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Canada-Ontario Business Service Centre

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Canada Small Business Financing (CSBF) Program

Industry Canada - IC

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Summary

The CSBF Program, under the **Canada Small Business Financing Act**, can assist businesses in obtaining term loans and capital leases of up to \$250 000 to help finance fixed asset needs. The loans are made directly by a qualified lender (chartered banks, caisses populaires, Alberta Treasury Branches, most credit unions, many trust, loan and insurance companies) and the leases are issued by participating lessors.

ELIGIBILITY CRITERIA

Most small businesses starting up or operating in Canada -- excluding farming, charitable and religious enterprises -- as long as their estimated annual gross revenues do not exceed \$5 million during the fiscal year in which they apply for a loan or a lease. Businesses may be operated as sole proprietorships, partnerships or incorporated companies.

Note: For programs applicable to farming and charitable or religious enterprises, see the following documents:

- [Farm Credit Canada \(FCC\)](#)
- [Canadian Farm Business Management Program \(CFBMP\)](#)
- [Farm Improvement and Marketing Cooperatives Loans Act \(FIMCLA\)](#)
- [Information on Charities](#)

DESCRIPTION

The CSBF Program seeks to increase the availability of loans and capital leases for establishing, expanding, modernizing and improving small businesses in Canada. As of April 1, 2002, in addition to the loan program, a new five-year Capital Leasing Pilot Project was launched to help small businesses access capital lease financing for new or used equipment. [Note: see the document Capital Leasing Pilot Project.](#)

How can loan proceeds be used?

Loan proceeds may be used to finance

- the purchase or improvement of real property or immovables;
- the purchase of leasehold improvements or improvements to leased property, and
- the purchase or improvement of new or used equipment necessary for the operation of the business;
- the one time registration fee equal to 2% of the amount loaned, provided that the individual borrower's loan maximum of \$250 000 in total is not exceeded.

Does the CSBF exclude any loan purposes?

The following list is not exhaustive. Loan proceeds cannot be used to:

- improve a family dwelling for non-commercial purposes;
- purchase shares;
- finance working capital (finance inventory, accounts receivable, etc.);
- permits and licenses used in the operation of eligible assets;
- franchise fees;
- feasibility studies;
- professional fees (e.g. legal, accounting and appraisal);
- survey costs;
- building permits;
- vehicle for personal use;
- intangibles (i.e. research and development costs, prepaid expenses, good will, etc.); or
- purchase real estate for resale.

Are there borrowing limits?

- The maximum value of loans or leases a borrower may have outstanding under the CSBFA cannot exceed \$250 000.
- Loan proceeds may be used to finance up to 90% of the cost of the asset, including non-refundable taxes and duties.
- Note: Lenders are obligated to take security in the assets financed. When financing leasehold improvements or computer software, the lender may take security in other business assets. The lender may take personal guarantees or suretyships not exceeding, in aggregate, 25% of the original amount of the loan. These guarantees or suretyships cannot 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?

For loans under the CSBFA, 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% over the lender's prime lending rate;
- fixed-rate loans, where the interest rate is fixed for the term of the loan, but cannot be more than 3% over the lender's residential mortgage rate for the applicable term.

This 3% includes an administration fee of 1.25% payable by the lender to the government annually.

A loan can be prepaid or the interest rate can be converted to a fixed or floating rate. The lender may charge a penalty for the prepayment or conversion of the loan.

Any other costs?

Lenders are required to pay a one-time loan registration fee to the government equal to 2% 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.

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 enterprises. Lenders are required to make CSBF loans with the same care as in the conduct of their ordinary business, that is: to assess credit worthiness and draw up agreements following normal lending practice and to administer the loans in accordance with specific program requirements.

How do I apply?

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

Publications

The following information may be obtained from the Web site at: <http://strategis.gc.ca/csbfa>

- Information Brochure;
- **Canada Small Business Financing Act**;
- Small Business Loans Program (for loans made before 1 April 1999);
- Canada Small Business Financing Regulations;
- Guidelines for Lenders;
- Lender's Program Forms;
- How to use the Capital Leasing Pilot Project Regulations;
- An Invitation to Participate in Capital Leasing;

- Capital Leasing Pilot Project Guidelines;
- Forms for lessors;
- Annual Reports;
- Other Program Publications.

Owners of small businesses frequently lack the funds they need to finance business improvements or expansion. Financing may not be available to them unless they are willing to include their personal assets as security. Those wanting to start up new businesses face

Owners of small businesses frequently lack the funds they need to pay for business improvements 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 CSBFA, the federal government partially offsets any losses on CSBF 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.

Administered under the **Canada Small Business Financing Act** (CSBFA), the program is a joint initiative between the Government of Canada and private-sector lenders.

Note: This Act applies only in respect of loans made after 31 March 1999. The **Small Business Loans Act** (SBLA) will continue to apply to loans made before 1 April 1999 although certain provisions of the new legislation with respect to fees and interim claim payments will also apply to those loans.

Ontario Contact(s):

The participating private-sector lender of your choice.

National Contact(s):

For technical questions about the Act and inquiries from financial institutions:

Small Business Loans Administration
Industry Canada
8th Floor East
235 Queen Street
Ottawa, Ontario
K1A 0H5
Telephone: (613) 954-5540
Fax: (613) 952-0290
E-mail: CSBFA-LFPEC@ic.gc.ca
Web site: <http://strategis.gc.ca/csbfa>

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