Industry Canada Industrie Canada

Small Business Loans Act

Annual Report

1998-99

Canada

Small Business Loans Act

Annual Report

1998-99

Under the Small Business Loans program, financial institutions make term loans of up to $250 000 to small businesses to purchase land, buildings 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* 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.

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The Honourable L'honorable
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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, 1999.

Ninety-eight percent of all Canadian businesses are small and medium-sized enterprises (SMEs). Self-employed workers alone accounted for 18 percent of employed Canadians at the end of the first quarter of 1999. Between 1995 and 1998, SMEs generated 70 to 80 percent of all new jobs in Canada, which is why encouraging SMEs is, and will continue to be, an important government priority.

An important component of the government's commitment to small business is the Small Business Loans program. The program fills a critical gap in debt financing by making funds available to SMEs to which they would otherwise not have access. In 1998–99, more than 22 000 loans were made under the program, amounting to approximately $1.6 billion in debt financing. The average size of loans, at approximately $71 500, illustrates the importance of the SBLA to small businesses, since small loans are normally more difficult for young firms to obtain.

Lending through the SBLA has allowed smaller, younger firms, in particular, to be launched, to grow, to hire employees and to succeed. Forty percent of SBLA loans were granted to start-up or new businesses, which demonstrates the SBLA's success in filling this significant market gap.

Through expansion or start-up, small businesses have been able to support the economy by creating jobs. In 1998–99, SBLA borrowers estimated that their loans would contribute directly to employment by allowing them to create an estimated 60 561 jobs, equivalent to 2.7 jobs per loan.

The fiscal year 1998–99 was a milestone for the Small Business Loans program. A comprehensive review of the program was undertaken, which took into account recommendations by the Auditor General of Canada, the Public Accounts Committee and the House of Commons Standing Committee on Industry. By the end of this review, it became clear that the need for access to capital by small business remains as critical an issue for their growth as a positive business environment for Canada's private sector and small business community.

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As a result of the comprehensive review, the program was fine-tuned to respond to the requirements of the present environment. The new *Canada Small Business Financing Act* received royal assent on December 10, 1998, the related regulations were approved on March 18, 1999, and lending under the Act began on April 1, 1999.

Bringing in the new Canada Small Business Financing program took cooperation and support that went beyond Industry Canada. It included the central agencies, Industry Portfolio partners and other government departments, as well as the positive and innovative support of the Canadian Bankers Association, the Credit Union Central of Canada, the Confédération des caisses populaires et d'économie Desjardins du Québec and its members, the Alberta Treasury Branches and other financial institutions. The new program was developed with input from dozens of small businesses that participated in consultations, the Canadian Federation of Independent Business, the Canadian Restaurant and Foodservices Association, the Canadian Financing and Leasing Association, the Information Technology Association of Canada, the Alliance of Manufacturers and Exporters of Canada, the Canadian Franchise Association and other industry associations, as well as with members of Parliament. It also included input from a dozen researchers and many others who delivered under tight deadlines.

The Canada Small Business Financing program shows what can be accomplished when partnerships between the government, Parliament and the private sector work to improve the programs and services available to Canadians.

Respectfully submitted,

John Manley
Minister of Industry

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Highlights

LOANS REGISTERED	Some 22 278 small business loans totalling $1.594 billion were made and registered under the *Small Business Loans Act* (SBLA). The average size of a small business loan made during this year was $71 549. During the previous fiscal year, 29 063 small business loans were made, totalling $1.977 billion, with an average loan size of $68 033.
JOBS IMPACT	An estimated 60 561 jobs (2.7 jobs per loan) are expected to be created as a result of loans registered in 1998–99.
USE OF FINANCING	Of the $1.594 billion worth of loans registered, two thirds was used to finance the purchase, installation, renovation, improvement and/or modernization of equipment. The rest was used to finance the renovation, improvement, modernization, construction and/or purchase of real property or immovables; the making or purchase of leasehold improvements; and, to a much lesser degree, loan registration fees.
FIRMS USING THE PROGRAM	Business start-ups and young businesses continue to receive the majority of small business loans approved. Some sectors were far more active in terms of the number of loans registered than were others. Firms with revenues of less than $1 million accounted for the greatest number and value of loans registered. The data show that the larger a firm is, the greater its loan is likely to be.
CLAIMS PAID	Some 5103 claims totalling $221 million were paid. The Small Business Loans Administration, which administers the SBLA on behalf of Industry Canada and the regional agencies, is still coping with the continuing high volume of claims resulting from loans made in the 1993–95 period.
CONTINGENT LIABILITY	The government's net contingent liability in respect of the $4.69 billion in outstanding loans had been reduced to a maximum of $1.16 billion from a net contingent liability of $1.38 billion on $6 billion in outstanding loans as of March 31, 1998.
SBLA REPLACED BY CSBFA	The *Canada Small Business Financing Act* (CSBFA) received royal assent in December 1998 and came into force on April 1, 1999. The CSBFA replaces the SBLA. It retains the SBLA's major program parameters, as well as the simplicity that made the SBLA popular among lenders and borrowers alike. However, certain provisions have been strengthened to improve its ability to move toward cost recovery. The CSBFA also provides for pilot projects to include capital leasing and voluntary sector lending in the program.
COST RECOVERY OBJECTIVE	Determining whether the program is on track to meet its goal of cost recovery requires an ability to forecast with confidence the value of future loans, claims against these and existing loans, and the flow of registration and administration fees associated with existing and future loans. The Small Business Loans Administration has implemented a number of measures to improve its ability to forecast these and other factors in the future.

Background

The *Small Business Loans Act* (SBLA) was enacted in 1961 and repealed on March 31, 1999, to be replaced by the *Canada Small Business Financing Act*. The SBLA was enacted to increase the availability of loans for the establishment, expansion, modernization and improvement of small business enterprises. Under the SBLA, financial institutions could make loans of up to $250 000, over a maximum lending term of 10 years, to small and medium-sized enterprises (SMEs) whose gross revenues did not exceed $5 million in the year the loan was approved. 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.

The SBLA is administered by Industry Canada's Small Business Loans Administration, which manages the program on behalf of Industry Canada (for Ontario and the territories) and the regional economic development agencies: Western Economic Diversification Canada, Canada Economic Development for Quebec Regions, and the Atlantic Canada Opportunities Agency. Lending institutions lent directly to borrowers and are responsible for all aspects of credit management, including decision making on the loan and realizing on the security when necessary, in accordance with the SBLA and its regulations, with guidance from the Administration.

The Administration registers individual loans made by lenders to small businesses under the legislation (22 278 loans in 1998–99), and audits claims presented by lenders for payment (5103 claims paid in 1998–99). It collects both loan registration fees and annual administration fees from the lenders (more than $80 million in 1998–99). Finally, the Administration collects and publishes detailed statistics on small business lending and other related matters in its annual reports.

Evolution of Small Business Lending

From its inception in 1961 to 1993, the SBLA was modest in scope. Only companies with less than $2 million per year in sales were eligible. Borrowers were allowed to finance up to 90 percent of eligible assets to a maximum of $100 000. Only about 10 000 loans, totalling roughly $500 million per year, were made during this phase of the program. There were about $36 million in claims in the five years preceding 1993.

The following substantive changes to the SBLA occurred during this early period:

- In 1970, non-bank financial institutions became eligible lenders.
- In 1978, the interest rate switched from a fixed to a variable rate.
- In 1985, a registration fee of 1 percent was imposed, and the government guarantee rate was reduced from 90 percent to 85 percent of the cost of eligible claims.

In 1993, in response to a growth spurt in the small business community and a perceived need for additional debt financing, the SBLA was broadened significantly:

- Firms with sales of up to $5 million became eligible for loans.
- The program allowed for 100 percent asset financing.
- The maximum loan amount was increased to $250 000.
- The registration fee doubled.
- The government's guarantee was increased to 90 percent.

Lending under the legislation swelled to $2.5 billion in 1993–94 and to $4.4 billion in 1994–95. In these two years, one third of the total value of all SBLA loans ever made was extended.

The increased lending and less stringent lending criteria of this 1993–95 period meant that the total value of loans that defaulted also increased significantly. Because the average loans were bigger, so too were the claims, resulting in larger losses under the program.

By 1995, the program had grown eightfold in just two years, and costs increased commensurately. The government decided to move toward cost recovery for the program. Accordingly, in December 1995, the following significant changes were implemented:

- The government's guarantee was decreased to 85 percent, in accordance with pre-1993 levels.
- Maximum financing levels returned to 90 percent of asset value.
- An annual administration fee was added to the cost of lending, which lenders were permitted to pass on to borrowers via an increased interest rate.

The result of these changes was a drop in the value of loans made, to about half the value at its peak in 1994–95. SBLA loans have been in the range of $1.6 billion to $2 billion per year since these changes were instituted.

Comprehensive Review of the SBLA, 1998

Lending Period 12, scheduled to expire on March 31, 1998, was extended by Parliament in November 1997 for one year until March 31, 1999, to allow sufficient time to conduct a comprehensive review of the program, taking into consideration the recommendations submitted by the Auditor General of Canada in December 1997 and by the House of Commons Standing Committee on Public Accounts.

This review was conducted in 1998. Its objectives were to assess the relevance of the program to the needs of small business, to determine its ability to be financially self-sustaining, and to evaluate its accountability framework.

The comprehensive review included examining issues with borrowers, potential borrowers, lenders and major industry associations. Methodologies included cost-benefit studies, macro-economic studies, surveys, case studies and stakeholder consultations. The review included the following components:

- *Economic impact studies*, which measured or predicted the economic impact of the SBLA and its loans, primarily in terms of understanding what those loans have meant to the SMEs that took them, and what kinds of employment benefits have resulted. They also examined the questions of what gap the SBLA was filling and whether there was significant overlap with other programs.

- ***Compliance and default studies***, which examined the degree of borrower non-compliance with the Act and the degree to which loans default.
- ***Stakeholder consultations***, which examined the attitudes and opinions of stakeholders and potential stakeholders on a variety of issues. Lenders, borrowers, potential borrowers and associations were canvassed for their views.
- ***Cost-benefit analyses and future evaluations***, which attempted to ascertain where the SBLA could be more efficient (providing the greatest benefit to SMEs at the least cost to taxpayers) and how to make it more so. Certain studies made specific suggestions regarding what data should be collected on the SBLA in the future, and how, to allow for thorough evaluations of the program.

(For a detailed summary of findings, please refer to *Accessing Financing for Small Business: Assessing the Changing Needs*, Industry Canada, 1998.)

Overall, the studies concluded that the program was still a vital, useful, efficient tool in the facilitating of debt financing to emerging small businesses. They demonstrated that, despite recent innovations in debt financing, serious gaps continue to exist in private sector debt financing for new and small SMEs. These studies found that the SBLA was successful in allowing for debt financing to small, young, general sector firms that would predominantly otherwise be unable to obtain it, without significant duplication or redundancy (see Roy Norton, *The Current Market for Small Business Financing*, Industry Canada, 1998).

The findings of the comprehensive review, as well as recommendations submitted by the Auditor General of Canada and by the House of Commons Standing Committee on Public Accounts, were then incorporated into a new *Canada Small Business Financing Act* (CSBFA) to replace the SBLA. The CSBFA received royal assent in December 1998 and came into force on April 1, 1999.

Twelfth Report of the House of Commons Standing Committee on Industry

On February 1, 1999, the House of Commons Standing Committee on Industry tabled its Twelfth Report on the SBLA. In it, the committee requested a number of changes to the reporting methods of the Small Business Loans Administration.

In response, Industry Canada undertook the following commitments:

- Detailed loan, loan loss and job creation data will be provided by sector. The *Small Business Loans Act Annual Report* currently provides, for each sector, the number and value of loans made under the program. In addition to this information, Industry Canada committed to providing information as it becomes available through improved data collection and analysis on the following performance indicators: for each sector, the number, value, interest rate and maturity term of program loans made and the claims paid by the government, as well as job creation figures based on periodic surveys of borrowers and the development of a longitudinal database on actual job impacts.

- Detailed loan, loan loss and job creation data will be provided by firm size. As the improved data become available, Industry Canada will provide additional information on loan data, job creation and claim payments by loan, comparing firms by size (based on business revenues).
- The program evaluation framework will allow for the collection and analysis of comprehensive information on the number and value of loans, number of loan defaults, number and value of claims paid, value of revenues (fees) paid by sector, firm size and type of loan (i.e. real property, equipment, leasehold improvements).
- Finally, the program evaluation framework will allow for the collection of comparative data on small business financing, via consultation with Statistics Canada, the Canadian Bankers Association and other stakeholders, to evaluate the extent to which the program is meeting the financial needs of small businesses.

Small Business Loans Program

The Small Business Loans program operates according to the following major program parameters:

- *Loan loss sharing ratio:* Since 1996, the government's share of losses is 85 percent of eligible losses for loans in default (after recoveries on security). Lenders are responsible for the remainder.
- *Cap on claims:* Each lender has a separate account of loans guaranteed under the program. In each lending period, in case of default, the government pays claims totalling 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, while the potential liability to high-volume lenders is capped at an average of about 10.6 percent.
- *Percentage of the cost of eligible capital assets accepted for financing:* The maximum amount eligible for financing is 90 percent of the cost of the assets.
- *Fees:* The borrower is obliged to pay up-front a one-time registration fee of 2 percent of the amount of the loan extended, with the option to finance this fee under the program. The lender, meanwhile, is charged an annual administration fee of 1.25 percent of the amount of outstanding loans (made after March 1995) during the term. The lender is permitted to pass this cost on to the borrower only indirectly, through the interest rate charged on the credit.

- *Interest rate ceiling:* For loans made since 1996, lenders may not charge interest in excess of 3 percent above the prime lending rate (floating rate) or residential mortgage rate (fixed rate). The average floating rate between 1996 and 1998 was prime plus 2.7 percent.
- *Risk diffusion:* Since new and small firms are usually higher-risk ventures, they would normally have to pay a higher premium on loans. By distributing the risk across many firms through the program, these firms are given access to affordable financing.
- *Maximum loan size:* The total value of loans outstanding is capped at $250 000 per borrower.

The Crown's Maximum Potential Liability to Approved Lenders

The Crown is contingently liable to approved lenders for the reimbursement of losses they may sustain for loans made under the SBLA, according to a particular formula. As of March 31, 1999, the government's maximum net contingent liability was $1.16 billion. While all loans carry the same amount of guarantee, not all loans carry the same amount of government exposure.

For loans made prior to April 1, 1993, the Crown is liable for:

- 90 percent of the first $125 000 in SBLA loans made by the lender;
- 50 percent of the second $125 000 in loans; and
- 10 percent of all subsequent loans.

For loans made on or after April 1, 1993, the Crown is liable for:

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

Therefore, taxpayer exposure is not accurately reflected simply in the dollar value of loans made under the SBLA. Contingent liability is the maximum amount of money that the government may be called upon to pay out to lenders if all SBLA loans were to default simultaneously. This, therefore, is the maximum amount of taxpayer exposure due to SBLA loans.

The government's contingent liability to approved lenders per lending period is reduced by the repayment of loans by borrowers and the reimbursement of losses by the government. No contingent liability remains under the SBLA with respect to loans made prior to April 1, 1983, as none of these loans remains outstanding.

Cost Recovery Measures

The SBLA has seen 94 percent of the dollar value of its loans repaid in its 38-year history. Nonetheless, in the two-year period between 1993 and 1995, there were more loans and more defaults than in previous years. Consequently, Industry Canada instituted changes to the program to move it toward cost recovery over 10 years.

One change was the introduction of a new 1.25-percent annual administration fee on loans made after March 31, 1995. The pooling of fee revenues (the 2-percent registration fee and the new annual 1.25-percent administration fee) is expected to offset loan loss claims over the life of loans made (up to 10 years).

Revenues and claim costs are currently reported on a cash basis in accordance with government accounting policy. A new accrual accounting method of matching the revenues and costs of loans in a particular lending period is being implemented.

Studies commissioned as part of the comprehensive review forecast that the program could meet this cost-recovery target. A fundamental part of the restructuring of the program following the comprehensive review is an evaluation framework, which will entail the collection of more detailed data. These data, which will be published in annual reports as they become available, will allow for more accurate assessment of cost recovery, and will indicate whether further program adjustments are required to keep the program moving toward its target.

In addition to the information currently provided in its annual reports, the Administration is committed to providing, through improved data collection and analysis, additional information on performance indicators, enhanced job creation data, loan loss data and comprehensive information on the number and value of loans, number of loan defaults, number and value of claims paid, and revenues (fees paid) by sector, firm size and type of loan (i.e. real property or equipment). The additional information will be published as, and when, it becomes more substantial.

Monitoring and Forecasting: Inherent Challenges

Noting the government's goal of moving the SBLA toward cost recovery, the Auditor General of Canada, in his December 1997 report, made two recommendations:

- Any developments in the performance of the SBLA's guarantee portfolio that would prevent it from achieving full cost recovery should be carefully monitored.
- Efforts should be pursued to develop systems and practices to more efficiently forecast the future performance of the program.

The Administration continues to adhere to these recommendations to the extent possible. There are a number of inherent challenges in monitoring and forecasting SBLA claims, as follows:

- Research has demonstrated that a minimum of three to five years under a stable program structure is needed to produce sufficient data for reliable forecasting. The SBLA's parameters were changed significantly in 1993, and then again in 1995, fundamentally altering the structure of the program and its claims. Stable data exist only since January 1, 1996. Mitigating factors included the introduction of a new administration fee, along with changes to the maximum size of loans and the eligibility of borrowers, the rate of allowable asset financing and the government's proportional liability. Further complicating matters is the continually changing business climate, which has an impact on both the demand for loans by SMEs and their ability to repay them. These factors all affect analysts' ability to provide reliable forecasts.

- Lenders may take as long as three years after a loan defaults to claim their losses, resulting in a "reporting lag." Historically, the average lag has been 12.1 months. In part, the lag existed because claims could not be filed before all personal guarantees were realized on the loans, a process that took some time. Recent changes have allowed for the filing of interim claims before the realization of all personal guarantees. On the other hand, claims on defaults of smaller loans are often received more quickly than on those of larger loans, with the result that larger claims are often subject to longer reporting lags. Because loans have maturities of up to 10 years, claims could conceivably be filed up to 13 years after the loan was made. Therefore, while the majority of claims on loans made during 1993–95 have been received, many have not, and it is difficult to predict with accuracy what these will be.
- Lenders are currently required to pay all outstanding administration fees at the end of the fiscal year, but are not required to detail which fees are related to which loans. Furthermore, lenders need only report the value of outstanding loans by lending period and not by the fiscal year in which the loans were made. As a result of these factors, it has been difficult to analyse the government's revenue stream from the administration fees and to review its financial obligations in any one year. However, following an adjustment period, lenders will be required to relate administration fees to their individual loans as of June 2001, thereby making these calculations less complicated.

SBLA Performance, 1998–99

Environment for Small Business

The Canadian economy continued to perform well throughout 1998–99. Boosted by foreign and domestic demand, the growth in real gross domestic product (GDP) over the fiscal year was 3.2 percent. Foreign demand, strong throughout the fiscal year, culminated in an 8.5-percent increase in real exports in the first quarter of 1999 and a boost for Canadian production.

Inflation remained low. The increase in the consumer price index was measured at 0.9 percent for all of 1998, the lowest annual rate of inflation in 36 years.

Interest rates remained relatively stable throughout the fiscal year, allowing small business owners increased latitude to borrow with confidence.

The unemployment rate hit its lowest level in over eight years, measuring 7.8 percent during the first three months of 1999. With the exception of two months in late spring, job creation was robust throughout the fiscal year.

The Canadian dollar hit an all-time low of US$0.63 in August 1998, with short-term interest rates more than 2.5 percentage points higher than their lowest levels in 1997. As the dollar rebounded to US$0.65 in the third quarter, short-term interest rates fell a percentage point from their August peak, then remained generally stable throughout the rest of the fiscal year. Long-term interest rates fell through July, then rose slightly through the fall and winter.

Small businesses continue to be of vital significance to the Canadian economy, as shown in the following statistics:

- There are approximately 1 800 000 employer businesses in Canada, 98 percent of which are SMEs (Industry Canada, *Small Business Quarterly*, 1999, Vol. 1, No. 2, p. 3).
- Small businesses generated 70 to 80 percent of all new jobs in Canada between 1995 and 1998.
- Seventy-seven percent of all established businesses in Canada have fewer than five employees; 93 percent have fewer than 20 employees; and almost 99 percent have fewer than 100 employees (Industry Canada, *Small Business Quarterly, 1999*, Vol. 1, No. 2, p. 3).

SBLA Performance Overview

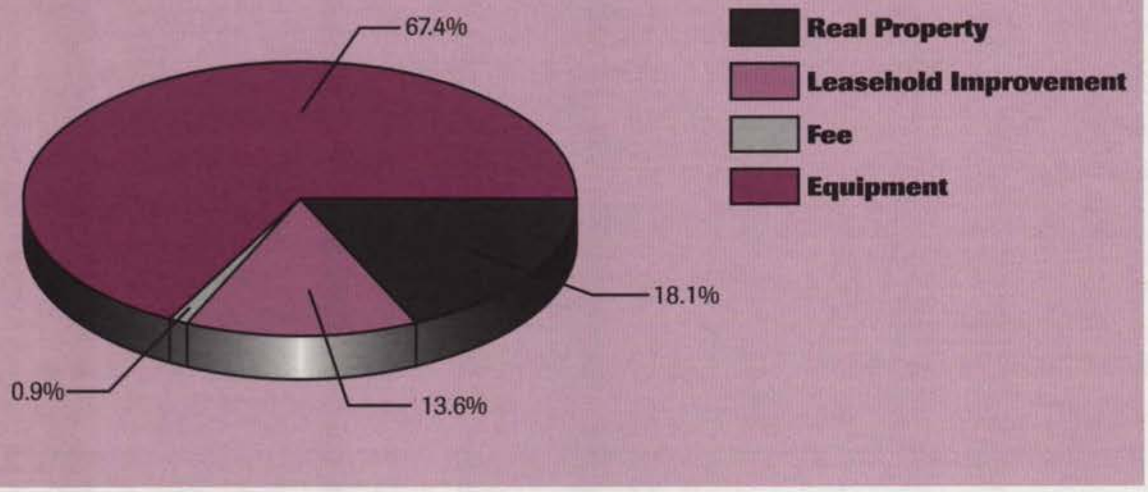
In the fiscal year ended March 31, 1999, loans totalling $1.594 billion were made, as follows:

- **$1.075 billion**, or 67.4 percent, was used to finance the purchase, installation, renovation, improvement and/or modernization of **equipment**.
- **$288 million**, or 18.1 percent, was used to finance the renovation, improvement, modernization, construction and/or purchase of **real property or immovables**.
- **$216 million**, or 13.6 percent, was used by tenants to finance the making or purchase of **leasehold improvements**.
- **$15 million**, or 0.9 percent, was used to finance **2-percent loan registration fees** (see Figure 1, below).

See Table I in the Tables section for the summary of operations — total program.

Lending under the Small Business Loans program declined during 1998–99, when lenders made 22 278 small business loans amounting to almost $1.6 billion. This figure is down from more than 29 063 loans totalling nearly $1.98 billion made in 1997–98. Nonetheless, the average loan size continued to grow slightly. The average size of an SBLA loan in 1998–99 was $71 549, compared with $68 033 in 1997–98 and $65 121 in the previous year.

Figure 1: Breakdown of Loans by Use, 1998–99



Loans Outstanding and Claims Forecast

Since April 1, 1983, loans worth $21.24 billion were made and registered under the SBLA. Overall loan reductions amount to $16.55 billion, an aggregate of $15.56 billion in borrowers' repayments and $0.99 billion in government reimbursements of lenders' loan losses. The government's claims paid rate, therefore, has been 6 percent on the overall $16.55 billion portfolio of loans repaid (see Table 1, below).

As of March 31, 1999, the government's net contingent liability in respect to the $4.69 billion in outstanding loans at that point (see Table II in the Tables section) had been reduced to a maximum $1.16 billion. Future claim payments on loans outstanding as of March 31, 1999, are estimated at some $494.6 million. This is the amount that could be paid to lenders during the next 10 fiscal years. When this $494.6 million in estimated future claim payments is added to the $993 million already paid in claims as of March 31, 1999, the estimated cumulative loss rate amounts to 7 percent on $21.24 billion in loans made since April 1, 1983.

The number and value of outstanding loans have been falling for the past two and three years from peaks in 1996–97 and 1995–96, respectively. As of March 31, 1999, there were 97 023 outstanding loans. Nearly all of the loans were made in Lending Period 12 (April 1, 1993, to March 31, 1999).

Table IIIa in the Tables section provides a record of recoveries, receipt of fees and claim payments for loans made before April 1, 1995. The introduction of the administration fee in the 1995–96 fiscal year, together with the registration fee, was intended to place the program on a cost-recovery basis over a 10-year period. Table IIIb in the Tables section provides a record of receipt of fees and claim payments for loans made after March 31, 1995. It shows that the net position of these loans as of March 31, 1999, was a positive balance of more than $25 million.

It is impossible to forecast with precision how this balance might change over time, for all the reasons previously discussed in "Monitoring and Forecasting: Inherent Challenges." However, studies commissioned during the comprehensive review indicated that the program's existing parameters, including the administration and registration fees, should allow it to recover its costs over the 10-year life of loans made since April 1, 1995.

Table 1: Loans Outstanding as of March 31, 1999

$21 243 496 914		Loans made between April 1, 1983, and March 31, 1999 (see Table II)
	($15 561 812 080)	Borrowers' repayments
	($992 972 988)	Crown's loss reimbursements* (6 percent of overall loan reductions)
($16 554 785 068)		Overall loan reductions
$4 688 711 846		Loans outstanding on lenders' books as of March 31, 1999 (see Table II)

* The $992 972 988 in loss reimbursements paid by the Crown represents subrogated debts. Included in this amount is $220 400 413, which, in accordance with standard procedures, was written off during the 1998–99 fiscal year.

Table 2, below, presents an accrual breakdown of annual cash flows related to loans made from April 1, 1995, to the end of 1998–99. Obviously, revenues at the beginning of this period far exceed expenses. As existing loans mature, expenses in the form of claim payments will increase. The cost-recovery goal is for these cash flows to balance over the operating life of the program.

Table 2: Revenues and Expenses Related to Loans Made from April 1, 1995

Year loans were made and amount of loans made	Type of revenues and expenditures	Year associated fees were collected and associated claims were paid			
		1995–96 ($)	1996–97 ($)	1997–98 ($)	1998–99 ($)
1995–96 $2 243 155 325	2% registration fees	40 564 276	3 913 984		
	1.25% administration fee*		13 763 715	22 577 846	15 831 246
	Claims paid	(307 016)	(15 448 161)	(65 198 536)	(63 455 946)
	Annual cash flow	40 257 260	2 229 538	(42 620 690)	(47 624 700)
1996–97 $2 018 941 471	2% registration fees		36 155 134	3 846 840	
	1.25% administration fee*			12 315 543	20 391 308
	Claims paid		(231 143)	(18 287 838)	(46 833 249)
	Annual cash flow		35 923 991	(2 125 455)	(26 441 941)
1997–98 $1 977 253 779	2% registration fees			35 469 838	3 703 032
	1.25% administration fee*				12 061 248
	Claims paid			(346 090)	(13 553 103)
	Annual cash flow			35 123 748	2 211 177
1998–99 $1 593 957 573	2% registration fees				28 625 915
	1.25% administration fee*				
	Claims paid				(117 074)
	Annual cash flow				28 508 841
Total $7 833 308 148**	2% registration fees	40 564 276	40 069 118	39 316 678	32 328 947
	1.25% administration fee*	0	13 763 715	34 893 389	48 283 802
	Claims paid	(307 016)	(15 679 304)	(83 832 464)	(123 959 372)
	Annual cash flow	40 257 260	38 153 529	(9 622 397)	(43 346 622)

* The distribution of the 1.25-percent annual administration fee among the years loans were made has been estimated for each fiscal year.

** Totals may be slightly off as a result of rounding.

Age of Small Business Enterprise Borrowers

Lenders are required to report the age of business enterprises for which small business loans are approved under the SBLA. Business start-ups and young businesses, which are key targets of this program, continue to receive the majority of small business loans. See Table 3, below, and Figure 2, opposite, for more information on the number and value of loans made by age of firm.

Younger businesses accounted for most of the claims paid in 1998–99, with start-ups accounting for 68 percent of the value of these claims. Seventeen percent of the value of the year's claims originated from firms between one and three years of age, and 15 percent of the value of the year's claims originated from firms older than three years (all ages refer to the age of the firm as of the date its loan was granted).

Employment by Small Business Enterprise Borrowers

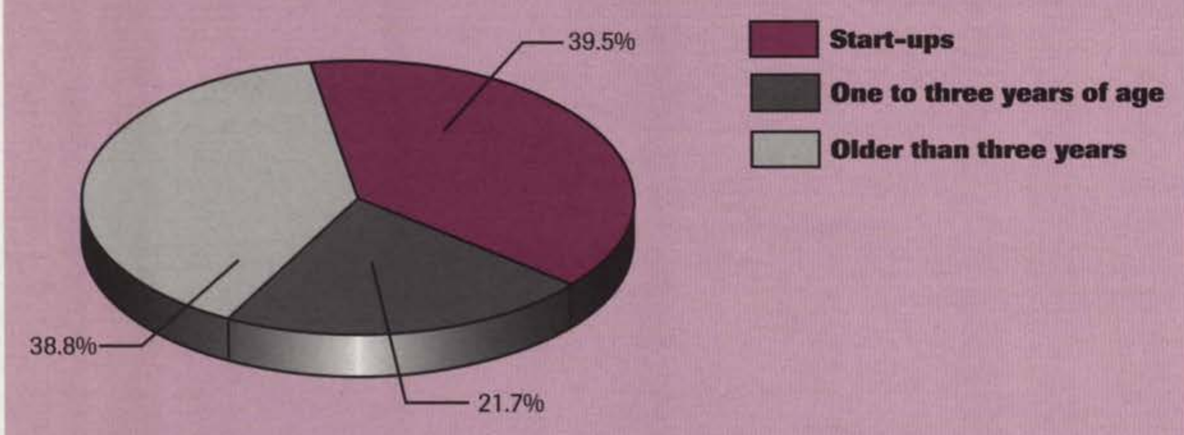
Since November 1987, borrowers have provided lenders with their current number of workers and their estimate of the number of additional workers they intend to hire as a direct result of the loan. Lenders, in turn, forward these figures to the Small Business Loans Administration.

SBLA borrowers estimated that their loans made in 1998–99 would contribute directly to employment by allowing them to create an estimated 60 561 jobs, equivalent to 2.7 jobs per loan (see Table 4, opposite). A recent follow-up survey by Industry Canada of 700 borrowers determined that borrowers' own initial job creation estimates were conservative: the borrowers tended to hire more employees as a direct result of the loan than they had anticipated. The actual number of jobs created seems to be closer to four jobs per loan. Additional studies addressing job creation, loss and

Table 3: Number and Value of Loans Made, by Age of Firm, 1993–94 to 1998–99

Fiscal year	Loans	Age of business enterprise						Total	
		Start-ups		One to three years of age		Older than three years			
		Number of loans	Value of loans ($000)	Number of loans	Value of loans ($000)	Number of loans	Value of loans ($000)	Number of loans	Value of loans ($000)
1993-94	Number/value	14 124	957 843	8 700	436 036	20 527	1 154 916	43 351	2 548 795
	% of yearly total	32.6	37.6	20.1	17.1	47.4	45.3	100	100
1994-95	Number/value	24 623	1 839 325	13 753	735 478	30 002	1 822 322	68 378	4 397 125
	% of yearly total	36.0	41.8	20.1	16.7	43.9	41.4	100	100
1995-96	Number/value	13 810	1 041 153	8 124	436 309	12 679	765 693	34 613	2 243 155
	% of yearly total	39.9	46.4	23.5	19.5	36.6	34.1	100	100
1996-97	Number/value	12 098	941 322	7 341	386 642	11 564	690 977	31 003	2 018 941
	% of yearly total	39.0	46.6	23.7	19.2	37.3	34.2	100	100
1997-98	Number/value	10 990	891 249	6 853	382 238	11 220	703 767	29 063	1 977 254
	% of yearly total	37.8	45.1	23.6	19.3	38.6	35.6	100	100
1998-99	Number/value	8 806	746 374	4 827	285 660	8 645	561 924	22 278	1 593 958
	% of yearly total	39.5	46.8	21.7	17.9	38.8	35.3	100	100

Figure 2: Age of Small Business Enterprise Borrowers
Share of Total Number of Loans Made, 1998–99



displacement are planned, and future annual reports will carry enhanced data on jobs created by borrowers.

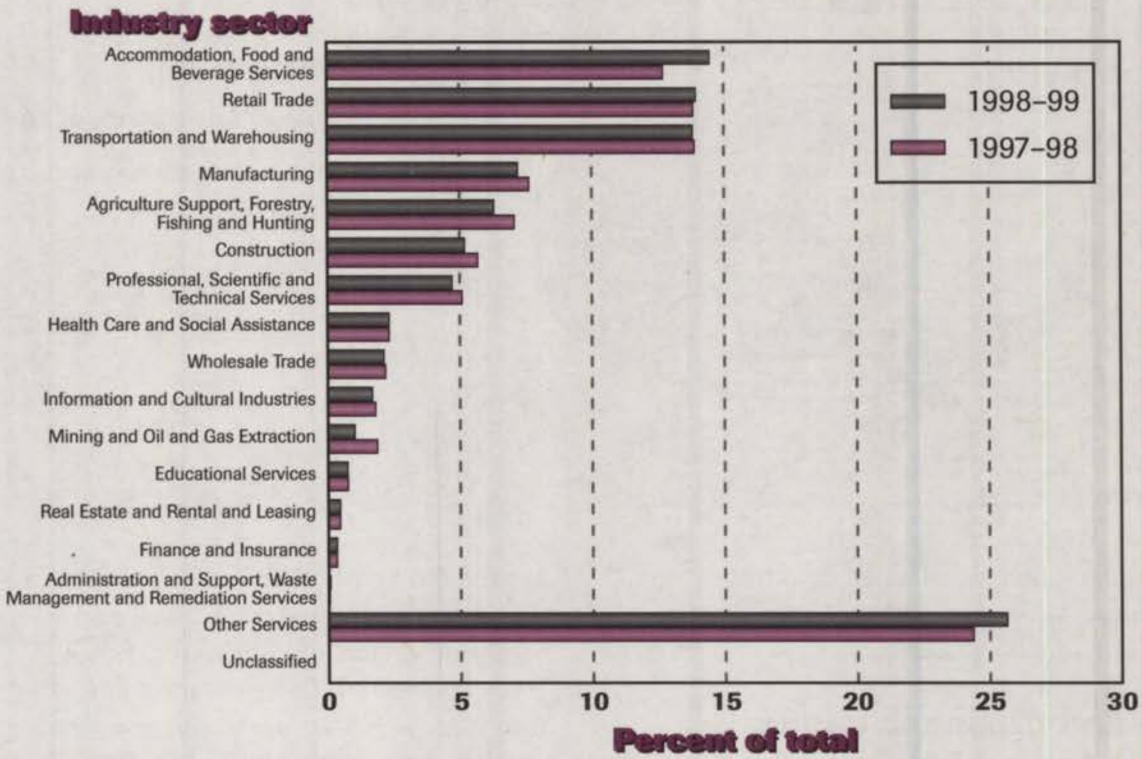
Small Business Loans Made and Employment, by Industry Sector

The individual sectors that make the most use of the Small Business Loans program continue to be (the Other Services category aside) the Accommodation, Food and Beverage Services (AFBS) sector, Retail Trade sector, and Transportation and Warehousing sector, in roughly the same proportions as in previous years (see Figure 3 on the following page).

Table 4: Employment by Small Business Enterprise Borrowers, 1993–94 to 1998–99

Fiscal year	Number of loans	Employees at date loan made		Expected additional employees	
		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	154 784	5.0	74 223	2.4
1997–98	29 063	131 487	4.5	75 750	2.6
1998–99	22 278	99 197	4.5	60 561	2.7

Figure 3: Small Business Loans Made, by Industry Sector
Percentage of Total Number of Loans Made



During the 1998–99 fiscal year, the AFBS sector was granted the largest average loan: $98 243. The AFBS and Retail Trade sectors also created more jobs than any other category, an estimated 27 144 between them. On a per-loan basis, the AFBS, and the Real Estate and Rental and Leasing sectors created significantly more jobs than did other sectors (see Table 5, opposite).

In September 1995, the Small Business Loans Administration introduced measures to collect, from lenders (on loan registration forms), more comprehensive information on borrowers; for example, the sector in which they operate, and size of their revenues (discussed in the next section). As more loans made prior to this development are retired, data on claims paid by sector and by firm size, comparable to that provided for loans made, will be made available.

Small Business Loans Made and Employment, by Firm Size

A cursory review of the data suggests that firms with revenues of less than $1 million account for the greatest number and value of loans. As well, the larger a firm is, the greater its loan is likely to be. Average expected additional employment created by borrowers increases with firm size, and the majority of additional employment is created by firms with revenues over $500 000 (see Table 6, opposite, and Figure 4 on page 16).

Table 5: Loans Made and Employment Data, by Industry Sector, 1998–99

Industry sector	Number of loans made	Value of loans made ($000)	Average loan size ($)	Expected additional employment	
				Per loan	Total*
Accommodation, Food and Beverage Services	3 222	316 538	98 243	6.1	19 692
Administration and Support, Waste Management and Remediation Services	13	650	49 994	1.2	16
Agriculture Support, Forestry, Fishing and Hunting	1 402	100 195	71 466	1.8	2 524
Construction	1 155	61 866	53 564	1.3	1 502
Educational Services	165	13 022	78 918	3.2	528
Finance and Insurance	72	4 572	63 506	2.1	151
Health Care and Social Assistance	517	44 133	85 364	2.2	1 137
Information and Cultural Industries	375	25 222	67 259	2.5	938
Manufacturing	1 605	124 823	77 771	3.2	5 136
Mining and Oil and Gas Extraction	226	15 991	70 758	1.5	339
Professional, Scientific and Technical Services	1 049	58 689	55 948	2.4	2 518
Real Estate and Rental and Leasing	101	6 274	62 120	8.0	808
Retail Trade	3 105	221 177	71 233	2.4	7 452
Transportation and Warehousing	3 078	191 613	62 252	0.9	2 770
Wholesale Trade	473	29 182	61 695	2.8	1 324
Other Services	5 715	379 806	66 458	2.4	13 718
Unclassified	5	204	40 769	1.0	5
Total* (all firms)	22 278	1 593 958	71 549	2.7	60 561

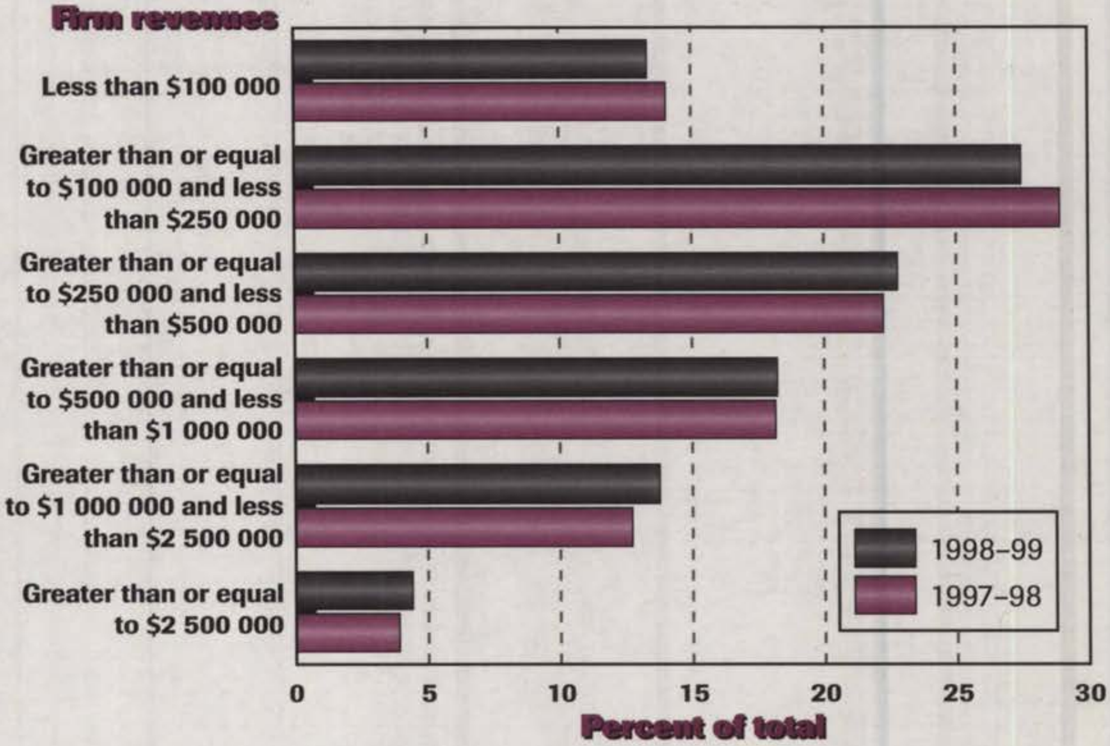
* Totals may be slightly off as a result of rounding.

Table 6: Loans Made and Employment Data, by Firm Size, Expressed in Revenues, 1998–99

Firm size expressed in revenues	Number of loans made	Value of loans made ($000)	Average loan size ($)	Expected additional employment	
				Per loan	Total*
Less than $100 000	2 974	119 988	40 346	1.3	3 771
Greater than or equal to $100 000 and less than $250 000	6 119	348 658	56 980	1.3	8 089
Greater than or equal to $250 000 and less than $500 000	5 076	370 382	72 967	2.3	11 690
Greater than or equal to $500 000 and less than $1 000 000	4 060	355 274	87 506	3.6	14 466
Greater than or equal to $1 000 000 and less than $2 500 000	3 067	292 712	95 439	5.0	15 307
Greater than or equal to $2 500 000	982	106 943	108 903	7.4	7 236
Total* (all firms)	22 278	1 593 958	71 549	2.7	60 561

* Totals may be slightly off as a result of rounding.

Figure 4: Small Business Loans Made, by Firm Size
Percentage of Total Number of Loans Made



View of the Future

Goals for 1999–2000

As of April 1, 1999, the SBLA was replaced by the Canada Small Business Financing Act (CSBFA). The CSBFA will continue to facilitate asset-based debt financing to SMEs with annual sales of up to $5 million (not including farms, which have separate funding programs targeted specifically to their needs).

The program parameters for the CSBFA are identical to those of the SBLA, but certain provisions have been included or strengthened to improve its ability to move toward cost recovery:

- The CSBFA introduces a requirement that lenders use due diligence in making loan decisions and assessing loan repayment. A provision for auditing a lender's loan files is also added to the legislation, thereby monitoring program compliance.
- Related Borrower and Independent Small Business are two new concepts that were introduced as a measure to eliminate project splitting without stifling successful entrepreneurs who are operating small businesses at different premises and who do not derive more than 25 percent of their actual or projected gross revenues from each other.

- Provisions that have been strengthened include:
    1) increasing the number of situations where an appraisal is required; and
    2) improving the quality of the security by:
        a) expanding the situations where equal ranking security is required, and
        b) taking as security the real property where the Canada Small Business Financing loan is made to finance leasehold improvements to a borrower who is not dealing at arm's length with the landlord.
- Interim claim payments are now permitted on CSBFA claims. Accelerated claim payments combined with a reduction of the maximum interest period (36 to 24 months) will reduce interest costs to the Crown.

Determining whether the program is on track to meet its goal of cost recovery requires an ability to forecast with confidence the value of future loans, claims against these and existing loans, and the flow of registration and administration fees associated with existing and future loans. The Administration's ability to do this will improve in the coming years in the following ways:

- The evaluation framework of the new CSBFA incorporates the collection and analysis of new data, which will enhance Industry Canada's monitoring and forecasting capacity.
- The new CSBFA includes strengthened measures to improve its ability to move toward cost recovery.
- Most importantly, the program design has been relatively stable over the last three years. As described earlier, stability of program parameters is critical in generating accurate forecasts.

Pilot Projects

In addition, the CSBFA includes provisions for pilot projects to include capital leasing and voluntary sector lending in the program's purview. Members of the voluntary sector were not eligible borrowers under the SBLA and leasing was not eligible for a guarantee.

The capital leasing pilot project will determine the extent of the need for federal government involvement in the capital leasing market. Similarly, the voluntary sector pilot project will further examine the feasibility of extending the CSBFA to voluntary groups. Planning and work are under way for the development of these pilot projects.

Program Review

In contrast to the automatic end of its lending authority that characterized the SBLA, the CSBFA will have a mandatory Program Review every five years, in consultation with Parliament. Critically, the CSBFA will allow the Minister of Industry, through regulation, to alter eligibility criteria for access to program loans. Such changes may be made in the event that research and consultations indicate that they would improve the program's move toward cost recovery.

Program Evaluation Framework

Industry Canada is implementing a broad program evaluation that will be used to assess the CSBFA over the next five years. Data collected and analysed will be reflected in modifications to the annual reports as results become available.

The evaluation will address the following issues:

- the ongoing relevance of increasing access to financing for small business and the need for continuing federal government involvement;
- awareness of the program and its incrementality;
- its impact on the creation, maintenance and displacement of jobs; and
- the performance of borrowers.

The evaluation will also report on progress toward achieving cost recovery and on the reliability of the forecasting of program conditions.

To this end, the Small Business Loans Administration will gather and analyse more data than are currently collected. Part of the evaluative effort will include interviews with stakeholders and key informants, a survey of small businesses, and a review of other similar programs.

Calculating Contingent Liability

The SBLA used an aggregate lending ceiling to control potential taxpayer exposure. Because of the immense demand for SBLA loans as the number of SMEs has grown, the Minister of Industry had to approach Parliament a number of times to increase that lending ceiling. Based on the findings of the comprehensive review, the CSBFA will incorporate contingent liability as the most accurate measure of taxpayer exposure and the best method of calculating the Crown's maximum potential liability to approved lenders. The CSBFA sets a cap of $1.5 billion on contingent liability for the program for each five-year period. This amount has been chosen as it permits roughly $10 billion in lending to be registered during the five-year period. This will allow the program to continue to guarantee loans approximately equivalent to recent historical annual levels.

Upcoming Challenges

The Administration's chief challenge in the coming months is the successful implementation of the CSBFA. Both the pilot projects and the program evaluation described above will be designed and implemented, including an ongoing series of consultations with program and pilot project stakeholders. Furthermore, an enhanced electronic capability will permit easier and more detailed data collection from program lenders and borrowers alike. This will permit the collection of data required by the enhanced program evaluation and will adhere to the requirements of the Auditor General of Canada.

The Administration will be consulting with Statistics Canada and the Canadian Bankers Association, among others, to illustrate with comparative data the extent to which the CSBFA is meeting the financial needs of small businesses. While these data are now being collected on loans made since April 1, 1999, it will be some years before valid trends can be identified. The data will be published in future CSBFA annual reports.

Tables

Table I: Summary of Operations – Total Program

Period	Loans made		Average loan size ($)	Net claims paid	
	Number	Amount $000		Number	Amount $000
January 19, 1961, to March 31, 1990	281 855	7 724 821	32 128	12 304	271 962
Fiscal Year					
1990–91	10 626	413 258	38 891	1 559	33 233
1991–92	10 557	397 275	37 631	1 924	45 932
1992–93	13 154	502 141	38 174	1 827	45 193
1993–94	43 351	2 548 795	58 794	1 376	32 410
1994–95	68 378	4 397 125	64 306	1 015	23 962
1995–96	34 613	2 243 156	64 806	2 003	65 868
1996–97	31 003	2 018 941	65 121	3 826	151 168
1997–98	29 063	1 977 254	68 033	5 964	246 050
1998–99	**22 278**	**1 593 958**	**71 549**	**5 103**	**221 161**
Total*	**544 878**	**23 816 724**	**43 710**	**36 901**	**1 136 939**

* Totals may be slightly off as a result of rounding.

Note: Statistics shown above under "Loans made" and "Average loan size" for the fiscal year ended March 31, 1998, and prior periods, may differ from those presented in previous annual reports because of late registration of loans and sundry adjustments.

Table II: Loans Advanced, Claims Paid, Repayments Made and Principal Balance of Loans Outstanding

Lending periods	Loans made ($000)	Balance of loans outstanding as of March 31, 1999 * ($000)	Total principal repayments made ($000)	Claims paid by government to lenders ($000)	Principal repayments made by borrowers ($000)
Period 1 to 8 inclusive January 19, 1961, to March 31, 1983	2 573 162	0	(2 573 162)	(148 840)	(2 424 322)
Period 9: April 1, 1983, to March 31, 1985	1 799 542	1 058	(1 798 485)	(73 161)	(1 725 324)
Period 10: April 1, 1985, to March 31, 1990	3 352 052	4 808	(3 347 245)	(179 061)	(3 168 183)
Period 11: April 1, 1990, to March 31, 1993	1 312 674	29 677	(1 282 997)	(72 197)	(1 210 800)
Period 12: April 1, 1993, to March 31, 1999	14 779 228	4 653 170	(10 126 058)	(668 554)	(9 457 505)
Subtotal (Period 9 to 12 inclusive) April 1, 1983, to March 31, 1999	**21 243 497**	**4 688 712**	**(16 554 785)**	**(992 973)**	**(15 561 812)**
Total January 19, 1961, to March 31, 1999	**23 816 658**	**4 688 712**	**(19 127 947)**	**(1 141 813)**	**(17 986 134)**

* As reported by lenders at time of printing.
Note: Numbers may be slightly off as a result of rounding.

Table IIIa: Record of Recoveries, Receipt of Fees and Claim Payments for Loans Made Before April 1, 1995

	Recoveries and receipt of fees			Net claims paid			
Period	Recoveries of prior year's claims ($000)	Loan registration fees ($000)	Total ($000)	Gross claims ($000)	Recoveries of same year's claims ($000)	Net claims ($000)	Recoveries and receipt of fees less net claims ($000)
January 19, 1961, to March 31, 1990	5 832	33 345	39 177	273 626	(1 664)	271 962	(232 784)
Fiscal years							
1990–91	1 729	4 179	5 908	33 600	(367)	33 233	(27 325)
1991–92	1 663	3 932	5 595	46 414	(482)	45 932	(40 337)
1992–93	1 733	4 756	6 489	45 950	(757)	45 193	(38 704)
1993–94	1 939	47 082	49 021	32 852	(442)	32 410	16 611
1994–95	1 499	78 307	79 806	24 094	(133)	23 962	55 844
1995–96	1 265	13 035	14 300	65 678	(116)	65 562	(51 261)
1996–97	837	–	837	135 572	(83)	135 489	(134 652)
1997–98	883	–	883	162 505	(287)	162 218	(161 335)
1998–99	1 049	–	1 049	97 635	(433)	97 202	(96 153)
Total	18 429	184 636	203 065	917 926	(4 764)	913 163	(710 095)

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

Note: 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 1, 1993, lenders realize on assets and securities prior to submitting a claim for loss.

Table IIIb: Record of Receipt of Fees and Claim Payments for Loans Made After March 31, 1995

	Receipt of fees			Net claims paid			
Fiscal year	Registration fees ($000)	Administration fees ($000)	Total ($000)	Gross claims ($000)	Recoveries of same year's claims ($000)	Net claims ($000)	Revenues less expenditures
1995–96	40 564	–	40 564	307	N/A	307	40 257
1996–97	40 069	13 764	53 833	15 679	N/A	15 679	38 154
1997–98	39 317	34 893	74 210	83 832	N/A	83 832	(9 622)
1998–99	32 329	48 284	80 613	123 959	N/A	123 959	(43 347)
Total	152 279	96 941	249 220	223 777	N/A	223 777	25 443

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

Note: This table provides SBLA's cash flows. 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 lending concurrent with a doubling in the one-time up-front loan registration fee from 1 percent to 2 percent. Claim costs of loans made after March 31, 1995, are expected to be offset by revenues over a 10-year period.

Table IV: Distribution of Loans Made in 1998–99, 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	359	31 241	386	27 486	283	25 031	427	28 857	213	12 048
Alberta	391	38 450	227	17 211	472	32 216	358	18 839	84	5 779
Saskatchewan	336	21 346	86	4 555	165	10 151	138	6 858	37	1 861
Manitoba	199	15 870	76	5 880	91	5 534	115	7 164	57	3 420
Western Canada	1 285	106 907	775	55 132	1 011	72 932	1 038	61 718	391	23 108
Nunavut	8	997	3	236	10	776	0	0	0	0
Northwest Territories	0	0	1	25	1	11	2	162	0	0
Yukon Territory	4	193	10	335	5	337	11	628	4	137
Ontario	2 571	214 377	918	80 212	982	86 955	1 016	80 314	702	47 073
Ontario & Territories	2 583	215 567	932	80 797	998	88 079	1 029	81 104	706	47 210
Quebec	1 230	94 695	605	47 274	326	20 279	202	12 823	386	25 017
New Brunswick	165	13 373	69	5 071	33	1 780	160	8 813	49	2 875
Nova Scotia	227	16 325	35	3 223	67	5 247	181	9 098	63	3 542
Prince Edward Island	19	1 631	17	1 177	36	1 745	24	912	8	828
Newfoundland	93	8 475	59	6 317	76	7 763	154	7 764	33	1 563
Atlantic Canada	504	39 803	180	15 788	212	16 535	519	26 587	153	8 808
Total	5 602	456 972	2 492	198 991	2 547	197 824	2 788	182 232	1 636	104 142

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

Table IV cont.: Distribution of Loans Made in 1998–99, by Region and Category of Lenders

Region	National Bank of Canada		HSBC Bank Canada		Laurentian Bank of Canada		Other charted banks		Caisses Populaires	
	Number	$000	Number	$000	Number	$000	Number	$000	Number	$000
British Columbia	0	0	107	9 295	1	199	11	1 230	0	0
Alberta	6	700	72	5 869	0	0	9	1 340	0	0
Saskatchewan	3	369	10	1 124	1	3	0	0	0	0
Manitoba	3	265	0	0	2	132	0	0	9	1 014
Western Canada	12	1 334	189	16 288	4	335	20	2 570	9	1 014
Nunavut	0	0	0	0	0	0	0	0	0	0
Northwest Territories	0	0	0	0	0	0	0	0	0	0
Yukon Territory	0	0	0	0	0	0	0	0	0	0
Ontario	137	12 997	79	7 341	7	942	20	2 494	86	6 874
Ontario & Territories	137	12 997	79	7 341	7	942	20	2 494	86	6 874
Quebec	851	61 054	46	3 801	105	8 576	7	801	3 906	193 323
New Brunswick	37	3 143	3	545	0	0	0	0	39	2 808
Nova Scotia	9	910	4	433	0	0	0	0	0	0
Prince Edward Island	0	0	0	0	0	0	0	0	0	0
Newfoundland	0	0	0	0	0	0	0	0	0	0
Atlantic Canada	46	4 053	7	978	0	0	0	0	39	2 808
Total	1 046	79 438	321	28 408	116	9 853	47	5 865	4 040	204 021

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

Table IV cont.: Distribution of Loans Made in 1998–99, by Region and Category of Lenders

Region	Credit unions		Newcourt		Other trust, loan and insurance companies		Alberta treasury branches		Total	
	Number	$000	Number	$000	Number	$000	Number	$000	Number	$000
British Columbia	105	7 737	81	4 917	4	878	0	0	1 977	148 918
Alberta	156	11 193	149	10 092	1	145	218	19 335	2 143	161 168
Saskatchewan	237	13 822	15	1 061	0	0	0	0	1 028	61 152
Manitoba	160	10 493	26	1 215	3	441	0	0	741	51 429
Western Canada	658	43 246	271	17 286	8	1 464	218	19 335	5 889	422 667
Nunavut	0	0	2	108	0	0	0	0	23	2 117
Northwest Territories	0	0	0	0	0	0	0	0	4	188
Yukon Territory	0	0	0	0	0	0	0	0	34	1 630
Ontario	46	4 098	124	9 742	41	5 253	0	0	6 729	558 672
Ontario & Territories	46	4 098	126	9 850	41	5 253	0	0	6 790	562 606
Quebec	0	0	134	12 372	26	3 610	0	0	7 824	483 624
New Brunswick	2	293	35	3 326	0	0	0	0	592	42 027
Nova Scotia	28	1 402	25	2 673	7	690	0	0	646	43 543
Prince Edward Island	8	453	4	293	0	0	1	160	117	7 198
Newfoundland	0	0	5	410	0	0	0	0	420	32 293
Atlantic Canada	38	2 147	69	6 702	7	690	1	160	1 775	125 060
Total	742	49 490	600	46 210	82	11 017	219	19 495	22 278	1 593 958

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

Table V: *Small Business Loans Act* – Program Fact Sheet as of April 1, 1993, and Until March 31, 1999

Item	A loan made prior to April 1, 1993	A loan made after March 31, 1993, and before January 1, 1996	A loan made after December 31, 1995, and before April 1, 1999
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 + 1%	For floating rate loans, prime + 1 3/4% and for fixed rate loans, 1 3/4% over the residential mortgage rate for the applicable term	For floating rate loans, prime + 3% and for fixed rate loans, 3% over the residential mortgage rate for the applicable term (introduced for loans made after March 31, 1995)
Government fees	1% one-time up-front registration fee	2% one-time up-front registration fee, which may be added to amount of the loan	2% one-time up-front registration fee, which may be added to the amount of the loan, and a 1.25% annual administration fee will be charged (applies to loans made after March 31, 1995). The 1.25% is to be paid by a lender but cannot be passed on to the 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% of equipment 90% of land and buildings	100% of all eligible assets	90% of all eligible assets
Loss-sharing ratio	85% government/15% lender	90% government/10% lender	85% government/15% lender
Substitution and release of security	Lender may release any security acquired but through the remaining term shall maintain adequate security pursuant to normal lending practice, for loan repayment	Substitution of security excluding personal guarantees	As at 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 two 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, real estate, professions, mining of metals, minerals, non-metallic materials, production of petroleum, natural gas, farming, charitable and religious organizations	Farming as well as charitable and religious organizations	Farming as well as charitable and religious organizations
Classes of loans	Land, Premises, Movable Equipment, Fixed Equipment	Land, Premises, Equipment, Fee (2% up-front loan registration fee)	Land, Premises, Equipment, Fee (2% up-front loan registration fee)