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Changes to the Canada Small Business Financing Program and Impacts on Lending Moving Forward

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On July 4, 2022, amendments were made to the *Canada Small Business Financing Regulations* and *Canada Small Business Financing Act*, resulting in important changes to the Canada Small Business Financing Program (CSBFP). The amendments make available to lenders and small businesses additional financing products, a new class of loans and increased loan amounts and longer terms. The CSBFP continues to offer federal government-guaranteed financing to eligible Canadian small businesses provided certain eligibility criteria are met – an attractive feature of the CSBFP for lenders and borrowers alike. The program is administered by financial institutions across Canada. This comment will summarize some of the important recent amendments to the CSBFP.

Additional Financing Products

Two new permitted uses of CSBFP loans were introduced that can be made available to small businesses by way of term loans to finance intangible assets and working capital costs. Intangible assets are non-monetary assets without a physical substance that can be sold, transferred, licensed, rented or exchanged such as franchise fees, goodwill, incorporation costs, and permits and licenses. Working capital costs are costs incurred to fund the day-to-day operating expenses of a business including inventory, general and administrative expenses, printed materials, professional fees, and more.

Previously, these liabilities were ineligible for financing under the CSBFP and had to be paid out-of-pocket or though other credit products. However, since the addition of the two classes, many small businesses can now finance more of their costs and expenses through the CSBFP.

New Class of Loans – Line of Credit

Eligible businesses can also access a line of credit to finance working capital costs. The line of credit may be used for ongoing expenditures or commitments that arise or were invoiced no more than 365 days prior to the date that the line of credit was authorized, up to a maximum of $150,000.00. Lenders that traditionally offered separate line of credit products can now take advantage of the CSBFP product and corresponding Government guarantee to increase their lending capacity to small businesses.

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Increased Loan Amounts and Terms

The maximum loan amount for a borrower has increased from $1 million to $1.15 million. This includes:

- $1 million for term loans of which a maximum of $500,000 includes:
    - Equipment and leasehold improvement loans (previously limited to $350,000); and
    - $150,000 for intangible assets and working capital costs.
- $150,000 for lines of credit for working capital costs (this is in addition to the $150,000 that can be used for working capital costs by way of term loans).

Term loans to finance real property, leasehold improvements, equipment, intangible assets and working capital costs can be made for a maximum 15-year term. For lines of credit, the maximum term is five years beginning on the day after the line of credit is opened by the lender. Interest rates remain unchanged at a maximum of prime +3% for term loans and a maximum of prime +5% for lines of credit. A requirement of CSBFP continues to be a general security agreement from the debtor.

These changes to the CSBFP improve the ability of small businesses to finance additional business costs and expenses through the CSBFP.

The Cassels Banking & Specialty Finance Group is experienced in administering loans through the CSBFP, including review and administration of the requisite proof of purchase and proof of payment required by the CSBFP regulations.

This publication is a general summary of the law. It does not replace legal advice tailored to your specific circumstances.