Canada Small Business Financing Act (CSBFA) Loans Decline Study

Report to Industry Canada

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Contents

Executive Summary

- Industry Canada commissioned COMPAS to undertake qualitative research with representatives of some of Canada's main financial institutions in order to better understand the decline in the use of Canada Small Business Financing Act (CSBFA) loans during the last few years. The research took the form of a set of 18 in-depth phone interviews with two types of respondents: the main CSBFA contact person and a senior executive with direct responsibility for small business loans. The research was designed to obtain detailed feedback on a range of issues, including perceptions of CSBFA loans, possible factors contributing to the decline in the use of these loans, and related trends in lending practices. Interviewing took place during November and December 2001.

Main Perceptions of CSBFA Loans

- All participants claimed to be at least moderately familiar with the Canada Small Business Financing Act and CSBFA-registered loans, and just over half claimed to be *very* familiar with them. Not surprisingly, CSBFA contact people were more likely than senior managers to say that they are very familiar with the CSBFA. People who claimed to be very familiar were able to focus on specific aspects or features of the loans. Those who claimed to be moderately familiar tended to be aware of the main aspects of the program and how these loans fit into their institution's offerings to SMEs.

- Most participants have mixed overall impressions of CSBFA loans. Just over half said that these loans are an important and valuable tool because they provide financing to a certain type of small business client that might not otherwise get a loan, but that they are cumbersome because of the administrative and documentary requirements involved. A few felt that CSBFA loans are good for such businesses, but that these borrowers are more likely to default on the loan. The remaining participants tended to be critical, focusing on aspects of CSBFA loans that included ambiguity regarding what constitutes due diligence, the lack of profit for the lender, costs to the borrower, a tendency on the part of government to reject claims, the lack of a guarantee on claims, and the lack of assistance from government.

- Slightly more than half of the participants said that the main strength or positive feature of CSBFA loans is that they meet a need by providing financial assistance to businesses that might not or would not qualify for any other type of loan. A number of other benefits or strengths were also identified, but none was cited by more than a few participants. These included the view that CSBFA loans represent minimal risk for the lender, allow financial institutions to extend the range of their products, provide a high loan-to-value ratio to the borrower, allow borrowers to finance a wide range of items, and offer a generous payback period.

- Over half the participants identified the administrative requirements on the lender as the main weakness or deficiency of CSBFA loans. These included the amount of time it takes to process a CSBFA loan, the amount of paperwork involved, and the fact that lawyers cannot be used to help prepare the paperwork. A few participants added that the task of processing CSBFA loans was all the more frustrating in that an entire claim could be rejected or disqualified for a technicality or a small error or oversight. Two other issues receiving attention were costs to the borrower and the lender, and the lack of profitability to the lender.

<u>Decline in Use of CSBFA Loans</u>

- All but a few participants were aware that there has been a decline in the use of CSBFA loans in their institution over the past five years. Among those who were aware of the decline, just over half described it as large. The rest tended to describe the decrease as more moderate. Representatives who were not aware of this sometimes expressed surprise at the size of the decline in use of CSBFA loans.

- Participants tended to focus on two reasons when asked to explain the decline in the use of CSBFA loans: the heavy administrative requirements associated with the loans, followed by the increasing tendency on the part of the federal government to reject claims. A number of other reasons, each cited by a relatively small numbers, were also offered. These included increased cost to the borrower, lack of profitability to the lender, borrowers qualifying for better loans, increased competition among financial institutions (thereby leading them to emphasize their own products), greater choice in financing options, and increased financing through internal means.

- Participants were asked to react to a list of potential factors that might impact on the decision making of financial institutions and their loans managers with respect to their use of CSBFA loans. They were asked to describe each factor as either big, moderate, minor, or no factor at all. Four factors were clearly seen as important in explaining the decline in the use of CSBFA loans: the administrative burden on the lender, followed by the lender’s inability to charge fees, the availability of cheaper sources of financing for the borrower, and the amount of profit or incentive for the lender. At least two-thirds identified each of these as a big or moderate factor. Participants were divided over the impact of the trend towards basing lending on the credit worthiness of the individual, as well as the quality of service received from government. Almost equal numbers viewed them as important and unimportant. Lack of awareness of CSBFA loans and internal bank policies or practices were much more likely to be viewed as lacking in importance.

- All of the participants interviewed believe that CSBFA loans have not outlived their usefulness. They were described as useful and important because it was felt that there would always be borrowers that would not qualify for other types of loans. Some participants noted that while CSBFA loans have not outlived their usefulness, certain changes or amendments need to be made to them.

General Trends in Lending Practices

- Participants were asked how the decline in use of CSBFA loans over the past five years compared with the overall lending pattern of their institution regarding small and medium-sized businesses. Most said that their loans to SMEs over the same time period had increased. A few indicated that they had probably remained about the same, while a few others were unsure. Only one representative said that loans were down due to a decline in the use of credit generally, and added that the overall decrease was nowhere near as significant as the decrease in use of CSBFA loans.

- Participants were asked if they noticed any trends or developments over the past few years in the use of financing tools that might also help explain the decline in the use of CSBFA loans. In response, people identified increased use of credit cards for financing as the main reason. Cited less often were increased use of leasing, the economic situation (i.e. due to the recent good economic conditions, and increased financial health for businesses, it was felt that small firms have not had to borrow as much money or are in a position to qualify for less expensive loans), a greater range of products leading to a much more tailored approach to clients, and the growth of micro-businesses and firms in IT/high tech sector.

- Overall, the issues raised were highly consistent across the interviews. This included not only the perceptions of people in different financial institutions, but also the views expressed by participants in the same institution.

Introduction

Industry Canada commissioned COMPAS to undertake qualitative research with representatives of Canada's principal financial institutions in order to better understand the decline in the use of Canada Small Business Financing Act (CSBFA) loans during the last few years.

Background and Objectives

Industry Canada, through the Small Business Loans Administration, is responsible for administering a loan loss-sharing program aimed at small and medium-sized enterprises. The program is delivered by 1,500 financial institutions across the country. Under the program, financial institutions can make loans of up to $250,000 to small and medium-sized enterprises over a maximum lending term of 10 years. Lenders are responsible for credit decisions and the monitoring of loans, while the Government of Canada pays lenders 85% of any eligible losses incurred on registered loans that have defaulted, after the lender has taken the usual steps to recover any security associated with the loan to reduce the amount outstanding.

In April 1999, the Small Business Loans Act (SBLA), in effect since 1961, was replaced by the Canada Small Business Financing Act (CSBFA). Since April 1995, there has been a steady decline in the number and amount of loans registered under the program. In 1995/96, approximately 35,000 loans were registered compared to approximately 18,000 loans registered in 1999-2000. This represents a decline of nearly 50%.

The principal objectives of this research were to explore perceptions of CSBFA loans, as well as perceived reasons for the decline in such loans over the past five years.

Research Design

To address the research objectives, COMPAS conducted a set of in-depth telephone interviews designed to obtain robust, qualitative feedback. This report presents the results of these interviews. Interviewing took place in November and December, 2001.

The following specifications applied to this study:

- The target population was Canada's main financial institutions. For the purposes of this research, this was defined as the 12 institutions that are the top 'users' of CSBFA-registered loans.
- An attempt was made to conduct interviews with two representatives from each financial institution. One person was the main contact responsible for liaison between Industry Canada and their institution on CSBFA loans, the other was a senior executive with direct responsibility for small business loans. The purpose of conducting two interviews per institution was to obtain more varied and fulsome feedback from each institution (and to compare the consistency of responses).
- Interviews were conducted by phone and lasted 40-50 minutes on average.
- All interviews were conducted in the language of choice of the respondent, and were conducted by senior COMPAS researchers.
- In advance of the interviews, Industry Canada sent an invitation letter to all potential interviewees that described the purpose of the research, provided background information, introduced COMPAS, offered assurances of confidentiality, and encouraged participation.
- The discussion guide used for the interviews was semi-structured in approach in order to generate in-depth, qualitative feedback. The guide explored the issues identified above and was developed in consultation with Industry Canada.
- The first five interviews were treated as a pre-test of the research instrument. No alterations were made to the guide on the basis of these interviews, which were retained as part of the data set.

In total, 18 interviews were conducted, 10 with the main CSBFA contacts, 8 with senior executives involved in small business loans (this does not include others that were not on the list that sat in on the interviews at the request of the participant). Interviews were successfully completed with representatives of all but one of the 12 targeted institutions. As noted, an attempt was made to conduct interviews with two representatives from each institution. This was achieved for seven of the participating institutions. On two occasions, representatives of the same institution were interviewed together in response to their request that the interviews take place in this manner. On three occasions, representatives other than the ones contacted sat in on, or participated in, the interview.

Below is a list of the institutions that took part in this study:

- Royal Bank of Canada
- Bank of Montreal
- Bank of Nova Scotia
- TD Canada Trust
- Banque nationale du Canada
- Banque laurentienne.
- Alberta Treasury Branches
- HSBC Bank of Canada
- TYCO Capital
- Credit Unions
- Fédération des caisses populaires Desjardins du Québec

It is worth noting that there were <u>no</u> significant differences in the attitudes or perceptions of CSBFA contacts versus those of senior management representatives. Please see the last section of this report for a discussion of the consistency of the feedback received.

Participants' comments are provided in italics or quotation marks and are either actual verbatim comments or have been paraphrased to reflect the intent of the remark. For editorial purposes:

- The words 'he' or 'his' are used in a generic fashion and do not identify the gender of the participant.
- The terms 'CSBFA contact' and 'senior executive' are used to identify people in each of these two target groups.
- The acronym 'SME' will be used to denote small and medium-sized businesses.
- The terms 'bank' and 'financial institution' are used interchangeably.

This research was qualitative in nature, not quantitative. As such, the results provide an indication of participants' views about the issues explored, but cannot be generalized to the full population of employees of financial institutions that are involved in lending practices with respect to small and medium-sized enterprises.

Lending Practices and Experience

Participants were asked to briefly describe their roles with respect to their institutions' lending practices to SMEs, as well as the way in which decisions are made at their institution in terms of providing loans to small businesses. This included things like the degree of local autonomy for branches or loan managers, the criteria used for which loans products to use, and any corporate-wide policies or practices that influence or govern decision-making.

Participants' Responsibilities for Small Businesses Loans

All participants were directly involved in the provision of loans to small or medium-sized businesses by their institution.

CSBFA contacts tended to focus on their responsibilities regarding the CSBFA program in particular. They described their primary role as being the main liaison or contact person for CSBFA loans, both in relation to their own institution and in relation to the Government of Canada or Industry Canada. A few participants also identified broader responsibilities, such as providing information and guidance regarding small business loans in general, including advice on which products to use.

In relation to their own financial institution, responsibilities included providing advice, clarification, explanations, and information to loan managers regarding CSBFA loans and how to administer them (e.g. clarification of rules and regulations regarding the use of CSBFA loans, updates on changes to guidelines regarding CSBFA loans). Vis-à-vis the government, responsibilities included preparing annual submissions, obtaining clarification of interpretations of the guidelines, and resolving issues or problems that arise regarding administration of the CSBFA program and the recognition of claims.

Senior executives (i.e. those not identified as CSBFA contacts) were involved in a wide variety of loan-related activities with respect to SMEs. The more common responsibilities included things like product development and pricing, marketing and market analysis, and strategy. Also mentioned, but less often, included risk assessment, approval of loans, litigation, overseeing collection officers, overseeing the institution's loans portfolio, on-line banking, and automation. For some, this also included e-business, service quality, and general support to account/loans managers. A few noted that they were not directly involved with CSBFA loans, but were nonetheless aware of them as part of their institution's suite of offerings to small businesses.

Decision-Making Tends to be Centralized & Based on Circumstances of Borrower

Participants described a variety of ways in which decisions are taken at their financial institution regarding loans to SMEs. Generally speaking, the decision-making process tends to be centralized <u>or</u> to have centralizing features that limit or circumscribe the autonomy of local branches or loans managers. In some instances, loans managers in local branches have greater leeway or discretionary power regarding loans approval, but within the context of rules, regulations, and procedures that apply to all branches. Finally, a few participants described their decision-making approach as fully decentralized.

The various features of the decision-making process identified by participants included:

- *Centralized approval*: Some participants belong to institutions where <u>all</u> loans have to be formally approved by the head office. While it is the loans managers in local branches who meet and deal with clients, final approval has to be given by head office. The decision-making process is initiated by loans managers who make recommendations regarding loans. These proposals are then reviewed by the head office or by a higher level “credit group” which either approves or rejects the application. One participant described this as a “dual system of approval”, where the initial approval is given by the loans manager, but is subject to the additional approval by head office or an internal credit group.

- *Credit scoring*: Some institutions make decisions regarding loans to SMEs based on a credit scoring system established through the head office or a centralized loan centre. This was described as a customer-centred approach which assesses each applicant on a number of risk-related criteria, such as previous loan record, type of industry or business, size of loan, anticipated use of loan, etc. While there is no formal requirement for head office approval of loans decisions, there is a system in place that has to be followed for every loan application, amounting in effect to a centralized system of adjudication. One participant added that once the specific applicant is assessed, a specially-trained sales staff assists the branch on the type of loan to be offered to the client.

- *Lending limits*: In a few instances, local branches have discretionary power to approve loans or credit up to a certain amount. However, if a loan exceeds that amount, it has to be approved by risk managers from head office or further up in the institutional hierarchy. One participant noted that in his institution, the lending limit varied depending on the size of the branch office. In the case of CSBFA loans, for example, larger branches could approve a loan up to the full limit (i.e. $250,000). Smaller branches, however, need approval to grant CSBFA loans over a certain amount (depending on the size of the branch). Head office approval is sometimes also required for certain types of applicants. For example, it was noted that certain industries or sectors were considered to be more problematic than others (i.e. higher risks), and that head office approval has to be sought for loans to businesses within these sectors.

- *General guidelines*: A few participants described the decision-making process in their institutions as largely decentralized, with the degree of autonomous lending authority based on a combination of the loans manager's skills, past experience, and training. There are some general guidelines in place set by the head office or a "credit and loans policy group". Loan applicants must achieve at least a "passing grade" in relation to these guidelines in order to get a loan. However, within their lending limits, loan officers exercize their own judgement. One person described this as a form of risk assessment that did not, however, amount to a full-fledged credit-scoring model.

- *Full decentralization*: Representatives of credit unions were the most likely to describe their system of loans approval as decentralized. They noted that their institutions, by their very nature, were local institutions, which regulated their own procedures. Each credit union is run by its own Board of Directors, which is the sole authority when it comes to lending decisions. Every branch has to file an annual report on its policy and procedures for loans with the Superintendent of Financial Institutions. However, short of this requirement, each branch sets its own guidelines regarding loans, including which sectors it will lend to.

Virtually everyone said that there were, strictly speaking, no corporate-wide policies regarding which loan products to use. Institutions offer a full suite of products, and criteria regarding which ones to use depend mainly on the particular circumstances of each individual loan applicant. This is determined through risk-assessment and scoring models, not corporate policy per se. Some participants noted that, whenever possible, they try to promote their institution's own products but added that the overriding criterion was always the product that best suited the client.

It was noted that the marketplace includes borrowers who, by virtue of their sector or industry, do tend to get steered towards certain products instead of others. While this could be described as corporate policy, it is based on the risks associated with certain types of borrowers. For example, it was noted that the highest failure rate is among businesses in the service industry and that this sector had a high default rate on loans. Under these circumstances, borrowers from this sector will be more likely to be steered towards certain types of loans as opposed to others.

Main Perceptions of CSBFA Loans

In this section, participants were asked about issues specifically related to CSBFA-registered loans.

All Participants Claim to be Familiar With CSBFA Loans

Participants were asked to describe their level of familiarity with the Canada Small Business Financing Act (CSBFA) and CSBFA-registered loans. All of them claimed to be at least moderately familiar with the Act and loans, and just over half claimed to be *very* familiar with them. Not surprisingly, CSBFA contact people were more likely than senior managers to say that they are very familiar with the CSBFA.

Participants who claimed to be moderately familiar tended to say that they were aware of the main aspects or general parameters of the program, such as the target market (i.e. start-ups), and how these loans fit into their institution's tool kit of offerings to small businesses. Moderate familiarity also included knowledge of day-to-day issues surrounding these loans, such as the number of CSBFA loans made by their institution, the size of CSBFA loans, default rates, requirements for filing claims, and problems or issues surrounding dealing with the government regarding claims recognition.

Participants who claimed to be very familiar with CSBFA loans were more likely to focus on specific aspects or features of the loans. Things that were routinely identified included:

- *Size of CSBFA loans*: CSBFA loans can be granted in various amounts up to a maximum of $250,000.
- *Fees and interest rates*: The 2% application fee for borrowers, and the interest rate on the loan, being the prime rate plus 1.25%.
- *Financing*: CSBFA loans can cover up to 90% of financing.
- *Term of loan:* CSBFA loan repayment can be extended over a ten-year period.
- *Applicability of loans*: CSBFA loans can only be used as operating capital, not working capital (e.g. paying bills, salaries) or marketing.
- *Eligibility*: Only for-profit organizations qualify for CSBFA loans. Charities and religious organizations are excluded, as are agricultural organizations. One participant added that only for-profit organizations with annual sales under $5 million dollars qualify for CSBFA loans.

One participant indicated that there has been a recent change to the CSBFA Program according to which CSBFA loans can be granted on the basis of the business instead of the individual. In other words, an individual with three businesses can apply for three CSBFA loans if it can be shown that the three businesses are independent of one another. This was described as an improvement to the act.

One person felt that familiarity was facilitated by the fact that the rules and procedures are “very clear”, while another said that whenever he is uncertain about something, he simply consults the Act.

In short, familiarity with the CSBFA was widespread and generally quite strong. Both CSBFA contact staff and the senior executives were relatively well informed about the Program and on top of issues related to the use of CSBFA-registered loans by their financial institution.

Important but Cumbersome – Main Impression of CSBFA Loans

When asked to describe their overall impression of CSBFA loans, most participants tended to offer mixed impressions. The most common impression of CSBFA loans, expressed by just over half of all participants, was that they were an important and valuable tool because they provide financing to a certain type of small business client that might not otherwise get a loan, but that they were cumbersome because of the administrative and documentary requirements involved. That is, people pointed to both positive and negative issues as part of their initial assessment of CSBFA loans.

Representative comments included:

- *CSBFA loans are good in principle, but rather troublesome because they are difficult to administer.*
- *They’re very cumbersome. There’s a lot of documentation and paperwork that needs to be done.*
- *CSBFA loans are important for customers who would not otherwise qualify for a loan to get a business started. That said, they are administratively cumbersome.*
- *They are a double-edged sword. On the positive side, they are very low-risk loans. On the negative side, they involve many technicalities and compliance features that make them unattractive to banks.*

- *The program is valuable because it helps those who do not qualify for a regular bank loan. However, the process is administratively heavy both for the lender and the borrower because of all the paperwork and documentation required. Other loans are easier and quicker.*
- *CSBFA loans fulfil an important need, but the process is very laborious.*
- *One of the big challenges is to make sure that everything in the application process is done right. There are so many rules and everything is very narrowly defined.*

A number of problems were linked to the administrative requirements associated with CSBFA loans. Note that each of the following was identified by no more than two participants:

- *Lost commissions*: Because CSBFA loans are difficult to administer and take more time to process, they are less attractive to loans managers. Many loans managers are paid a commission on the loans they make, and they tend to shy away from CSBFA loans because they take too long to process and therefore tend to reduce the relative size of their commission (i.e. amount paid for amount of time used).

- *Administrative costs*: Due to their complexity, CSBFA loans involve administrative costs not associated with other types of loans. People often noted that they take more time and effort than regular loans, and that this entails costs.

- *Training requirements*: Because of the complicated nature of CSBFA loans, it is important to make sure that loans officers understand all the requirements and how to comply with them. However, this takes time and there tends to be a high turnover rate among loans officers. The result is that once people are finally knowledgeable about these loans, they move on and it is necessary to start over again with someone new.

- *Lack of interest*: It was noted that there seemed to be a growing lack of interest among lenders in using CSBFA loans because borrowers can get virtually the same amount of credit through less cumbersome and time-consuming means.

Another mixed impression, articulated by a few participants, is that CSBFA loans are good for start-ups that might not otherwise get a loan. However, for this precise reason, they tend to attract borrowers that are more likely to default on a loan. In particular, it was noted that the 90% financing coverage, which reduces the capital burden on the borrower, and the 25% personal guarantee encourage defaults since less is at stake for the borrower.

While most participants had mixed (i.e. positive and negative) overall impressions of CSBFA loans, a few expressed more clear-cut views, either positive or critical (only one participant had a completely positive impression of CSBFA loans). Positive aspects included:

- *Security*: The fact that the loan is guaranteed by the government reduces the level of risk associated with making this type of loan. While this is offset by the actual profit that can be made by the bank, it is nonetheless a positive feature.

- *Autonomy*: Another positive feature of CSBFA loans is the autonomy they leave to the financial institution. As long as the financial institution respects the norms and guidelines put in place by the government, there is no need to be in constant contact with the government or to feel one has to explain every decision taken in line with this type of loan.

- *Stability*: There are no significant changes when it comes to CSBFA loans. They are standardized and therefore the lender does not have to worry about keeping up-to-date about changes in rules and regulations.

Critical or negative impressions of CSBFA loans focused on the following aspects (again, none was identified by more than a few participants):

- *Ambiguity regarding due diligence*: A few participants expressed confusion over what constituted due diligence in regard to applications for a CSBFA loan. There was uncertainty as to whether or not the banks were supposed to underwrite these loans in the same way that they underwrote their own loans.

- *Other ambiguities*: Along the same lines, it was felt that there is less certainty about what qualifies for a CSBFA loan as opposed to an SBL loan. It was noted that the transition from the old program to the new one was done quickly (over a 3-week period) and was not done very smoothly or effectively. Loan managers still had many questions. It was suggested that this might have had an impact on loan managers' willingness to use CSBFA loans right from the start.

- *Lack of profit*: It was noted that CSBFA loans do not provide enough profit to the lender, who cannot charge fees for the loan and receives no part of the 2% application fee charged to the borrower.

- *Costs to the borrower*: The fact that borrowers have to pay a 2% application fee and are charged an interest rate of prime plus 1.25% was seen as a disincentive for the borrower to apply for a CSBFA loan. One participant noted that whenever an applicant qualifies for a loan offering better terms than a CSBFA loan, the former is offered instead of the latter.

- *Tendency to reject claims:* A few participants claimed that there was an emerging tendency on the part of the federal government to reject claims that were not filed properly or contained minor discrepancies or errors.

- *Lack of guarantee on claims*: In addition, it was noted that even if banks believe their claims are properly filed, there is no guarantee that they will be accepted. In this regard, CMHC mortgage default loans were described as much better because claims are more likely to be accepted.

- *Lack of help from government*: One participant described government officials as “not helpful at all” and described dealing with government as frustrating, especially when it came to clarifying issues regarding CSBFA loans that were not clear: “The people in Ottawa know the Act inside out and just recite the Act to you when you bring grey areas to their attention.”

Main Strength of CSBFA Loans – Helping Firms That Would Not Qualify for Other Loans

Asked to identify the main strengths or positive features of CSBFA loans, participants pointed most often to their belief that they meet a need by providing financial assistance to businesses that might not or would not qualify for any other type of loan. Such businesses were identified in various ways including “start-ups”, “micro-businesses”, “new businesses”, “high-risk businesses”, and “home-based businesses”. Just over half the participants identified this as the main strength of CSBFA loans. One participant said that such businesses tend to come primarily from the service sector (which tends to have a high failure rate) and noted, by way of example, that all his institution’s loans to restaurants are CSBFA loans. As such, CSBFA loans were seen to have an important niche as a product.

A number of other benefits or strengths were also identified. However, none was cited by more than a few participants. Benefits to both lenders and borrowers were identified. Benefits to lenders were seen to include:

- CSBFA loans represent a minimal risk for the lender because of the government guarantee.
- CSBFA loans allow financial institutions to extend the range of their products.
- Government personnel administering the program tend to be helpful (although, as noted, some participants disagreed with this).

Perceived benefits to the borrower include:

- CSBFA loans provide a high loan-to-value ratio so that the borrower ties up less of his own capital in starting or expanding a business.
- CSBFA loans allow borrowers to finance a wide range of items.
- The payback period is extended over 10 years, which is an attractive feature to borrowers.

Main Weakness of CSBFA Loans – Heavy Administrative Requirements

When asked to identify the main weaknesses or deficiencies of CSBFA loans, over half the participants identified one feature: the administrative requirements on the lender. As noted earlier, this issue represents an important part of participants' overall impression of CSBFA loans.

Here, participants tended to provide more detail about the problems associated with the administrative requirements. These included such things as the amount of time it takes to process a CSBFA loan. One participant stated that it takes, on average, 3-4 more hours to process a CSBFA loan than other loans. In addition to, and related to, the amount of time was the amount of paperwork involved, including the need to have hard copy documentation for everything. As one participant put it: "You need to document everything and keep a paper trail". Also identified was the fact that lawyers cannot be used to help prepare the paperwork. This meant that loans managers have to spend extra time complying with these requirements, and without the resources that are available to them for other types of loans (i.e. lawyers).

In addition, a few participants noted that the task of processing CSBFA loans was all the more frustrating in that, after completing the whole application process, an entire claim could be rejected or disqualified for a technicality or a small error or oversight. As an example, one participant said that claims from his institution have been rejected because of a missing invoice even though the institution could produce cheques to corroborate their claims. One participant summed up the feeling in the following way: "Dot your 'I's and cross your 'T's or kiss your claim goodbye". Another commented more generally that the pay-off on CSBFA loans did not compensate for process-related difficulties and problems. For these participants, the heavy administrative burden is linked with problems having default claims paid by the government; combined, this represents a significant weakness of CSBFA loans.

Two other issues received noteworthy attention, both identified by approximately one-fifth of participants:

- *Cost*: This includes costs to the borrower and costs to the lender. Costs to the borrower include the 2% application fee and the higher interest rates (prime + 1.25%). It was noted that these costs to the customer make other types of loans more attractive to them. Costs to the lender include the administrative fees incurred. One participant also included among costs the extra time and effort staff have to spend on administering these loans, and ensuring accurate paperwork.

- *Lack of profitability to the lender*: This includes the fact that the lender receives none of the application fee and cannot charge any fees on the loan, something that financial institutions routinely do for other types of loans.

Weaknesses identified much less often included:

- *The high default rate on CSBFA loans*: These loans tend to have a higher default rate than do other types of loans.
- *Impact on institution's loan record*: One participant noted that not only is there a high default rate on CSBFA loans, but that these failures appear on the loans record of the institution that is publicly available.
- *Lack of standards regarding due diligence*: Standards regarding CHMC loans were described as much clearer in this regard.

One participant noted that the changing face of small business is making it more and more difficult for organizations to qualify for a CSBFA loan. It was noted that there has been tremendous growth of small businesses, especially in the IT sector, but that these businesses often look primarily for working capital (e.g. paying salaries, R&D, etc.), which is not an eligible use for CSBFA loans.

Level of Use of CSBFA Loans Varies Significantly by Financial Institution

Participants were asked if their institution made much use of CSBFA loans and how this compared with other types of loans or financial instruments used with small businesses. In response, most indicated that these loans were not used much or that their use was on the decline. Some indicated, in absolute terms, that their institution does not make much use of CSBFA loans. One person added that not only is use low, but that it is declining due to a review that showed that some claims would be disqualified due to paperwork problems.

Others, while not indicating in absolute terms that use was low, indicated that use of CSBFA loans has declined in the past few years or is much lower than the use of other tools or instruments. A few of these noted that, whenever possible, their bank likes to use its own products and that CSBFA loans are an instrument of “last resort” (i.e. if the applicant does not qualify for anything else). One person said that use of CSBFA loans had been high, but has declined considerably due to a perceived lack of flexibility on the part of the government.

Just under half the participants said that their institution makes considerable use of CSBFA loans. However, only one said that CSBFA loans were used as much as other financial instruments used by his bank. Another participant specified that CSBFA loans were the main tool used for start-up businesses and was a meaningful part of the bank’s offerings.

Others qualified their feedback in various ways. Some, for example, indicated that while the use of CSBFA loans was high, the bank primarily promotes its own products. One participant said that his institution’s use of CSBFA loans was high compared to its competitors, but low compared to his institution’s use of other financial instruments. Another noted that use of CSBFA loans was high, but that if the institution had a leasing product to offer it would use it instead of CSBFA loans. The reason given was that it would be better for the bank in terms of profitability, and for the borrower in terms of administrative processes and time.

Decline in Use of CSBFA Loans

In this section, participants were asked about the decline in the use of CSBFA loans during the last five years.

Most Aware of Decline in Use of CSBFA Loans

Participants were informed about the significant decline in the use of CSBFA-registered loans during the last five years and asked if their own institution was making less use of them compared to five years ago. All but a few participants were aware that there has been a decline in the use of CSBFA loans in their institution over the past five years. Among those who were aware of the decline, just over half described it as large, using expressions such as “a great deal less”, “considerably less”, and “much less”. The rest tended to describe the decrease as more moderate. Only one participant described the decrease as small, while another was not sure about the extent of the decline.

Among the few who said that their institution does not make less use of CSBFA loans compared to five years ago, one did in fact represent a financial institution in which use of CSBFA loans had increased over this period. He said that this was his impression. Representatives from the other institutions sometimes expressed surprise at the size of the decline in use of CSBFA loans. One participant had been sure that use of CSBFA loans had actually increased (at least in his branch), while another had been under the impression that the level of use had been relatively constant.

Administrative Requirements, Claims Rejections – Main Contributors to Decline in Use of CSBFA Loans

Participants tended to focus on two reasons when asked to explain the decline in the use of CSBFA loans: the heavy administrative requirements associated with the loans, followed by the increasing tendency on the part of the federal government to reject claims. Once again, a few people noted that these two issues were interrelated (i.e. the filing requirements combined with the uncertainty of collecting make CSBFA loans unattractive to lenders because the costs outweigh the possible benefits). One person added that the government is becoming even more rigorous in processing claims now – it asks for the original copy of the application and even calls clients in order to check the bank’s information, as if it were checking up on the bank.
A number of other reasons were also offered to explain the declining use of CSBFA loans. Each was cited by a relatively small number of participants. Reasons included:

- *Increased cost to the borrower*: A few participants noted that the 2% application fee and the increase in interest rates since 1995 have made CSBFA loans less attractive to borrowers.

- *Lack of profitability to lender*: This includes the inability to charge regular fees on the loan and the perception that the interest rate is too low. As one participant put it: "Prime plus 1.25% is not enough". It was suggested that financial institutions want to increase their profitability, especially in a competitive environment, and that CSBFA loans are simply not conducive to this.

- *Borrowers qualifying for better loans*: It was suggested that the decrease could also be due to the fact that many potential CSBFA applicants actually qualify for better loans because they are considered to be "low risk". Consequently, the decline in use could be explained by a gradual restriction of the loans to "high-risk" borrowers. The relatively positive economic conditions of the last few years were thought to contribute to this.

- *Competition*: Increased competition among financial institutions may be pushing banks and others to put more emphasis on their own products. It was noted that in a competitive environment institutions are much more likely to try to develop and promote their own products rather than products like CSBFA loans, which are common to all institutions and do not distinguish an institution from its competitors.

- *Greater choice in financing options*: It was also noted that there is greater choice in the lending and borrowing market than before. The increased use of credit cards in particular was identified as an option that could help explain the decline in the use of CSBFA loans.

- *Increased financing through internal growth*: Another possible reason for the decline in use of CSBFA loans was the perception that many small businesses were in sound financial condition and were able to finance their growth through internal means. The relatively positive economic conditions of the last few years were also seen to contribute to this.

- *Economic downturn*: CSBFA loans are used to finance growth and expansion, which is less likely to take place during an economic slowdown. It was noted that the current slowdown actually began a few years ago and that this could help explain some of the decline in the use of CSBFA loans. In this sense, the decline in use of CSBFA loans would coincide with a general decline in loans of all kinds (which was not seen to be the case – see below).

Only a few participants said they did not know how to explain the decline in CSBFA use, and declined to speculate.

Participants were asked what other factors, if any, might explain the decline in use of CSBFA loans at their financial institution and others. In order to avoid repetition, only those reasons not mentioned in the previous list will be identified here.

- *Increased use of credit scoring*: Credit scoring was described as providing very reliable data and more accurate assessments of risk. Because the loan evaluation process is more systematic, an applicant may qualify for a better loan.

- *High default rate*: It was noted that CSBFA loans are used most often in the accommodation/hospitality/food and beverage sector, which has a notoriously high failure rate. The decline may be due to institutions gradually restricting their CSBFA loans to this sector or even reconsidering the extent to which they want to finance this sector.

- *Lack of awareness*: It was suggested that the government has not marketed these loans very well or explained to lending institutions how CSBFA loans should fit in to their “tool box” or suite of offerings. One participant noted that the only type of information he ever saw were excerpts from the legislation, which were not very useful.

- *Boom in the IT sector*: This had been identified previously by one person in the discussion of weaknesses of CSBFA loans. It was noted that many start-ups or small businesses are in the IT sector but that many of the financing requirements of this sector do not appear to be covered by a CSBFA loan. For example, someone wanting a loan to mount a website would not qualify for a CSBFA loan because these loans only cover operating costs and mounting a website would be characterized as a marketing cost.

One participant described the decline in use of CSBFA loans within his own institution as the result of the combination of the documentary requirements and the lack of certainty regarding what constitutes due diligence. As a result, he noted that his institution has tried to establish as much uniformity as possible regarding these loans and has become rather “rigid” regarding standards for CSBFA loans. He explained that “We simply tell our clients that if they want this loan it has to done this way and if they don’t like it that’s too bad”. Under these circumstances, clients themselves may be looking for other less rigid options.

Ranking of Potential Factors Mirrors Open-Ended Feedback

Participants were asked to react to a list of potential factors that might impact on the decision making of financial institutions with respect to their use of CSBFA loans. The following table indicates, in declining order of importance, the number of participants who described each factor as either big, moderate, minor, or no factor at all:

Factor	Big	Moderate	Minor	Not a factor
Administrative burden on lender	11	4	2	1
Lender's inability to charge fees	9	6	-	3
Cheaper sources of financing for borrower	8	7	1	2
Amount of profit or incentive for the lender	9	5	2	2
Trend towards basing lending on credit worthiness of the individual*	4	4	3	6
Quality of service received from government	3	5	3	7
Lack of awareness of the CSBFA loans	4	-	5	9
Internal bank policies/ practices	1	2	6	9

***One participant said "don't know"

As a general caveat regarding the interpretation of this information, a set of in-depth interviews like this, by their very nature, provides qualitative feedback, not quantitative. They provide insight into how people think about the subject matter, and why they hold the views they do, but they do not provide representative data applicable to the entire target audience. That is, they provide insight, not representivity. The results presented in this table should be reviewed with this mind. That said, participants' verbal feedback was highly consistent with these numerical findings.

As can be seen, there are clear differences in the minds of participants regarding the significance of these factors. Four factors are clearly seen as important in explaining the decline in the use of CSBFA loans. Leading the way, once again, is the administrative burden on the lender, followed by the lender's inability to charge fees, the availability of cheaper sources of financing for the borrower, and the amount of profit or incentive for the lender. At least two-thirds of participants identified each of these as a big or moderate factor (and they were more likely to describe each as a big factor).

Participants were divided over the impact of the trend towards basing lending on the credit worthiness of the individual, as well as the quality of service received from government. Almost equal numbers viewed them as important and unimportant factors. Note that participants who perceived the quality of service received from government to be a big or moderate factor tended to emphasize the issue of claim recognition, not assistance or helpfulness provided by Industry Canada staff (see verbatim comments below).

The two remaining issues, lack of awareness of CSBFA loans and internal bank policies or practices, were much more likely to be viewed as lacking in importance.

Participants who described an item as important (either a big or moderate factor) were asked to explain why. In most instances they repeated comments or re-emphasized points they had made before. Presented below are representative comments for each item described as an important factor.

- The administrative burden on the lender for CSBFA loans:

    - *You have to fill out two loan-specific files, in addition to the normal form, repeating the same information again. In addition, the tracking and collection of invoices and cancelled cheques is very difficult. Finally, the issues surrounding the claims process are overwhelming. You must mail the fee and registration process to Industry Canada and they let you know if there are any problems or mistakes, at which point you need to resubmit the claim.*

    - *There are not only administrative burdens, but also administrative costs associated with these loans that are not offset by any benefits.*

    - *The administrative burden has been getting worse in the past year.*

- The lender's inability to charge fees for CSBFA loans that would ordinarily be charged for conventional loans:

    - *Overall profitability is what matters, either through fees or interest rates.*

    - *If there were a 100% on claims, the inability to charge fees would not be that much of a burden. However, the inability to charge fees in addition to uncertainty regarding the recognition of claims, increases the significance of the former.*

    - *These loans are just not profitable.*

- Other sources of financing that are cheaper for the borrower:

    - *CSBFA loans have a 2% application fee that other loans do not have.*

- *Lower-risk clients have cheaper options than CSBFA loans which charge an additional 1.25% interest on a loan.*

- *Leasing companies will provide 100% financing.*

- *As long as cheaper options exist, such as credit lines, clients will always prefer them.*

- The amount of profit or incentive for the lender for CSBFA loans:

  - *The profit is very, very small.*

  - *There's no profit.*

  - *Other tools are more profitable for the bank.*

  - *There is no benefit associated with these loans that make them more attractive than loans that provide more profit.*

- The trend towards basing small business lending on the credit worthiness of the individual, including changes in the credit scoring systems used to assess the level of risk:

  - *Risk assessment is getting better all the time.*

  - *The lower the risk, the greater the likelihood of qualifying for a non-CSBFA loan.*

- The quality of service received from government related to CSBFA loans:

  - *We get nickled and dimed on many of the claims.*

  - *At the branch level, problems with past claims might discourage future use.*

  - *It would be nice to see claims processed more quickly.*

  - *They tend to be very picky and bureaucratic, not customer-oriented.*

- Lack of awareness of the CSBFA loans program, overall or under its new name:

  - *We probably haven't spent enough time bringing ourselves up to speed on the new Act and some of the changes.*

- *While there is awareness of the product, awareness of the details is lacking. Many calls and many inquiries are being made by account managers.*

- Institution's internal policies or practices:

  - *This has to do with the practice of restricting CSBFA loans to those who do not qualify for other types of loans.*

  - *In the sense that we will always try to promote our own products first whenever possible.*

While participants were only asked to explain why a certain factor was important in explaining the use of CSBFA loans, a few explained why certain factors were not important. For example, one participant said that the administrative burden on the lender of CSBFA loans was a minor factor because the process in his institution was very centralized which meant that account managers no longer had to track invoices and paperwork. Another characterized sources of financing that were cheaper for the borrower as not being a factor at all because borrowers who get CSBFA loans in his institution would not qualify for other loans. Finally, one participant noted that the name change was a minor factor, if a factor at all, but that the name should not have been changed because the older name (SBLA) was more intuitively attuned to the reality of the thing (i.e. a small business loan).

Participants Divided Over Whether Type of Borrower of CSBFA Loans Has Changed

Participants were asked whether they thought the type of borrower of CSBFA loans has changed over the past five years. Approximately half felt that this was not the case, while a few more were unsure or unable to say. The rest felt that the type of borrower has changed. While there was no consensus on the nature of the change, some agreed that there were more high-risk applicants.

Presented below are the verbatim comments of participants who felt that the type of borrower of CSBFA loans has changed:

- *We don't direct the same type of company to the program as we used to. We only use it for a specific niche – start-up businesses, companies requiring higher leverage financing, leasehold improvements, and restaurants.*

- *There has been an increase in the number of self-employed people applying for this type of loan.*

- *You get a higher-risk borrower willing to pay the extra interest and fees in order to get a loan.*

- *There has been an increase in restaurant loans, but nothing else.*

- *There has been an increase among borrowers in the food service industries.*

- *They're not qualifying for anything else outside the program and so the CSBFA loan is the only way they can get financing.*

- *There are fewer low-risk clients due to the additional 1.25% fee. The result is that loan applicants tend to be higher-risk customers.*

One participant who was unsure whether or not the type of borrower has changed noted that there has been an increase in the average size of the loans themselves.

Strong Consensus That CSBFA Loans Remain Important

<u>All</u> of the participants interviewed believe that CSBFA loans have <u>not</u> outlived their usefulness. They were described as useful and important because there would always be borrowers who would not qualify for other types of loans. Moreover, one participant added that economic conditions were creating more and more self-employed people who, because they are just getting started, may find this type of loan appealing. Another noted more generally that tougher economic times would probably lead to increased use of these loans.

Some participants noted that while CSBFA loans have not outlived their usefulness, certain changes or amendments need to be made to them (see Concluding Comments and Suggestions section). One participant's statement was representative in this regard:

> *Yes and no. They have not outlived their usefulness because there will always be start-ups that will need something of this sort. However, these loans have outlived their usefulness in the sense that the fees, expenses, and paperwork*

associated with them are making them very unattractive in an industry moving more and more towards quick adjudication on loan matters.

General Trends in Lending Practices

Most Institutions Have Increased Loans to SMEs Despite Decline in Use of CSBFA Loans

Participants were asked how the decline in use of CSBFA loans over the past five years compared with the overall lending pattern of their institution regarding small and medium-sized businesses. Most people said that their loans to SMEs over the same time period had increased. A few indicated that they had probably remained about the same, while a few more were unsure. Only one representative said that loans were down due to a decline in the use of credit generally, and added that the overall decrease was nowhere near as significant as the decrease in use of CSBFA loans.

Participants who indicated that loans to SMEs had increased were most likely to be able to provide an explanation for the trend. Reasons included the following, none of which was identified by more than a few participants:

- *Competition*: A few explained that growth in loans by their institution tended to be made at the expense of their competitors and as the result of aggressive marketing campaigns.
- *Expertise*: A few noted that they had developed or improved their expertise in lending and offering products to small and independent businesses and had become more active with respect to this type of client.
- *Market of micro-businesses*: Representatives of credit unions noted that the increase in their loans resulted from banks having abdicated the marketplace of micro-businesses in search of “greener pastures” (i.e. medium-sized and large firms). As a result, credit unions have been able to “take up the slack”. It was added that the number of micro-businesses was on the rise as a result of downsizing in larger firms.
- *Growth of firms in IT sector*: One participant felt that the increase in his institution’s loans was at least partly due to the increasing number of start-ups in the IT sector looking to finance their activities.
- *Improved risk assessment*: More effective risk assessment through credit scoring was also given as an explanation for increased loans to SMEs.

One participant explained that his institution's use of government-sponsored loans has decreased because of the lack of automation surrounding these loans.

Participants who were unsure about whether or not loans had increased, decreased, or stayed the same indicated that they had imperfect information about this. However, a few noted that whatever the overall trend, there seemed to be a decrease in business loans under $250,000 made by their institution.

Other Trends Help Explain Decline in Use of CSBFA Loans

Participants were asked if they noticed any trends or developments over the past few years in the use of financing tools that might also help explain the decline in the use of CSBFA loans. In response, people identified the following:

- *Increased use of credit cards:* Greater use of credit cards was identified as the main trend that might help explain the decline in use of CSBFA loans. Credit card companies were seen as providing increasing competition to traditional lenders. Some of the benefits associated with this type of financing include the ability to shift debt from one card to another, low interest rates, easy application process and approval, and high credit limits. According to one participant, 70% of small businesses were financing themselves through credit cards.

- *Increased use of leasing*: Some participants noted that over the past few years, leasing companies have become increasingly involved in the lending market and are competing with more traditional lenders. It was noted that leasing companies often do not demand as many guarantees as more traditional lenders.

- *Economic situation:* It was suggested that economic circumstances might be part of the explanation as well. Due to the recent good economic conditions, and increased financial health for businesses, it was felt that small firms have not had to borrow as much money or are in a position to qualify for different loans.

- *Greater range of products*: It was noted that there is a whole range of financial products available through financial institutions and that the latter are developing a much more tailored approach to their clientele (i.e. CSBFA loans are suited to a very specific clientele). One example of creative financing in the area of mortgages is the re-advanceable mortgage. Through this, one can register for a much larger amount than is actually needed, and then dip into the fund if necessary without having to go through the whole process of registering for a mortgage a second time.

- *Growth of micro-businesses:* Many small businesses, described as "micro-businesses", are not very capital intensive and do not have high overhead costs. Because of this, they are more likely to be able to finance themselves through other means, primarily credit cards.

- *Growth of firms in IT/high tech sector*: The increasing number of small businesses in the IT or high tech sector had already been identified as a reason that might help explain the decline in the use of CSBFA loans. Here, this growth was defined as an important trend. Once again, it was noted that these tend to be businesses that would not qualify for a CSBFA loan because these loans only cover operations not working capital (i.e. capital to pay bills, salaries, software development, R&D, marketing). Since working capital is the main need of such businesses, they have to seek financing elsewhere.

While there may be similarities between the growth of firms in the IT/high tech sector and the more general growth of micro-businesses as explanations for the declining use of CSBFA loans, it is important to note that participants emphasized different reasons in explaining the significance of each. In the case of micro-businesses, the emphasis lay in their ability to seek financing elsewhere. In other words, while they could qualify for a CSBFA loan, their lack of overhead allows them to finance their needs through other means. Conversely, firms in the IT/high tech sector might not even qualify for a CSBFA loan in light of their financing requirements.

One participant indicated that a key trend was increasing rigidity in Industry Canada's administration of CSBFA loans. This was described as wanting to adhere closely to the regulations instead of showing a willingness to be more flexible in interpreting the Act. It was added that other government departments with loans programs show more flexibility.

Suggestions and Concluding Comments

Various Suggestions for CSBFA Program

Participants offered various suggestions throughout the interview with respect to the CSBFA program in response to different issues and themes. These ideas have been grouped together here in order to facilitate their review by the reader. Note that none of these suggestions was made by more than a few participants:

- Provide a 100% guarantee on claims (like CMHC).
- Streamline the application process and provide easier administration of the loan by removing or lessening the administrative requirements and administrative costs.
- Engage in more educating with respect to CSBFA loans. This includes providing clear guidelines about where such loans fit in the lender's toolbox and about what constitutes due diligence.
- Allow banks to hire lawyers to complete the documentation associated with CSBFA loans.
- Allow banks to charge fees on CSBFA loans.
- Share the 2% application fee with the banks or allow them to charge application fees.
- Allow for the application of higher interest rates.
- Allow for variable interest rates based on the value-to-loan ratio (i.e. if the borrower advances more money, he/she should get a better rate).
- Be more flexible about errors or mistakes in filing claims (i.e. do not reject an entire claim for an oversight).
- Provide written rulings regarding decisions made on claims, not just verbal rulings.
- Provide a 1-800 help-line for loan managers to call in case they have questions.
- Allow loans to be processed electronically in order to speed up the process.

Final Comments Focus on Program Improvement

Few participants offered any final comments. Those who did tended to focus on improving the program. One participant said that he would like to see the program address issues of concern and make significant changes so that it does offer a useful product in the marketplace. He suggested that they follow the example of CMHC which offers a program that is much more efficient and user friendly.

Another participant felt that CSBFA loans have a lot of potential and that they are needed in the marketplace, but that there needs to be a paradigm shift that would simplify all aspects of the process and make the loans more accessible. He also wanted to know what Industry Canada was planning to do on the basis of the results of this study and would like the results to be shared with the banks.

Finally, one participant sensed a growing dilemma that would need to be addressed. On the one hand, there is a clear reticence on the part of financial institutions to use CSBFA loans due to confusion regarding due diligence and the denial of more and more claims by Industry Canada. On the other hand, there is a sense that there will always be a need for CSBFA loans, and that a worsening economy will likely lead to increased use. This need to use CSBFA loans, combined with reticence to use them, will contribute to an even more awkward situation.

Note on the Consistency of Feedback

As mentioned in the introduction, an attempt was made to conduct two interviews in each institution in order to obtain more varied and fulsome feedback from each institution and to compare the consistency of responses.

Overall, participants from the same institution tended to express similar views regarding CSBFA loans. While this may be due in part to the fact that some representatives of the same institution were interviewed together, it was also evident in the responses of representatives of the same institution who were interviewed separately.

On questions of fact, there was only one notable discrepancy. In response to the question about whether their institution made less use of CSBFA loans compared to five years ago, the CSBFA contact said that there had been a considerable decrease, while the other representative for that institution had the impression that there had been no significant change.

On issues of perception, representatives of the same institution sometimes expressed different points of view, although these were not necessarily indicative of significant differences, inconsistencies, or even disagreement. For example, representatives of the same institution might identify different strengths or weaknesses of CSBFA loans, or focus on different trends to explain the decline in the use of such loans.

When it came to evaluating the significance of factors explaining the decline in use of CSBFA loans, differences tended to be minimal. Generally speaking, representatives of the same institution tended to agree on whether a factor was important or not, although there were sometimes differences in the degree of importance (i.e. one representative might describe a factor as “big” while the other viewed it as “moderate”). Similarly, one representative might describe a factor as “minor” while the other might describe it as “not really a factor at all”.

Having said that, in a few instances there were wide discrepancies in evaluating the significance of factors. For example, one representative felt that the amount of profit or incentive for the lender of CSBFA loans was a big factor in explaining the decline in use of these loans, while the other representative of the same institution felt that it was a minor factor. The same two representatives disagreed about the significance of other sources of financing that were cheaper for the borrower, one describing it as being a moderate factor while the other said that it was not a factor at all. In another instance, two representatives disagreed on the importance of the lender's inability to charge fees for CSBFA loans that would ordinarily be charged for other loans.