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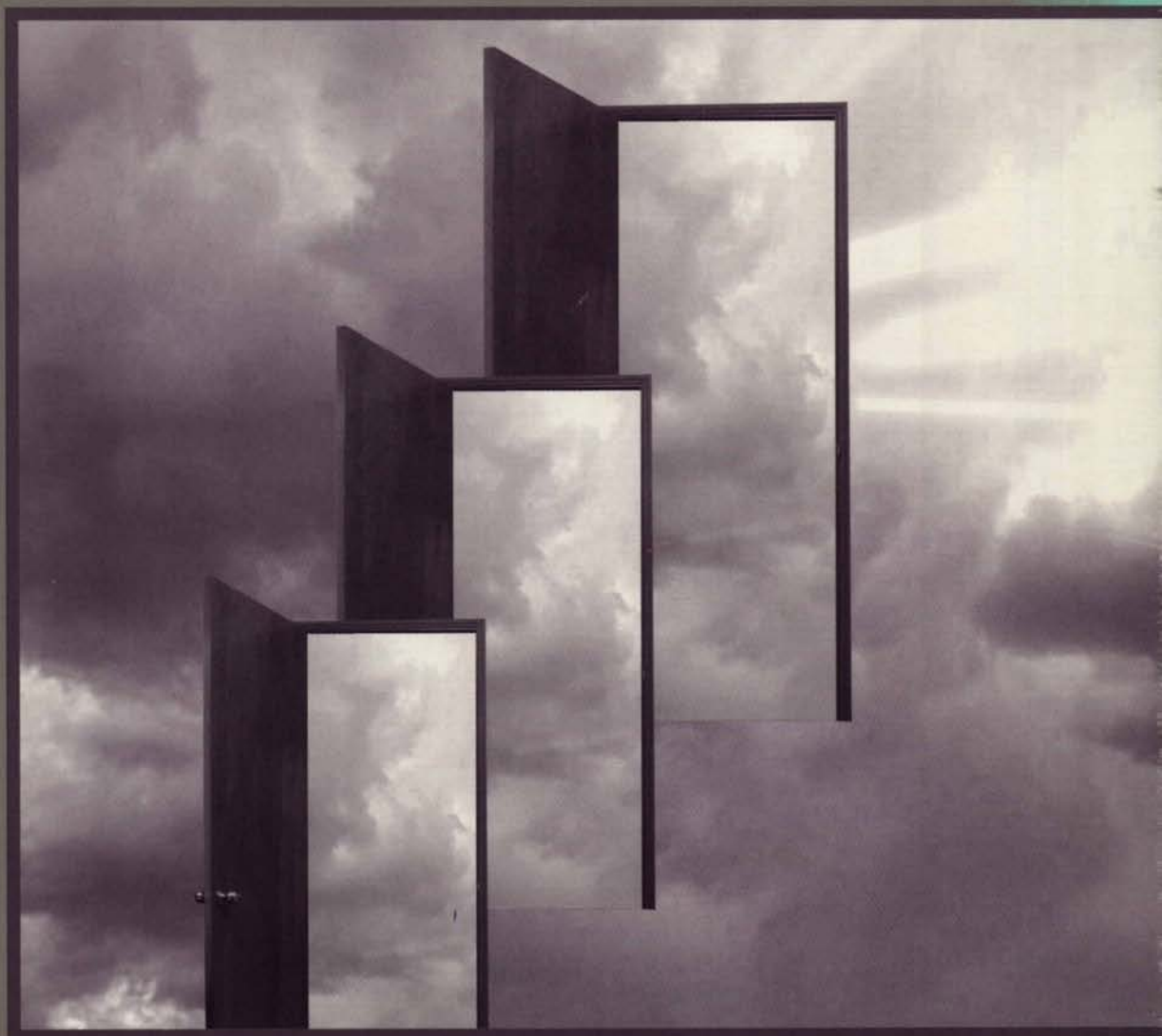
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ACCESS TO FINANCING FOR SMALL BUSINESS

Small Business

Loans Act

Annual Report 1997-1998



Canada

Under the Small Business Loans program, financial institutions make term loans up to \$250 000 to small businesses to purchase land, building or equipment or to improve buildings and equipment. The Government of Canada underwrites 85 percent of the net losses incurred on defaulted loans. The Small Business Loans Act (SBLA) has been moving toward cost recovery. Revenues on loans made since April 1, 1995 are expected to offset claims costs over a period of 10 years. The Small Business Loans program is a national program operating in all provinces and territories.

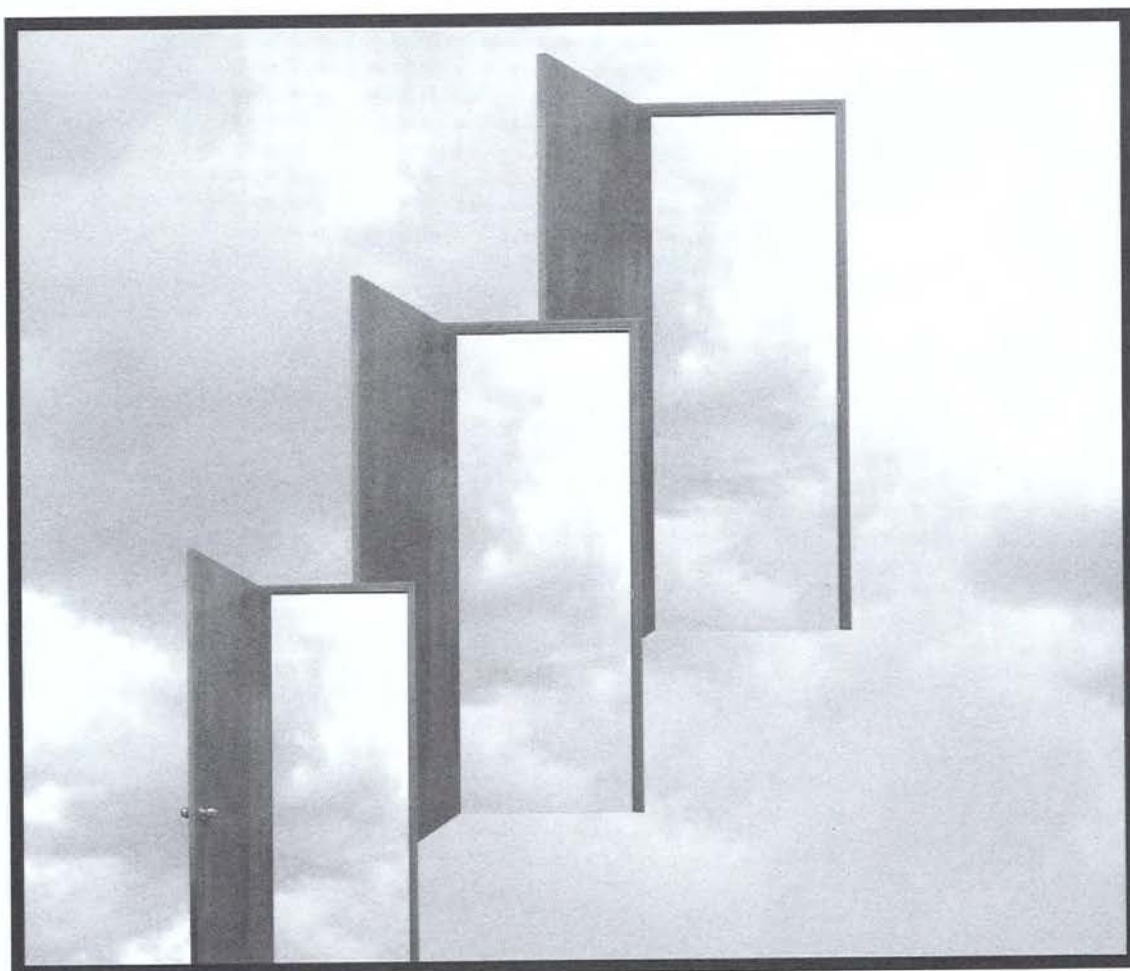
ACCESS TO FINANCING FOR SMALL BUSINESS

Small Business Loans Act Annual Report 1997-1998

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Minister of Industry



Ministre de l'Industrie

Ottawa, Canada K1A 0H5

The Honourable L'honorable
John Manley P.C., M.P. c.p., député

His Excellency the Right Honourable Romeo LeBlanc, P.C., C.C.
Governor General
Government House
1 Sussex Drive
Ottawa, Ontario
K1A 0A1

Your Excellency:

In accordance with section 11 of the *Small Business Loans Act* (SBLA), I have the honour to place before Your Excellency a report on the administration of the SBLA for the 12-month period ended March 31, 1998.

The Government of Canada is pleased to support thousands of small businesses each year through the SBLA. Whether it is a high-tech firm starting to make its mark on the global stage, a tourist operator welcoming visitors from around the world to Canada, or the store around the corner, each is part of a small business sector that has played a key role in Canada's impressive job creation record.

Small- and medium-sized businesses are vital to our economy. However, people beginning or expanding small businesses face critical financing challenges. A 1997 Canadian Federation of Independent Business (CFIB) survey found that access to financing remains a major concern for many small businesses. The CFIB survey indicated that the small business community has seen the credit shortage problem persist, even in a period of economic growth.

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The Small Business Loans program is one of several tools put into place by the government to respond to that concern. It is designed to ease access to financing of land, premises and equipment of new and expanding small businesses, contributing to a stronger economy for all Canadians.

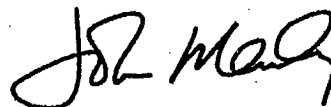
During 1997-98, more than 28,700 loans were made under the SBLA. Over 10,800 of these loans, or 37.7 per cent, went to new businesses. These loans are more than investments in businesses. They are investments in jobs. Borrowers expected to create some 74,600 additional jobs, as a result of the loans made in 1997-98.

The SBLA program has been successful because of its partnership with the financial institutions. Industry Canada, in conjunction with the regional agencies, provides a loan-loss guarantee to participating lenders on eligible small business loans. The lenders have integrated the SBLA program into their small business loan processes.

The results of this partnership are clear and straightforward. Small businesses benefit from the SBLA program in every region across Canada, by improved access to capital for new and growing firms.

Small- and medium-sized businesses face a rapidly changing environment. To continue to ensure that they have the right support with the right framework, the government undertook a comprehensive review of the *Small Business Loans Act* program. This review is taking place with the full involvement of stakeholders. To allow for adequate time to review the program, the current lending period, which began on April 1, 1993, and was scheduled to end on March 31, 1998, was extended to March 31, 1999. The review ensures that the SBLA continues in ways that remain relevant to the needs of small business, is moving toward recovering its cost on claim payments, and has an adequate framework for evaluating its success.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "John Manley", is positioned above the printed name.

John Manley

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Background

The *Small Business Loans Act* (SBLA), which has been in force since January 1961, was created to increase the availability of loans for the purpose of the establishment, expansion, modernization and improvement of small business enterprises. Financial institutions can make loans of up to \$250 000, with a maximum term of 10 years, to individual small businesses whose gross revenues will not exceed \$5 million in the year the loan is approved. Under the SBLA, the government pays lenders 85 percent of the loss incurred on 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.

Industry Canada's Small Business Loans Administration administers the SBLA. The Administration manages the SBLA program on behalf of the regional economic development agencies: Western Economic Diversification, Industry Canada (for Ontario and the Territories), Canada Economic Development for Quebec regions, and the Atlantic Canada Opportunities Agency. It registers individual loans made by lenders to small businesses under the SBLA (28 755 loans in 1997-98), and audits claims presented by lenders for payment (5964 claims paid in 1997-98). The Administration also collects both loan registration fees and annual administration fees from the lenders (more than \$74 million in 1997-98).

Lending institutions make loans directly to borrowers and are responsible for all aspects of credit management, including realizing on the security pledged against a loan, in accordance with the SBLA and regulations, and guidance from the Administration.

Historical Amendments Influencing the Program

Before 1993, the SBLA program was relatively modest with about 10 000 loans issued annually under the program. In 1993, major amendments were introduced to the SBLA affecting nearly all program components. For the first time, bigger firms, with annual sales up to \$5 million, became eligible for loans, and loans up to a maximum of \$250 000 could be extended to finance eligible assets up to 100 percent. As well, the government boosted its share of the burden for loan losses to 90 percent of eligible claims. At the same time, the one-time registration fee was increased to 2 percent, while the interest rate ceiling was raised to prime plus 1.75 percent.

The program was simultaneously made more appealing to both lenders and borrowers. As a result, lending under the SBLA program soared, from \$500 million annually to \$2.5 billion in 1993-94 and \$4.4 billion in 1994-95, with the numbers of loans peaking at over 68 000. In fact, more than one third of the total value of all loans made under the program's 37-year history was made during that two-year period.

With the large volume of loans extended during the 1993-95 period, together with less stringent lending criteria, there were more defaults. And because the average loans were bigger, the claims were also for larger amounts, resulting in larger losses under the program. Moreover, increased exposure to future loan defaults would translate to even higher claim costs in future years.

By 1995, the SBLA program had grown eightfold in just two years and it became evident that larger costs would be incurred. The government concluded that the program had to be put on a sounder financial footing. During 1995 and 1996 changes were made. A new 1.25 percent annual administration fee was introduced on loans made after March 31, 1995, calculated on the average monthly loan balance outstanding on the lenders' books. The maximum interest rate that lenders were permitted to charge on SBLA loans was increased to prime plus 3 percent, to enable lenders to pass the cost of the new fee on to borrowers. In addition, beginning January 1, 1996, the percentage of eligible assets that could be financed under the SBLA program was reduced from 100 percent to 90 percent, as it had been before 1993. The government's proportional liability was also restored to the pre-1993 ratio of 85 percent (down from 90 percent) and 15 percent for lenders. The introduction of a new administration fee was intended, together with the registration fee, to place the program on a cost-recovery basis over the 10-year period commencing in 1995.

As a result, the number of loans decreased significantly to level out around 30 000 annually. Because loans may be repaid over a period of up to 10 years and claims may be submitted for a further three years, the impact of the 1993-95 changes to the SBLA on loan losses will continue to be felt for some time, despite the changes introduced to the SBLA program in 1995. It should be noted that claims received lag loans registration by some two to four years. For the same reason, the impact of the 1995 changes will not be fully reflected in the claims costs for a few years. Consequently, the number of claims for loss submitted is expected to peak and then decrease gradually.

Environment for Small Business in 1997-98 and Key Developments Related to the SBLA Program

The Environment

Boosted by a strong domestic demand, the real gross domestic product (GDP) grew vigorously throughout 1997-98. Growth averaged 3.7 percent (annual rate) in the fourth quarter, up from 3.0 percent in 1996-97. Inflation remained firmly under control, with a year-over-year consumer price index inflation measure of 0.9 percent in March 1998, down from 2.0 percent for the previous year. The unemployment rate was 8.5 percent in March 1998, down from 9.3 percent a year ago. Business confidence slipped somewhat during the year but remained at high levels.

The prime interest rate rose over the year from 4.75 percent, in March 1997, to 6.5 percent, in March 1998. However, long-term rates decreased to 5.5 percent in March 1998, maintaining a multi-year trend. Long-term rates were 8.7 percent in March 1995, 7.9 percent in March 1996 and 7.0 percent in March 1997.

In 1997-98, the Canadian economy also experienced a higher rate of job creation than the year before. During the year, 405 700 net new jobs were created as opposed to 160 400 for 1996-97. Seventy percent of these jobs were generated by small businesses.

The crucial contribution of small business to the Canadian economy goes a long way toward explaining governments' and financial institutions' keen interest in the sector. There are more than 2.3 million small businesses in Canada. These account for 99 percent of all Canadian businesses.¹ Together, they have generated 70 to 80 percent of all new jobs in Canada over the past three years. In fact, growth in the small business debt financing market outpaced that of the total business market, increasing by 20 percent between 1994 and 1996.² This growth has been attributed to increased post-recession small business demand for credit, improved small business capacity to generate and retain earnings, lenders' increased willingness to extend credit to small business and a lower cost of credit or borrowing.³

Key Developments Related to the SBLA Program

The SBLA supported small business growth during fiscal year 1997-98 by enabling lending to more than 28 700 small businesses for a total of nearly \$2 billion in loans. Lending through the SBLA has allowed smaller, younger firms, in particular, to get started, grow and succeed.

Lower prime rates mean realized cost savings for small businesses negotiating or renegotiating financing. These cost savings translate into a lighter financial burden and increased chances of success. Under the SBLA, the maximum interest payable on a loan is prime plus 3 percent.

Borrowers under the SBLA are contributing to the growth in employment and this contribution is expected to continue in the future. According to estimates provided by borrowers in 1997-98, expected additional employment was some 74 600, equivalent to 2.6 new jobs per loan. Industry Canada commissioned a study⁴ in 1996 to determine what the actual experience was in job

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1. Catherine Moser and Pierre Vanasse, *What's New in Debt Financing for Small and Medium-sized Enterprises?* The Conference Board of Canada, 1997. (For the purposes of this study, a small business was defined as a corporation with fewer than 100 employees and a borrowing facility of less than \$1 million.)
 2. Ibid.
 3. Roy Norton, *The Current Market for Small Business Financing*, 1998, p. 4-5.
 4. Equinox Management Consultants Ltd., *Impact of SBLA Lending: An Evaluation of the Economic Impacts of the SBLA Program*, December 1996.

creation. The study found that actual hiring due to the loans was higher — nearly four persons per firm per loan.

In addition, Industry Canada has adopted a program evaluation framework that recommends developing a sample database on borrowers' experience regarding actual job creation. The results will be reflected in future annual reports.

Key Results for 1997-98

SBLA's Contribution

Lending under the SBLA program has remained steady for the last two years. In fiscal year 1997-98, lenders made over 28 700 loans amounting to nearly \$2 billion in lending. This number of loans represented a minor reduction from the previous fiscal year, when there were 31 000 loans reported, also amounting to approximately \$2 billion.

In 1997-98, the average loan size was \$67 880 compared to \$65 121 the previous year. These findings are an indication of the complementary role that the SBLA program plays. Studies⁵ have shown that access to financing remains a major impediment to the growth of Canadian businesses. This difficulty is most acute when required financing amounts to less than \$55 000. Loans of this size are often considered too small to justify the costs of making and administering them.⁶ It is here that the SBLA program can come into play.

The SBLA improves access to financing. Easier access to financing means additional investment and jobs being created by small businesses. In 1997-98, borrowers estimated that 74 600 additional jobs would be created as a direct result of the SBLA loans made that fiscal year.

The top four industry sectors taking advantage of the program in 1997-98 were as follows: Accommodation, Food and Beverage Services (17.7 percent); Retail Trade Industries (13.6 percent); Transportation and Storage Industries (12.4 percent) and Manufacturing Industries (8.7 percent) (see chart on p. 17). Data on industry sectors have been collected only for the past two years. In the 1996-97 fiscal year, these same top four industry sectors had essentially similar percentages.

5. Canadian Federation of Independent Business, *Credit Where Credit is Due: Results of CFIB Survey on Credit Conditions in the Small and Medium-sized Business Sector*, January 1998. Paul Toriel, *Financing the New Economy, Towards a Positive Conspiracy*, June 1994. Standing Committee on Industry, *Taking Care of Small Business*, October 1994.

6. Standing Committee on Industry, *Taking Care of Small Business*, October 1994.

Moving Toward Cost Recovery

In April 1995, the SBLA was given a mandate to become cost recovered; that is, for loans made after that date, the program aims to balance the fees paid against the payouts to lenders. The program's objective is to achieve this balance over the life of loans made (up to 10 years) and not in each individual year.

In this fiscal year, the Administration processed nearly 6000 claims, totalling slightly more than \$246 million paid from the Consolidated Revenue Fund. Loans that default under the program usually do so in three to five years after they are made. The sheer volume of loans made in 1993-95, before cost recovery was added as a program objective, has meant that we are now experiencing the bulk of claims for this period. Claims are expected to remain high for some time as the loans made in these years mature. This having been said, the consensus of private sector studies into the cost recovery of the program suggests that loans made since 1995 will cover their cost of claims over 10 years.

Industry Canada will be continuing to monitor the program very carefully over the next few years, in particular (the studies suggest three to five years of data are needed to provide reliable forecasts) to determine whether these forecasts are being realized. The program's ability to achieve this cost recovery target is also dependent on factors such as economic conditions and lending policies of financial institutions.

Claims paid in 1997-98 on defaults of loans made since April 1, 1995, amount to \$83.8 million. During 1997-98, \$39.3 million was collected in registration fees and almost \$35 million in annual administration fees. In 1996-97, those amounts were approximately \$40 million and \$13.8 million, respectively.

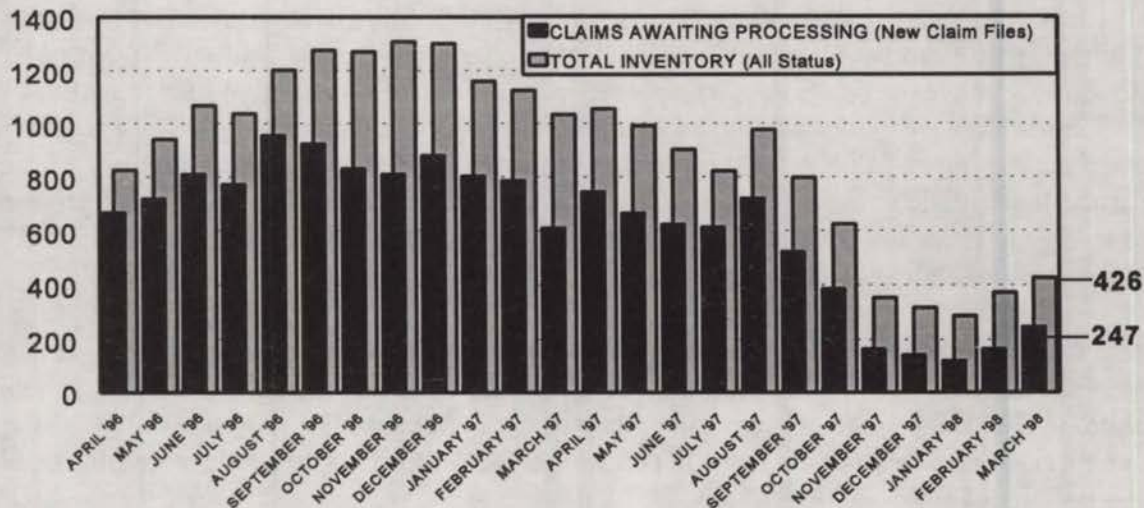
A Stronger Partnership with Lenders

The number of claims awaiting processing had risen greatly over the past few years. The re-engineering of the Small Business Loans operations, and a temporary increase in the number of claim processing officers to address the claims awaiting processing, substantially reduced these claims in 1997-98 (see figure on p. 8).

Two other components of the re-engineering effort resulted in increased operational efficiency. One was the grouping of claims submitted by institution and the grouping of information requests by geographic area. The other component consisted of changing the operational structure. Account managers responsible for the processing of claims are now assigned the workload by financial institution. They were given the responsibility of dealing with a group of institutions, and additional authority was delegated to them. The account managers have become the SBLA "window" to lenders, and sometimes to small businesses needing information. The workload is shared with colleagues, who are part of a group of account managers working together. Changing this structure also meant a common understanding of policies, and a higher level of uniformity in the treatment of claims. In keeping with this approach, a formal process

was developed to foster discussion and agreement on the application of policies and business practices amongst the various groups of account managers.

INVENTORY OF CLAIM FILES



By streamlining and consolidating information and program operation, lenders are able to administer the program with more accuracy and conformity, make faster lending decisions and tailor the loans to the clients' needs.

Further development of SBLA's information product, part of Industry Canada's *Strategis* Internet site, has also helped enhance service to clients. Included in this product are the Small Business Loans Act and regulations, together with certain frequently used forms, as well as general information on the program. It also includes a copy of the *SBLA Guidelines to Lenders*. Access to other Internet sites related to small business and financing was recently added. The SBLA site is one of the most frequently consulted in *Strategis*.

In addition, the SBLA automated information system was improved to streamline data entry functions and expand its reporting capability. These modifications were designed to satisfy clients' needs, and to facilitate information retrieval for the program's day-to-day management and assessment of the effectiveness of SBLA policies. Another improvement centres on the electronic communication system. This system automatically sends out faxes. It was expanded to handle all loan registrations and claims for loss acknowledgment notifications received by the Small Business Loans Administration (approximately 35 000 for this year).

Extended Lending Period and Comprehensive Program Review

In 1997-98, the current lending period was extended by one year and will now expire on March 31, 1999. Accompanying the extension was a simultaneous increase of \$1 billion to the legislated cumulative lending ceiling, which brought it from \$14 billion to \$15 billion for the current lending period. A lending period is the specific duration, usually five years, for which the lending authority under the act is in force. The first lending period began in 1961, when the SBLA program was established, and was known as period 1. The current lending period, period 12, came into force on April 1, 1993. A lending ceiling is the cumulative maximum amount of money that financial institutions can lend under the SBLA for the whole period (this figure is not revised downward to reflect the repayment of loans).

The extension of the lending period is allowing time to incorporate recommendations of a comprehensive review of the SBLA program as well as the Auditor General's findings.⁷ In consultation with stakeholders, this comprehensive review seeks to ensure that the program remains relevant to the needs of small business in today's economic environment, that it is financially self-sustaining and that it has an adequate evaluation framework. Industry Canada has already launched a series of consultations with users and stakeholders of the SBLA program, and a number of research studies are under way that will continue through 1998.

View of the Future

Small business will remain an important engine of economic growth in a changing financial marketplace. Government and financial institutions will continue to innovate in the area of small business financing with new products, services and delivery channels. The Small Business Loans program does not duplicate these new initiatives, rather it complements them.

A bill was introduced recently into Parliament based on the comprehensive program review and taking into consideration the recommendations of the Auditor General's report, of December 1997, and the *Tenth Report of the Standing Committee on Public Accounts on the Management of the Small Business Loans Program* tabled in Parliament in early May 1998. The bill and draft regulations will aim to provide a program structured around good governance and good administration that will remain relevant to the needs of small business and have an adequate evaluation framework. The bill will also allow the program to reach its cost-recovery objective. Furthermore, it will seek to give small, younger firms enough access to financing to help them meet their needs in an uncomplicated, businesslike fashion.

7. Report of the Auditor General of Canada to the House of Commons, Chapter 29, Industry Canada — Management of the Small Business Loans Program, December 1997.

Goals for 1998-99

The SBLA comprehensive program review will be completed in 1998-99. A proposed new act and associated regulations will clarify the administrative requirements and optimize the impact of the program, while meeting the evolving needs of small businesses across Canada. As well as taking into account the issues, concerns and recommendations raised by the Auditor General in his report, the review will address the program's need to be self-sustaining and to provide an adequate evaluation framework.

Industry Canada commissioned outside experts to develop a program evaluation framework which will allow for evaluation of the effectiveness and efficiency of the SBLA program. Comprehensive program results relating to cost recovery, incrementality, accessibility, and job creation will be selected and measured on an ongoing basis.

This evaluation will be scheduled during the five-year lending period proposed in the bill. Specific actions will be initiated in 1998-99 on the outside experts' proposed recommendations. Details of the program evaluation framework were released, in the fall of 1998, in a publication entitled *Access to Financing for Small Business: Meeting the Changing Needs*.

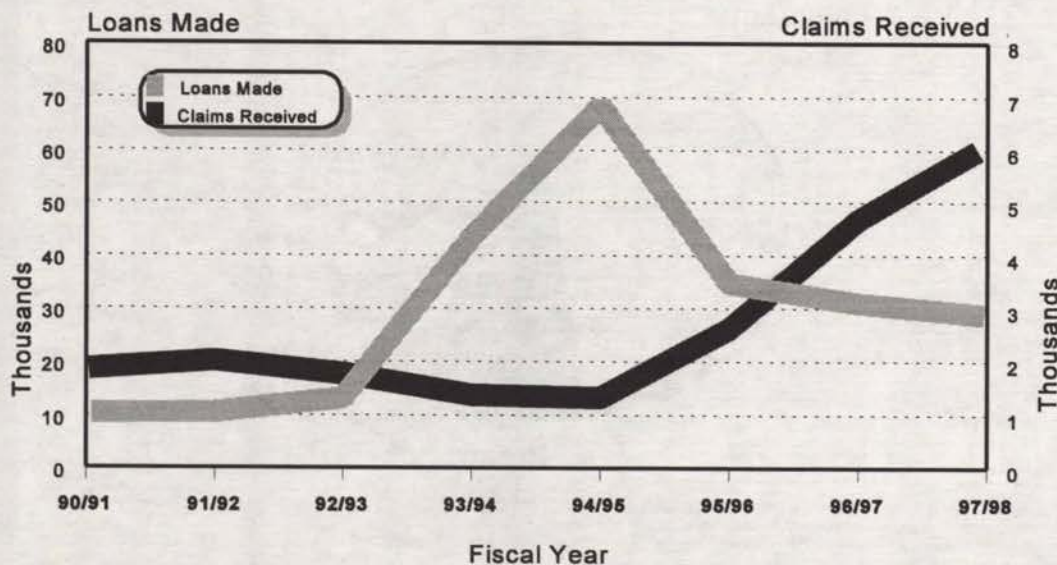
Upcoming Challenges

To ensure a successful completion of the program evaluation, additional data will be required from the lending institutions delivering the program. Given that the program is delivered through a large number of lending institutions with different procedures and information systems, this might prove very challenging. Decisions will be finalized in 1998-99.

Monitoring and reporting on the extent of the progress toward cost recovery will be an important issue in the coming year. Revenues and claim costs are currently reported on a cash basis in accordance with government accounting policy. Matching of revenues and costs relating to loans in a specific lending period will be developed, and results will be reported in future annual reports.

Another challenge over the next two years will be to cope with the continuing high volume of SBLA claims that is expected. As illustrated in the graph on p. 11, the number of loans has decreased to around 30 000 annually. The number of claims for loss submitted after 1997-98 is expected to peak at around 6400 and then decrease gradually.

The SBLA Administration's automated information system will be further enhanced and new modules will be developed to address the resource forecasting function. Updating of the system will ensure appropriate information is gathered to facilitate the periodic evaluation of the program, the ongoing monitoring of the SBLA cost-recovery policy, and reporting to Parliament.



Operating Results for Fiscal Year 1997-98

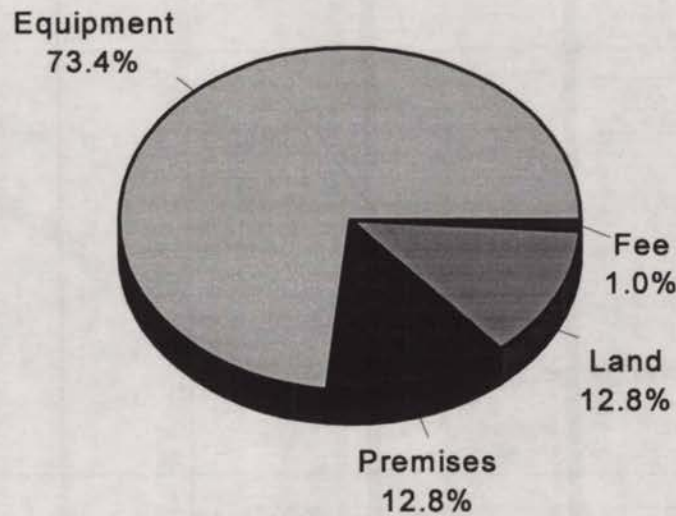
The following summary highlights significant operating results for the SBLA program for the fiscal year April 1, 1997, to March 31, 1998.

In the fiscal year ended March 31, 1998 (see Table 1):

- more than **28 700 Business Improvement Loans (BILs)**, totalling almost **\$2 billion**, were made and registered with the SBLA Administration; and
- the **average size** of a BIL made was **\$67 880** compared with **\$65 121** during the previous 12-month period.

Of these \$1.952 billion in BILs loaned during the period under review:

- **\$1.360 billion**, or 73.4 percent, was used to finance the purchase, installation, renovation, improvement and/or modernization of **equipment**;
- **\$238 million**, or 12.8 percent, was used to finance the renovation, improvement, modernization, construction and/or purchase of **premises**;
- **\$237 million**, or 12.8 percent, was used to finance the purchase of **land**; and
- **\$18 million**, or 1.0 percent, was used to finance the **2 percent loan registration fees**.



Loans outstanding on lenders' books as of March 31, 1998:

- totalled almost \$6.0 billion (see Table 3); and
- the Crown's contingent liability in relation to this outstanding total is \$1.3 billion.

The Crown's Maximum Potential Liability to Approved Lenders

The Crown's potential liability as of March 31, 1998, in respect of the \$6 billion in outstanding BILs, was calculated to be \$1.336 billion, down from \$1.383 billion on March 31, 1997. If all loans that were outstanding on lenders' books were to have defaulted on March 31, 1998, and no proceeds were realized on the security, the government would have been liable for a maximum of \$1.336 billion.

Although the government's share of the loss sustained on a loan is 85 percent (after security has been liquidated), the government's overall liability per lender, per lending period, is capped by the "90-50-10 formula." This formula limits the Crown's payments with respect to any loan made after March 31, 1993, according to the following:

- 90 percent of the first \$250 000 of loans in a lender's account;
- 50 percent on the next \$250 000; and
- 10 percent of all remaining loans.

This means that low-volume lenders are encouraged to participate in the program, while the potential liability to high-volume lenders is capped at an average of 10.6 percent of the amount of loans in the lender's account.

No potential liability remains under the SBLA with respect to BILs made prior to July 1, 1980 (i.e., prior to lending period 8), as none of those BILs remain outstanding (see Table 3). In respect of any BIL that was made prior to April 1, 1993, the government will pay claims on 90 percent of the first \$125 000 of loans in a lender's account, 50 percent on the next \$125 000, and 10 percent of all remaining loans.

It should be noted that the Crown's potential liability throughout the history of the program has always been much higher than actual claims costs.

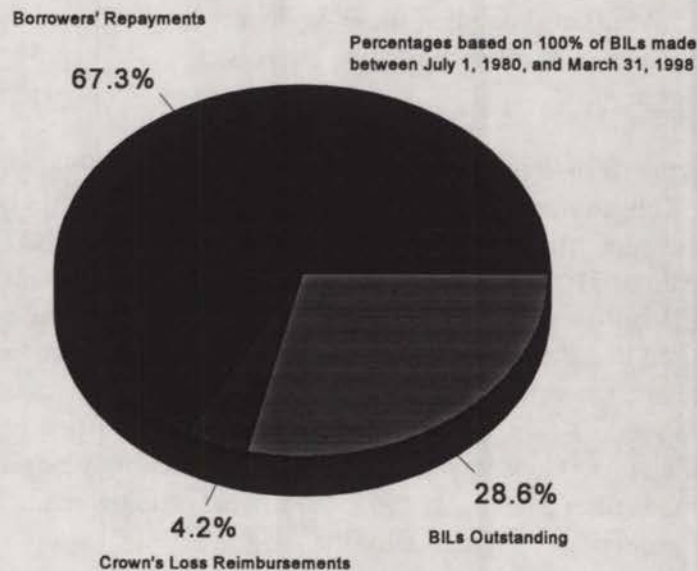
Loans Outstanding and Claims Forecast

Since July 1, 1980, \$21 billion in BILs were made and registered. Overall BIL reductions have comprised an aggregate of \$15 billion, representing \$14.1 billion in borrowers' repayments and \$0.9 billion in government reimbursements of lenders' BIL losses. The government's payment of \$0.9 billion in lenders' losses equates to a claims paid rate of 5.8 percent on overall BIL reductions of \$15.0 billion. Together, these payments have reduced the amount of BILs outstanding on the books of all participating lenders, as of March 31, 1998, to less than \$6 billion (see Table 3).

Future claim payments on loans outstanding as of March 31, 1998, are estimated at some \$444.4 million. This amount represents estimated claims that could be paid to lenders during the ensuing 10 fiscal years. Adding these forecasted payments to the \$871.8 million in claims already paid to March 31, 1998 (since July 1, 1980), would represent a cumulative loss rate of 6.3 percent on \$21 billion in BILs made since July 1, 1980. It should be noted that in 1995 Parliament required that the SBLA program move toward cost recovery. Loans made since April 1, 1995, have a fee structure which is expected to yield revenues sufficient to cover the projected cumulative loss rate. However, loans made prior to April 1, 1995, were not expected to cover the cost of claims. Consequently, while the program may be achieving its cost-recovery goals for loans made after March 31, 1995, the impact of loans made before April 1, 1995, will result in several years of net payments for the program.

Loans Outstanding as of March 31, 1998

\$20 978 447 923	BILs made between July 1, 1980, and March 31, 1998 (see Table 3)
(14 109 088 175)	Borrowers' repayments
(871 773 696)	Crown's loss reimbursements ⁸ (5.8 percent of overall BIL reductions) ⁹
(14 980 861 871)	Overall BIL reductions
\$ 5 997 586 052	BILs outstanding on lenders' books as of March 31, 1998 (see Table 3)



Note: Percentages may not total 100 percent as a result of rounding.

8. The \$871 773 696 in loss reimbursements paid by the Crown represents subrogated debts. Included in this amount is \$250 805 090 which, in accordance with standard procedures, was written off during the 1997-98 fiscal year.

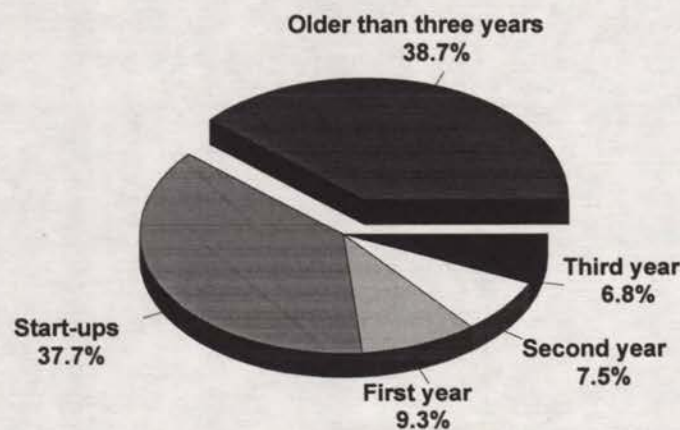
9. Over the 37-year history of the program, the loan loss rate has been 5.6 percent. The claims paid rate relates to the period from 1980 to the present.

Age of Small Business Enterprise Borrowers

A lender is required to report the age of a business enterprise for which a BIL has been made under the SBLA. Business start-ups and young businesses continue to receive the majority of BILs made under the SBLA.

Fiscal Year	Age of Business Enterprise						Totals
	Start-ups	First year	Second year	Third year	Subtotal	Older than three years	
1993-94	14 124 32.6%	3 133 7.2%	2 897 6.7%	2 670 6.2%	22 824 52.6%	20 527 47.4%	43 351 100.0%
1994-95	24 623 36.0%	5 596 8.2%	4 524 6.6%	3 632 5.3%	38 376 56.1%	30 002 43.9%	68 378 100.0%
1995-96	13 810 39.9%	3 524 10.2%	2 608 7.5%	1 992 5.8%	21 934 63.4%	12 679 36.6%	34 613 100.0%
1996-97	12 097 39.0%	2 939 9.5%	2 437 7.9%	1 965 6.3%	19 438 62.7%	11 565 37.3%	31 003 100.0%
1997-98	10 848 37.7%	2 677 9.3%	2 159 7.5%	1 944 6.8%	17 628 61.3%	11 127 38.7%	28 755 100.0%

Note: Totals may be slightly off as a result of rounding.

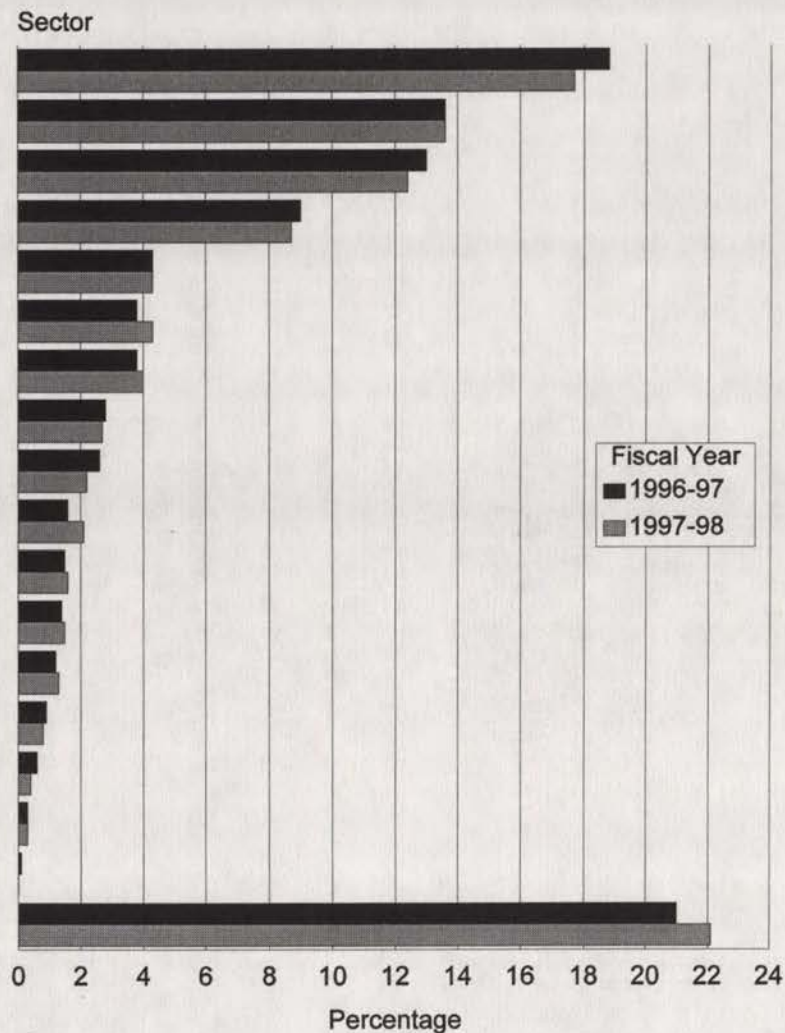


Employment by Small Business Enterprise Borrowers

Borrowers give lenders figures on the actual number of workers on their payroll on the date the lender makes the loan. Borrowers also provide the estimated number of workers they believe they will employ additionally as a direct result of a loan being made. Lenders, in turn, forward those numbers on existing and anticipated future workers to the SBLA program administration. This process has been used since November 1987 when the applicable regulations were suitably amended.

Employment by Borrowers					
Fiscal Year	Number of Loans	Existing at Date Loan Made		Expected Additional	
		Total	Per loan	Total	Per loan
1993-94	43 351	249 334	5.8	90 434	2.1
1994-95	68 378	379 212	5.5	159 885	2.3
1995-96	34 613	168 505	4.9	83 000	2.4
1996-97	31 003	154 790	5.0	74 217	2.4
1997-98	28 755	130 026	4.5	74 600	2.6

Industry Sector	1996-97		1997-98	
	\$ 000	%	\$ 000	%
Accommodation, Food & Beverage Services	378 496	18.8	344 915	17.7
Retail Trade Industries	273 841	13.6	266 081	13.6
Transportation & Storage Industries	263 002	13.0	241 363	12.4
Manufacturing Industries	180 711	9.0	169 099	8.7
Logging & Forestry Industries	85 808	4.3	84 141	4.3
Construction Industries	77 470	3.8	83 505	4.3
Business Services	77 372	3.8	78 857	4.0
Health & Social Services	56 730	2.8	52 876	2.7
Wholesale Trade Industries	51 682	2.6	42 109	2.2
Mining, Quarrying & Oil Industries	31 677	1.6	41 733	2.1
Communications & Other Utilities	29 516	1.5	32 076	1.6
Industries Related to Agriculture	27 354	1.4	29 782	1.5
Fishing & Trapping Industries	23 863	1.2	25 315	1.3
Education Services	17 640	0.9	14 774	.8
Real Estate & Insurance Agents	11 833	0.6	7 245	.4
Finance & Insurance Industries	6 630	0.3	5 254	.3
Government Services Industries	1 016	0.1	626	.0
Other Miscellaneous Service Industries*	424 321	21.0	432 141	22.1
Total	2 018 962	100.0	1 951 892	100.0



Business Improvement Loans Made by Industry Sector

* "Other Miscellaneous Service Industries" represent a wide mixture of service industries not otherwise categorized by lenders at the time of loan registration.

Questions respecting this Annual Report should be addressed as follows:

by telephone at: (613) 957-2336

by facsimile at: (613) 952-0290

in writing to: Director
Small Business Loans Administration
Industry Canada
235 Queen Street
Ottawa ON K1A 0H5

This Annual Report as well as other SBLA documents are available electronically on the World Wide Web at the following address: **<http://strategis.ic.gc.ca/sbla>**

Tables

Table 1: Summary of Operations — Total Program

Period	Loans Made		Average Size of Loan (\$)	Net Claims Paid	
	Number	Amount (\$ 000)		Number	Amount (\$ 000)
January 19, 1961, to March 31, 1990	281 855	7 724 821	32 128	25 146	271 962
Fiscal Year					
1990-91	10 626	413 258	38 891	1 542	33 071
1991-92	10 557	397 275	37 631	1 911	45 828
1992-93	13 154	502 141	38 174	1 820	45 176
1993-94	43 351	2 548 790	58 795	1 374	32 408
1994-95	68 378	4 397 108	64 305	1 013	23 960
1995-96	34 613	2 243 151	64 806	2 001	65 868
1996-97	31 003	2 018 962	65 121	3 827	151 242
1997-98	28 755	1 951 892	67 880	5 964	246 050
Total	522 292	22 197 400	42 492	31 639	915 967

Notes: Totals may be slightly off as a result of rounding.

Statistics shown above under "Loans Made" and "Average Size of Loan" for the year ended March 31, 1997, and prior periods may differ from those presented in previous annual reports because of late registration of BILs and sundry adjustments.

Table 2: Record of Claim Payments, Recoveries and Receipt of Fees

Period	Claims Paid				Recoveries of Prior Years' Claims (\$ 000)	Subtotal of Claims Paid Less all Recoveries (\$ 000)	Loan Registration Fee Income (\$ 000)	Loan Administration Fee Income (\$ 000)	Total of Claims Less Recoveries, Less Fees (\$ 000)
	Number	Gross (\$ 000)	Recoveries* (\$ 000)	Net** (\$ 000)					
January 19, 1961, to March 31, 1990	25 416	274 029	(1 664)	271 962	(5 832)	266 532	(33 288)		233 244
Fiscal Year									
1990-91	1 542	33 438	-367	33 071	(1 729)	31 342	(4 179)	-	27 163
1991-92	1 911	46 310	-482	45 828	(1 663)	44 165	(3 932)	-	40 233
1992-93	1 820	45 933	-757	45 176	(1 733)	43 442	(4 756)	-	38 687
1993-94	1 374	32 850	-442	32 408	(1 939)	30 469	(47 082)	-	(16 613)
1994-95	1 013	24 093	-133	23 960	(1 499)	22 461	(78 307)	-	(55 846)
1995-96	2 001	65 984	-116	65 868	(1 265)	64 603	(53 599)	-	11 004
1996-97	3 827	151 324	-83	151 242	-837	150 404	(40 070)	(13 764)	96 571
1997-98	5 964	246 337	-287	246 050	-883	245 167	(39 317)	(34 893)	170 957
Total	31 639	920 298	(4 331)	915 967	(17 380)	898 587	(304 530)	(48 657)	545 400

Notes: Totals may be slightly off as a result of rounding.

This table provides SBLA's cash flows on the basis of the newly integrated computer system. As a result, the data presented may differ marginally from those presented in previous annual reports. It does not reflect future claims for loss in respect of outstanding business improvement loans.

The relatively large annual receipt in the loan registration fee income subsequent to 1992-93 is the result of significant increases in BIL lending concurrent with a doubling in the one-time up-front loan registration fee from 1 percent to 2 percent. Claim costs of BILs made after March 31, 1995, are expected to be offset by revenues over a 10-year period.

* On loans made prior to April 1, 1993, claims were paid to lenders and the monies recovered afterwards from the borrower. These monies are reported as "recoveries." On loans made since April 1993, lenders realize on assets and securities prior to submitting a claim for loss.

** Corresponds to Table 1.

Table 3: Business Improvement Loans (BILs) Advanced, Claims Paid, Repayments Made and Principal Balance of BILs Outstanding

Lending Periods	Loans Made (\$ 000)	Balance of Loans Outstanding as of March 31, 1998 * (\$ 000)	Total Principal Repayments Made (\$ 000)	Claims Paid by Government to Lenders (\$ 000)	Principal Repayments Made by Borrowers (\$ 000)
Period 1 to 7 inclusive: January 19/61 - June 30/80	1 218 952	0	(1 218 952)	(48 524)	(1 170 427)
Period 8: July 1/80 - March 31/83	1 354 210	165	(1 354 045)	(100 316)	(1 253 729)
Period 9: April 1/83 - March 31/85	1 799 607	1 801	(1 797 806)	(73 161)	(1 724 645)
Period 10: April 1/85 - March 31/90	3 352 052	13 460	(3 338 592)	(178 905)	(3 159 687)
Period 11: April 1/90 - March 31/93	1 312 674	77 789	(1 234 885)	(70 936)	(1 163 950)
Period 12: April 1/93 - March 31/98	13 159 904	5 904 370	(7 255 534)	(448 456)	(6 807 078)
Subtotal (Period 8 to 12 inclusive) July 1/80 - March 31/98	20 978 448	5 997 586	(14 980 862)	(871 774)	(14 109 088)
Total January 19/61 - March 31/98	22 197 400	5 997 586	(16 199 814)	(920 298)	(15 279 515)

Note: Totals may be slightly off as a result of rounding.

* As reported by lenders at the time of printing.

Table 4: Distribution of Loans Made in 1997-98 by Region and Category of Lenders

Region	Royal Bank of Canada		Bank of Montreal		Canadian Imperial Bank of Commerce		Bank of Nova Scotia		Toronto-Dominion Bank	
	Number	(\$ 000)	Number	(\$ 000)	Number	(\$ 000)	Number	(\$ 000)	Number	(\$ 000)
British Columbia	467	41 944	557	40 365	256	21 839	485	30 726	478	28 375
Alberta	576	52 396	322	24 498	603	39 819	529	28 244	276	15 244
Saskatchewan	380	23 962	125	6 629	193	9 196	244	13 476	85	3 665
Manitoba	151	11 535	100	6 582	66	4 785	148	7 759	93	5 538
Western Canada	1 574	129 837	1 104	78 073	1 118	75 638	1 406	80 205	932	52 822
Northwest Territories	14	1 220	6	568	8	820	1	32	0	0
Yukon	13	915	9	485	6	799	3	133	7	396
Ontario	2 470	203 855	1 207	99 985	1 239	102 053	1 293	84 959	1 339	89 286
Ontario & Territories	2 497	205 991	1 222	101 038	1 253	103 672	1 297	85 124	1 346	89 682
Quebec	1 294	99 459	664	43 824	444	29 479	280	18 006	432	31 394
New Brunswick	140	9 842	87	5 334	46	2 788	260	13 387	71	3 686
Nova Scotia	285	20 722	57	3 888	61	3 589	266	13 310	114	6 692
Prince Edward Island	28	1 299	28	1 926	46	2 429	49	2 439	23	1 036
Newfoundland	105	8 260	90	6 653	47	5 370	187	7 832	53	3 004
Atlantic Canada	558	40 123	262	17 802	200	14 175	762	36 968	261	14 419
TOTAL	5 923	475 410	3 252	240 737	3 015	222 965	3 745	220 303	2 971	188 316

Note: Totals may be slightly off as a result of rounding.

Table 4 (continued): Distribution of Loans Made in 1997-98 by Region and Category of Lenders

Region	National Bank of Canada		Hongkong Bank of Canada		Laurentian Bank of Canada		Other Chartered Banks		Caisses Populaires	
	Number	(\$ 000)	Number	(\$ 000)	Number	(\$ 000)	Number	(\$ 000)	Number	(\$ 000)
British Columbia	0	0	110	8 293	0	0	14	1 250	0	0
Alberta	6	531	86	8 897	0	0	5	513	0	0
Saskatchewan	0	0	11	711	2	218	0	0	0	0
Manitoba	4	296	1	50	6	628	0	0	8	833
Western Canada	10	827	208	17 951	8	846	19	1 763	8	833
Northwest Territories	0	0	0	0	0	0	0	0	0	0
Yukon	0	0	0	0	0	0	0	0	0	0
Ontario	189	19 462	189	17 969	14	1 500	18	2 055	129	6 683
Ontario & Territories	189	19 462	189	17 969	14	1 500	18	2 055	129	6 683
Quebec	1 753	119 183	42	2 495	165	12 214	23	2 656	4 912	238 438
New Brunswick	122	9 111	10	1 475	0	0	0	0	13	707
Nova Scotia	4	537	20	1 077	0	0	0	0	0	0
Prince Edward Island	4	301	0	0	0	0	0	0	0	0
Newfoundland	3	177	3	514	0	0	0	0	0	0
Atlantic Canada	133	10 125	33	3 066	187	0	0	0	13	707
TOTAL	2 085	149 598	472	41 481	187	14 560	60	6 474	5 062	246 661

Note: Totals may be slightly off as a result of rounding.

Table 4 (continued): Distribution of Loans Made in 1997-98 by Region and Category of Lenders

Region	Credit Unions		Newcourt		Other Trust, Loan and Insurance Corporations		Alberta Treasury Branches		Total	
	Number	(\$ 000)	Number	(\$ 000)	Number	(\$ 000)	Number	(\$ 000)	Number	(\$ 000)
British Columbia	107	6 988	83	6 010	15	1 644	0	0	2 572	187 434
Alberta	180	12 861	153	10 182	3	625	253	22 001	2 992	215 810
Saskatchewan	366	023 256	11	555	0	0	0	0	1 417	81 668
Manitoba	191	11 878	20	1 292	0	0	0	0	788	51 177
Western Canada	844	54 983	267	18 040	18	2 269	253	22 001	7 769	536 089
Northwest Territories	0	0	0	0	0	0	0	0	29	2 641
Yukon	0	0	1	71	0	0	0	0	39	2 799
Ontario	63	4 489	153	12 909	12	1 815	0	0	8 315	647 021
Ontario & Territories	63	4 489	154	12 980	12	1 815	0	0	8 383	652 461
Quebec	0	0	220	17 939	30	3 114	0	0	10 259	618 200
New Brunswick	6	881	30	2 261	0	0	0	0	785	49 473
Nova Scotia	56	2 546	10	859	2	229	0	0	875	53 449
Prince Edward Island	7	243	2	98	0	0	0	0	187	9 771
Newfoundland	0	0	9	639	0	0	0	0	497	32 449
Atlantic Canada	69	3 670	51	3 858	2	229	0	0	2 344	145 142
TOTAL	976	63 142	692	52 817	62	7 427	253	22 001	28 755	1 951 892

Note: Totals may be slightly off as a result of rounding.

Table 5: *Small Business Loans Act* — Program Fact Sheet as of April 1, 1993, and Thereafter

Item	A BIL Made Prior to April 1, 1993	A BIL Made After March 31, 1993	A BIL Made After December 31, 1995
Maximum Eligible Business Size	\$2 million in estimated gross annual revenue	\$5 million in estimated gross annual revenue	\$5 million in estimated gross annual revenue
Maximum Loan Size	\$100 000 outstanding in aggregate	\$250 000 outstanding in aggregate	\$250 000 outstanding in aggregate
Maximum Interest Rate	Prime plus 1 percent	On floating rate loans, prime plus 1.75 percent and for fixed rate loans 1.75 percent over the residential mortgage rate for the applicable term	On floating rate loans, prime plus 3 percent and for fixed rate loans 3 percent over the residential mortgage rate for the applicable term (introduced for loans made after March 31, 1995)
Government Fees	1 percent one-time up-front registration fee	2 percent one-time up-front registration fee which may be added to amount of the loan	2 percent one-time up-front registration fee which may be added to amount of the loan, and 1.25 percent annual administration fee will be charged (applies to loans made after March 31, 1995); the 1.25 percent is to be paid by a lender but cannot be passed on to borrower except through the interest rate, while respecting the prescribed maximum rates
Refinancing	Not permitted	Up to 180 days prior to loan approval date	Up to 180 days prior to loan approval date
Percentage of Financing Permitted	80 percent of equipment 90 percent of land and buildings	100 percent of all eligible assets	90 percent of all eligible assets
Loss-sharing Ratio	85 percent government/15 percent lender	90 percent government/10 percent lender	85 percent government/15 percent lender
Substitution and Release of Security	Lender may release any security acquired but shall through remaining term maintain adequate security pursuant to normal lending practice for loan repayment	Substitution of security excluding personal guarantees	As of January 31, 1995, substitution of security and secured assets of equivalent value excluding personal guarantees; secured equipment may be released under prescribed conditions (no default, after 2 years and outstanding balance reduced appropriately); release land and premises if expropriated
Maximum Loan Term	10 years	10 years	10 years
Businesses Excluded from the Program	Finance, insurance and real estate professions; mining of metals, minerals and non-metallic materials; production of petroleum and natural gas; farming; charitable and religious organizations	The business of farming as well as charitable and religious organizations	The business of farming as well as charitable and religious organizations
Classes of Loans	Land, premises, movable equipment, fixed equipment	Land, premises, equipment, fee (2 percent up-front loan registration fee)	Land, premises, equipment, fee (2 percent up-front loan registration fee)