



Bulletin

Application of the 50% rule

(Paragraph 5(2)(a) of the CSBF Regulations)

Concept: Under the CSBFA program, the Regulations provide for a 50% occupancy rule when purchasing real property (real property is broadly defined as a parcel of land or a building). This means that a borrower can finance the purchase of real property provided that at least 50% of the land or building square footage is used in relation to the borrower's business operations. The area/square footage in excess of the borrower's operational needs can be leased.

Calculation: The 50% threshold is determined using either the proportion of land or building required by a borrower's eligible operations. **It is therefore important to determine which of the two components, land or building, the 50% rule will be calculated on.**

Example : A borrower wants to purchase a car dealership that is located on a parcel of land which includes a building. If the borrower uses at least 50% of the land for the dealership's operation and only 10% of the building, then the land would be the component on which the 50% rule

would be calculated on. Alternatively, if the car dealer intends to use 50% or more of the building and 10% of the land, then it would be the building which would be used for the application of the 50% rule.

Ineligible: The 50% rule does not apply in the financing of the construction of new buildings. Prospective borrowers are considered to have control over new construction and, in turn, are expected to have the building designed according to their operational needs. Therefore, with respect to the construction or expansion of a building, only the portion used by the business will be eligible for a CSBF loan.

Claim Submission

(Section 38(4)(a)(i) Regulations)

The Administration aims to process a lender's claims quickly. In order to expedite the audit process, we ask lenders to compile the invoices and proof of payments (see Bulletin Vol.1 No. 3) in the following manner:

- attach to the appropriate invoice, the cancelled cheque or the receipt from the vendor;

- prepare a summary of the invoices and proofs of payment; and
- where the amount of the invoice and the amount of the payment do not match, an explanation should be provided by the lender.

If invoices and cheques are submitted in a disorganized manner, the lender will be requested to compile the documents as outlined above.

Unnecessary delays in the audit process result in increased program costs.

We invite you to send us your comments and suggestions to help make this bulletin a simple and informative document that meets your needs.

Small Business Loans Administration

Info Line: (613) 954-5540

Fax: (613) 952-0290

Internet:

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