.

[4] *KBI: Knowledge-based industry*

CHART 15: PERCEPTION OF EASE/DIFFICULTY OF OBTAINING FINANCING FOR SMALL BUSINESS - SPECIFIC MARKET SEGMENTS
(1998, % OF RESPONDENTS)



Source: Thompson & Lightstone Company.

Both bank and non-bank respondents suggested that rural or non-major urban centers' needs will be increasingly served by non-banks or through direct channels, particularly as bank branches are rationalized. Smaller players such as the credit unions, small leasing companies and insurance companies clearly have an opportunity to gain more SME market share in these regions (Atlantic and West particularly).

Bank respondents suggested that pricing to risk was not a strategic option for them to increase availability of capital to higher risk SMEs. While the bulk of the loans are priced at prime plus 1, prime plus 3 remains the upper limit at which they will price. Few suppliers are willing to take on more risk, even at a higher price. The costs of managing the risk and the probability of default outweigh the margins to be made.

There was general agreement among respondents that in the next economic downturn, suppliers will tighten up on SME loans again, and that they are keeping a sharp eye on their portfolio exposures.

According to some respondents, an important gap remains in SME education and support services (conducting a needs assessment or preparing a business plan) that could be better filled by government and industry associations. Suppliers find these services very costly to provide, but in their absence, many SME customers are not being accepted for borrowing.

While the standardization of credit scoring has eliminated some of the risk variability, there is still less information on the potential borrower at the earliest stage, and less collateral available for the loan. A few respondents noted that the federal government was appropriately filling in market gaps through the BDC. In addition, suppliers would welcome the federal government expanding its use of the Canadian Small Business Financing Act (CSBFA) guarantees in order to continue to meet the SME market demand for credit.

4.3 DIVERSIFICATION OF FINANCIAL PRODUCTS

A number of bank respondents suggested that they were streamlining and simplifying rather than expanding their SME product range. This trend is related to the perceived risk and cost associated with the SME loan portfolio. They noted that SME business loans are not a high-margin product, and that banks in general tend to offer a suite of products, rather than just term financing. Rather than adding more business products, they want to cross-link their small business products with personal financial products such as personal lines of credit and credit cards. Business credit cards, with associated lines of credit, have become common and are very attractive products for the banks to pursue (see Table 1).

Credit unions are trying to diversify their product offerings to SME particularly in the area of banking services, where they have been limited by their decentralized structure. In BC and in Saskatchewan, efforts are being made to create centralized "back office" services permitting member unions to offer more products such as payroll services, credit cards, wire transfers, and leasing. They are also purchasing off-the-shelf products from outside manufacturers and offering them to their members.

TABLE 1: SME FINANCING PRODUCTS OFFERED BY BANKS

	National Bank of Canada	Royal Bank of Canada	CIBC	TD Bank CanadaTrust	HSBC	ScotiaBank	Bank of Montreal
Operating Loan	✓	✓	✓	✓	✓	✓	✓
Term Loan	✓	✓	✓	✓	✓	✓	✓
Working Capital	✓	✓	✓		✓	✓	✓
Export Financing	✓	✓		✓*	✓	✓*	✓
Credit Card	✓	✓	✓	✓	✓	✓	✓
Conditional Sales Contract	✓	✓			✓	✓*	✓
Overdraft Protection	✓	✓	✓	✓	✓	✓	
Quasi-Equity Loan		✓					✓
Non-Residential Mortgage	✓	✓	✓	✓	✓	✓*	✓
LEASING Through subsidiaries							
Capital Lease	✓	✓		✓	✓	✓	
Sale & Leaseback		✓		✓	✓	✓	
Operating Lease	✓			✓	✓	✓	

Sources: Annual Reports, company documents.

**For medium-sized business only.*

4.4 CHANGES IN DISTRIBUTION CHANNELS

Respondents suggested that there had been only incremental changes made to their distribution channels over the last 4 years. Banks, for the most part, have been closing branches, mostly in rural areas, or selling them to credit unions, particularly in the West. But they believe that access by SME customers has actually improved for two main reasons (see Table 2):

a) SME customers are being treated as retail rather than business customers[5];

b) Direct or self-serve channels such as telephone banking, ABMs and, increasingly, the Web have made up for the reduced number of branches.

[5] Most of the big banks have organized their small business units under Personal and Commercial Banking rather than Investment Banking to pursue retail strategies for SMEs.

TABLE 2: NUMBER OF BRANCHES

	1996	1999	% Change	Direct Channels
Bank of Montreal	1,296	1,198	(8.0%)	• Online commmercial loan application. Credit Limit: $250,000
CIBC	1,400*	1,200*	(14.3%)	• No online application for commercial loan
Royal Bank of Canada*	1,493	1,410	(5.6%)	• Since June 1998, commercial loan application can be made online. However, signature must be made at a physical location. Credit limit: $100,000
HSBC*	117	150	28.2%	• No online commercial loan application available. A pilot project for commercial services will be launched in 2001.
TD Bank Financial Group**	953	918	(3.7%)	• Since January 2000, commercial loan application can be made online, documentation is sent to client. Credit limit: $50,000
National Bank of Canada*	632	616	(2.5%)	• Online commercial loan application is under development. Can apply by phone after the client has opened an account with the bank.
Scotiabank	1,464	1,178	(19.5%)	• Can fill out the commerical loan application form online but cannot submit it online
Mouvement Desjardins	1,307	1,143	(12.5%)	• No online application for commercial loan

Source: Annual reports, telephone interviews, Quebec General Inspector of Financial Institutions.

** Estimates from annual report.*
*** June 2000*

The implication of the first trend is that the banks are managing their SME customer relationship differently. Rather than being miniature big businesses handled by account managers in business centers, SME customers are being treated as retail customers who have access to any branch for their account[6]. Their customer data is being linked to the personal financial service customer database, which encourages bank employees to see the full value of each SME relationship. Retail customer managers tend to be less mobile than business account managers, allowing for the development of more sustained customer relationships and addressing a principal grievance of many SME customers around account manager turnover. Finally, centralized risk assessment and scoring has promoted more uniform treatment of SME customers at any branch, permitting decentralized and more accessible service.

The second trend, the expansion of direct channels, is in evolution. Most of our respondents noted that they expect the

[6] Mouvement Desjardins is pursuing a reverse strategy of centralizing its SME accounts in regional business centers.

Web, in particular, to have a major positive impact on SME access. Most banks are now offering business loans online, and are working to make more products available. When suppliers have achieved full Internet transactionality, this will be, in the words of one respondent, "revolutionary".

Although the credit unions have traditionally perceived their hands-on community presence and physical network to be their competitive advantage against the larger banks, some of them, e.g. VanCity Credit Union, are actively developing online services as well. VanCity offers VanCity Direct Net to its members through the Web, as well as access to Citizens Bank, the online personal financial services bank for customers across Canada (except Quebec).

One bank, Royal Bank of Canada, has gone further than the other banks in becoming a supplier to Prime Street.com, an online SME loan auction site out of the US. CIBC has chosen to work with other SME suppliers through a portal dedicated to SME needs, Bizsmart.com. Scotiabank has set up a service allowing SMEs to launch transactional Internet sites at greatly reduced costs. And Bank of Montreal is working with Canada Post on e-business solutions for SMEs. The industry is extremely active on this front.

4.5 FUTURE SME MARKET EVOLUTION

As noted in the previous section, the single most important structural trend affecting SME financing in the future will be the development of Web-based markets. The banks are investing resources in various Web options, and the credit unions are following suit within their means. SME customers are likely to become much more active on the Web as options increase.

Other trends noted by respondents:

- Credit scoring and risk management will continue to evolve and support risk reduction for suppliers. Risk offloading through securitization, as well as unbundling of financial product manufacturing from distribution, will promote greater product accessibility.

- SME customers will be treated more and more as relationships rather than as product purchasers.
- Reform of federal financial sector regulations will support the development of credit unions as second tier suppliers on a national scale. But credit unions will still take some years to develop the appropriate risk handling and relationship management skills necessary to serve the SME loans market, as well as the required product range to compete with the banks.

APPENDIX 1: LIST OF QUESTIONS ASKED DURING INTERVIEWS

SME FINANCING INTERVIEW GUIDE

1. Overall: the state of SME financing in Canada today, in *your* opinion:

   - Is there sufficient availability of capital (debt or equity)? If not, are there significant differences such as geography or economic sector that account for the relative lack of financing?
   - Is the balance between bank/non-bank suppliers appropriate?
   - Is the market sufficiently or inadequately competitive?
   - Are needs of SME customers being met consistently or not across industry sectors, and in all stages of business growth?

2. What has driven growth in supply over the last five years?

   - Growth of the economy
   - Growth of SMEs
   - Greater number of suppliers and/or foreign competitors

3. Has your SME financing product range changed significantly over the last five years? If so, what are the major changes? What in your view are the future trends?

4. Have delivery channels accessed by your SME customers changed significantly? If so, how? What are major future trends?

   - Have there been significant organizational changes in your institution?

5. Have there been significant changes in your credit scoring and risk assessment approaches?

6. How are your SME financing market strategies expected to change over the next three years or so?

   - Are any parts of the market likely to be of more or less interest to you?

7. Finally, do you expect to grow the services you offer to small knowledge-based firms over the next three to five years? What are the main elements of your approach in this area?

APPENDIX 2: LIST OF SECONDARY SOURCES

1. Thompson & Lightstone Company Limited, **Small- and Medium-Sized Businesses in Canada: An Ongoing Perspective of Their Needs, Expectations and Satisfaction with Financial Institutions**, 1998

2. Canadian Bankers Association, **Business Credit Statistics**; 1996 and 1999

3. CIBC Economics Division, **Small Business in Canada: Trends & Prospects**, March 2000

4. Conference Board of Canada, **SME Debt Financing**, 1994 and 1998 (preliminary figures)

5. Bank Annual Reports, 1997-1999 and web sites

6. Canadian Finance & Leasing Association: **Leasing in Canada: 1999, an Overview**

7. Canadian Federation of Independent Business, **Survey on Credit Conditions**, January 1998