

L O A N S
**FOR SMALL BUSINESS
 ENTERPRISES**

**INVESTING IN
 CANADA'S FUTURE**

Small business is one of the fastest growing segments of Canada's economy. Imaginative entrepreneurs with drive and spirit are creating thousands of new jobs and new opportunities for our country's future. The Small Business Loans Program was created to help small businesses reach their potential by making it easier for them to get term business improvement loans – BIL – to finance the purchase or improvement of fixed assets for new or expanded operations. Administered under the *Small Business Loans Act* (SBLA), the program is a joint initiative between the Government of Canada and private-sector lenders.

WHY AN SBLA LOAN?

Owners of small businesses frequently lack the funds they need to pay for business improvement or expansion. Financing may not be available to them unless

they are willing to include their personal assets as loan security. Those wanting to start up new businesses face similar problems. Under the SBLA, the federal government partially offsets any losses on SBLA loans. The result is that financing is more accessible, and owners do not have to provide personal assets as security to support their business financing requirements.

**WHO ISSUES
 THESE LOANS?**

Chartered banks, caisses populaires, Alberta Treasury Branches, most credit unions, and many trust, loan and insurance companies are authorized to make loans directly to small business owners. Lenders are required to make SBLA loans with the same care they use in their other areas of business, to assess credit worthiness and draw up agreements following normal lending practice and to administer the loans in accordance with specific program requirements.

**WHICH BUSINESSES
 ARE ELIGIBLE?**

Most small businesses starting up or operating in Canada are eligible for SBLA loans, as long as their estimated annual gross revenues do not exceed \$5 million during the fiscal year in which they apply for a loan. Eligible businesses include professional practices but exclude farming and charitable or religious enterprises. Businesses may be sole proprietorships, partnerships or incorporated companies.

**HOW CAN LOAN
 PROCEEDS BE USED?**

Loan proceeds may be used to finance:

- the purchase of land, including any structures thereon required to operate the business (land loans);
- the renovation, improvement, modernization, extension, construction or purchase of premises (premises loans);

- the purchase, installation, renovation, improvement or modernization of new or used equipment (equipment loans).

DOES THE SBLA EXCLUDE ANY LOAN PURPOSES?

Loan proceeds cannot be used to:

- purchase shares or other types of ownership in a business enterprise;
- acquire working capital (finance inventory, accounts receivable, etc.);
- pay off existing debt (unless the loan is used to refinance eligible fixed-asset purchases made or committed within 180 days of the loan approval date);
- purchase real estate for resale;
- purchase or improve real estate for lease or sub-lease purposes (hospitality, health care and mini-storage industries are exempt from this exclusion).

ARE THERE BORROWING LIMITS?

The maximum value of loans a borrower may have outstanding under the SBLA cannot exceed \$250,000. Loan proceeds may be used to finance up to 90 percent of asset acquisition or asset improvement costs, subject to credit approval and at the discretion of the lender. Lenders are obligated to take security on the assets financed and on other business assets, as may be the

case with land and premises loans made to tenants. The lender may take personal guarantees not exceeding, in aggregate, 25 percent of the original amount of the loan. These guarantees may not be secured with personal assets.

WHAT ABOUT LOAN REPAYMENT?

The period during which a loan must be repaid will generally coincide with the expected economic life of the asset being financed, up to a maximum of 10 years. Instalment payments on the loan principal must be scheduled at least annually, but monthly payments are usually called for depending upon arrangements between the borrower and the lender.

HOW ARE INTEREST RATES DETERMINED?

Under the SBLA, borrowers may choose between:

- floating-rate loans, where the interest rate fluctuates with changes in the lender's prime lending rate over the term of the loan, but cannot be more than 3 percent over the lender's prime lending rate; and
- fixed-rate loans, where the interest rate is fixed for the term of the loan, but cannot be more than 3 percent over the lender's residential mortgage rate for the applicable term. This 3 percent includes an administration fee of 1.25 percent payable by the lender to the government annually.

The lender may charge a penalty for prepayment of a fixed-rate loan.

ANY OTHER COSTS?

Lenders are required to pay a one-time loan registration fee to the government equal to 2 percent of the amount loaned. The fee is recoverable from borrowers who may reimburse the lenders when their loans are advanced or have the amount of the fee added to their loan balances, provided that the individual borrower's loan maximum of \$250,000 in total is not exceeded.

HOW DO I APPLY?

Contact the lender of your choice to find out more about the SBLA.

Small Business Loans Administration
Industry Canada
235 Queen Street
OTTAWA, ON
K1A 0H5

Info line: (613) 954-5540
Fax: (613) 952-0290
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