



Bulletin

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Canada Small Business Financing Act

June 1999

A WORD FROM THE ADMINISTRATION

The aim of this bulletin is to provide general information on the Small business Loans Administration Program. It is not meant to replace other formal tools, such as the *Notices to Lenders* or the *Guidelines* which guide financial institutions in the administration and interpretation of the program. The topics covered will be coming from questions raised by lenders. This bulletin will be published monthly. It will be distributed by fax to all of our partners and will be available on our Web site. We invite you to send us your comments and suggestions to help make this bulletin a simple and informative document that meets your needs.

Life and/or disability Insurance

(Reference: CSBF Guidelines, Section A, Item 6.3)

The CSBF guidelines state that the lender may require the borrower to pay "the premium for life and disability insurance at the request of the borrower". Does this mean that a lender can no longer require the sole proprietor or partnership borrower or key person of the corporate borrower to be insured and the lender to be designated as the beneficiary of the insurance proceeds?

Lenders may require, as a condition of the loan, that the sole proprietor or partnership borrower or the key person of the corporate borrower subscribe to a life insurance for the amount of the loan with an assignment of the proceeds payable to the lender. Such a condition does not contravene the CSBFA and the CSBFR.

The phrase "at the request of the borrower" simply means that the borrower be given the option to subscribe to a life and disability insurance under a lender's insurance policy or under the borrower's insurance company. If the borrower chooses the lender's insurance company, the lender may charge the borrower for the insurance premium in accordance with the Regulations.

Registration Form

(IC 664e (1999/03) section 24b)

Too many loan registration forms are returned to lenders without being processed because of errors in section 24b ("Life or disability insurance").

Errors can be avoided by following the procedure below:

- indicate in section 24b of the registration form the cost quoted or known to the lender **when the insurance application is signed;**
- if necessary, convert the quoted cost to an annual premium (monthly premium x 12 months) **or** to a percentage of the loan (annual premium ÷ amount of loan); and
- do not confuse the percentage required for life/disability insurance with the loan percentage calculated as indicated in section 34 (max. 90%).

Some lenders do not send the registration form until they have received confirmation of the rate or amount of the insurance premium. Since the borrower can choose to subscribe to insurance offered by the lender, it is recommended that the loan be registered without delay in order to avoid missing the registration deadline, three months after the initial disbursement of the

loan. Enter in section 24b is the cost that **is or will be** charged to the borrower to subscribe to insurance offered by the lender.

In Short

In April 1999, we registered 1 566 loans totalling \$120 070 244. During the same period, for various reasons we returned 917, or 36.9%, of the registration forms submitted.

To better serve you, we will provide further information on the sources of errors and proposed solutions in future issues of the Bulletin.

Small Business Loans Administration

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