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# Bulletin

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Canada Small Business Financing Program

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***Distinction between “borrower” and “small business” in cases of Leasing and Subleasing under the CSBFA***  
(References: CSBFR subsections 1(1), 5(2), CSBFA section 2)

Some lenders have requested clarification of the borrowing provisions for leasing and subleasing by small businesses in the health care, hospitality or mini-storage industries. A related issue is the distinction between the borrower and the small business involved.

The terms “small business” and “borrower” are clearly defined in the Canada Small Business Financing Act – CSBFA (formerly the Small Business Loans Act – SBLA) and associated Regulations. The Canada Small Business Financing (CSBF) Regulations stipulate that a borrower can have more than one loan under the CSBF program for each small business, to a maximum outstanding loan balance of \$250,000.

A loan can only be made under the program to finance the purchase or improvement of real property or to finance the purchase of leasehold improvements if the small business, and not the borrower, is classified as a small business in the health care, hospitality or mini-storage industries.

These industries are defined in s. 1 of the CSBF Regulations based on the industry definitions of the Standard Industrial Classification codes (1980) published by Statistics Canada. Some examples will help clarify this point.

A medical doctor who wishes to purchase a building, not for the practice of medicine but for rental to various retail businesses, would not be eligible under the CSBF program for a loan to finance the building. Although the doctor’s own medical practice is in the health care industry, this purchase is for the purpose of a separate business, namely the leasing of a non-residential building. Real property and leasehold improvements which are acquired for rental cannot be financed under the program, unless it is for small businesses in the health care, hospitality or mini-storage industries. Even if the doctor, or any other borrower, intended to lease the building to physiotherapists or other medical practitioners, the loan would still not be eligible. Although the tenants of the building would have small businesses operating in the health care industry, the loan would be to finance a small business operating in the real estate industry.

A medical doctor who wishes to purchase a building for the operation of a nursing home could be eligible for a CSBF loan. This is because the small business of

operating a nursing home does fall within the definition of the health care industry. A similar application for a CSBF loan to operate a nursing home by a borrower who is not a medical doctor could also be approved.

Farming is another industrial sector where it is important to distinguish between the borrower and the small business. The business of farming is not eligible for loans under the CSBF program, as specified in s. 2 of the CSBFA.

However, a farmer could operate a second small business outside the agriculture sector. This second business could be eligible for a CSBF loan. For example, a farmer may decide to purchase a snowplough for use in clearing local roads and commercial parking lots as a separate small business classified under the transportation industry. Although the farming business is not eligible, the snow-clearing business could be eligible under the CSBF program.

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