RECENT EXPERIENCE WITH THE SBLA:

ECONOMIC IMPACTS, INCREMENTALITY AND RISK PROFILE ANALYSIS

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Submitted to Industry Canada under the terms of contract 67SBL-4-0040/01-SV.

August 17, 1994

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Executive Summary

This report addresses: the economic impacts of lending under the SBLA; the incrementality of SBLA loans; and, the extent to which broadening of the eligibility criteria and increased take up of the program is likely to change default rates.

A profile of the 'average' SBLA borrower is developed and distributions of SBLA borrowers' salient characteristics are presented and compared with non SBLA bank clients. On average, SBLA borrowers appear to be those targeted by the Act: they tend to be smaller, more risky, and with fewer resources than other small firm bank clients.

Expansion of the eligibility criteria for SBLA borrowing has resulted in incremental activity. An estimated 8.6 percent of borrowers report sales in excess of $2,000,000; 8 percent of borrowers are in the professions; and another 4 percent are in the finance, insurance, and real estate sectors. The primary uses of the borrowed funds are to obtain new equipment or to fund new property or floorspace. SBLA borrowers benefit from the loan through increased sales, cost reductions, and aversion of failure.

Even though SBLA borrowers are, on average, smaller, younger, and have fewer assets etc., 30.3 percent of these firms seem to be regarded by lenders as among the "least risky firms:" rates lenders charge these firms on operating loans are less than those of firms of average risk; also, 39.4 percent of SBLA borrowers paid lower than median rates on non-SBLA term loans from the same lender. These findings imply that 30 to 40 percent of term loans made under the SBLA are to firms that are otherwise bankable.

It was also found that the amendments to the Act made in April 1993 are likely to change historical loan loss rates. In particular, it is found that firms with sales of $2,000,000 to $5,000,000 are, surprisingly, more likely to default than smaller firms. These findings allow refinements of previous estimates of failure rates. Historical rates for most firms in the SBLA portfolio may reliably be projected with the refinement that default rates for firms with annual sales of $2,000,000 to $5,000,000 are 14.5 percent higher than for other firms.

ACKNOWLEDGEMENTS

The authors acknowledge with appreciation the assistance and support of several people in the preparation of this report.

First, the authors acknowledge the hard work and commitment of an able research team: Helju Nommik and Janet Yates of Carleton University; Dean Knudsen of Industry Canada; Rob Lambert and Lisa Murphy from Ryerson Polytechnic University all played important roles in the preparation of the databases that are central to this work.

The cooperation of the Canadian Federation of Independent Business was essential to the findings reported here. Of particular assistance were Brien Gray Jr., Catherine Swift, and Ted Mallet.

The cooperation and support of members of the banking industry were also fundamental to this work. In particular, we wish to mention Joanne de Laurentiis, Richard Munro, and Michael Greene of the Canadian Bankers Association. Of special mention was the active and unreserved cooperation of Murray Sutherland and Antionette Vita of the Bank of Montreal, Warren Walker and Gerry Chamberlain of the Bank of Nova Scotia, Gerry Lukassen of the Canadian Imperial Bank of Commerce, Gervais Lafferrière of the Banque Nationale, Glen Kelsey and Diana Price of the Royal Bank of Canada, and J. A. Cotton of the Toronto Dominion Bank.

The authors wish to acknowledge then seminal work of Larry Wynant and James Hatch of the University of Western Ontario. Without their benchmark findings, several of the most important conclusions found here would be attainable. Moreoever, the helpful comments and suggestions of our colleagues, particularly those of Barbara Orser and Roland Thomas, are very much appreciated.

In spite of all this assistance, errors and omissions may have crept into the work: the authors are fully responsible for them.

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1. Background and Introduction

Since its inception in 1981, the Small Business Loans Act [SBLA] has been facilitating start-ups of new businesses and expansion of other small firms by easing access to debt capital. In April 1993 the federal government amended the Act in a variety of ways. These included:

- widening eligibility to firms with annual revenues of up to $5 million (the previous limit was set at $2 million);
- increasing the maximum loan size from $100,000 to $250,000;
- widening eligibility to firms in sectors such as finance, insurance, mining, professions;
- increasing the level of the government guarantee to 90 percent (until December 31, 1995);
- increasing the proportion of financing to 100 percent of assets (until December 31, 1995, 90 percent subsequently);
- increasing the up-front government fee from 1 percent to 2 percent, an amount that can be added to the amount borrowed under the Act; and,
- providing for a higher interest rate spread to 1.75 percent over prime on floating rate term loans and allowing for interest rates as high as 1.75 percent over the residential mortgage rate on fixed rate term loans..

Subsequently, borrowing under the terms of the Act has increased to unprecedented levels. With the increased lending activity, three issues have arisen that this report addresses. These are:

- What are the economic impacts of lending under the SBLA?
- To what extent are loans made under the terms of the SBLA incremental in the sense that the loans would not otherwise have been granted?
- To what extent is the broadening of the eligibility criteria and the increased take up of the program likely to change default rates?

This report addresses each of these issues in turn based on empirical evidence drawn from bank loan files, follow-up telephone interviews of SBLA borrowers, and Canadian Federation of Independent Business [CFIB] survey data of small businesses.

2. Data Sources

2.1 Bank Survey Data

Bank loan file data was collected on behalf of Industry Canada as part of the empirical exploration of the contention that the six major Canadian banks had been restricting credit to SMEs during the 1990-1994 period. The data collection form was based on that used by Wynant and Hatch in their 1990 survey of bank lending patterns to SMEs. The data collection form was then pre-tested and refined in light of the pre-testing and in the awareness of aspects of the 1987, 1990, and 1994 CFIB surveys. A copy of the form is attached as Appendix A.

The sampling program was designed to reflect:

- the approximate market shares of the six major Canadian banks. Market shares were estimated on the basis of the 1990 CFIB survey.
- The geographic distribution of Canadian SMEs according to telephone area codes. Again, data from the 1990 CFIB survey provided guidance for this step.
- A random selection of bank branches within area codes by bank from listings supplied by each of the banks. The active assistance of the Canadian Bankers was essential to this step.

Based of the selected branches, an itinerary was established and sent to the vice-presidents of Independent Banking of each of the six major banks. Their cooperation in arranging researcher visits to the branches was sought and provided without exception. *In every instance and without qualification, researchers have been provided unrestricted access to loan files of SMEs, have enjoyed full access to loan account managers, and have been provided with any other additional information needed to complete the data collection instrument.* The cooperation of the banks has been noteworthy. Data collection consumed 116 person days, resulting in 1,393 case histories of lending experiences.

In accord with these work assignments, 32 percent of the files were drawn from branches of the Royal Bank, 26 percent from the Canadian Imperial Bank of Commerce, 16 percent from the Bank of Montreal, 12 percent from the Bank of Nova Scotia, and seven and five percent respectively from the Toronto Dominion and National Banks. All banks were sampled from all major geographic regions in which they operate. The details of the sampling process are described in more detail in the interim progress report for this research.

The file data were derived from a variety of documentation events in the small business/bank relationship. In 57 percent of the cases the event is an annual review; requests for term loans (14 percent), new lines of credit (7 percent), and increases in existing operating loans (5 percent) constitute most of the remaining cases.

Approximately ten percent of borrowers describe their product/service as "high tech", an incidence that is consistent with the frequency with which such firms are reported elsewhere. Women business owners account for 4.6 percent of borrowers, a frequency that is marginally less than the overall proportion of small businesses owned by women.

2.2 Follow-Up Telephone Interview Data (the "Carleton" survey)

Among the 1,393 cases collected from bank loan files are 426 borrowers who had indicated that they had obtained financing under the terms of the SBLA. Where possible, these borrowers were contacted by means of follow-up telephone calls to gather additional data regarding incrementality, economic impact, and risk profiles. The data collection form used for this purpose is attached as Appendix B.

Not all the 426 borrowers could be contacted. In numerous cases the principal of the firm was not available. In other cases, researchers had not fully identified the owners from bank file data. The short time frame for reporting on this project precluded follow-ups where owners were absent or unavailable during the two-week data collection period. Twenty-six individuals refused to respond to the telephone interview and three others denied having SBLA loans even though their bank loan files stated otherwise. A sample of 176 SBLA borrowers was accumulated.

Detailed breakdowns of sectoral representations will be presented subsequently. However, it is worth noting that the median borrower was a firm with seven employees and annual sales of $700,000.

2.3 CFIB Survey Data

For this project, data are drawn from two surveys conducted by the CFIB: one adminsitered in 1990 and a second carried out in 1994. In addition, the 1994 survey was followed up by a special survey of firms that had reported a term loan so that further information about the SBLA could be acquired.

2.3.1 The 1990 Survey

One of the primary purposes of the 1990 survey was to examine, in particular, terms of credit advanced to women business owners. Therefore, the questionnaire was mailed to all 5,246 women business owners listed on the CFIB membership and a random sample of 9,734 male business owners.

The 1990 questionnaire was divided into five secuons. The aim of the first section was to collect background information on each business. To this end, the section included questions on geographical location, age of business, legal status, number of owners, nature of ownership, average annual sales growth, number of employees, nature of products/services provided, and the nature of the process of production. The second section gathered information on (1) up to three of the principal owners and (2) the financial manager of the enterprise. For each owner, it featured questions on the size of ownership, level of education, type of degree obtained (if any) and managerial experience. The second section also investigated the gender, identity, employment status, and training of the financial manager.

The third section helped to gather data on credit terms. Specifically, it inquired into the month and year of the loan application reported, interest rate charged on the loan, ratio of collateral to loan, loan turndowns, and demand of spousal co-signature. This section was used to collect information of

types of securities available for collateral. The section also asked explicit questions about the type and amount of collateral that was requested by the banks to determine whether or not banks differ in requests of collateral between men and women entrepreneurs.

The third section also inquired into the bank-shopping behaviour of business owners . The fourth section was concerned with the perceptions of entrepreneurs about services provided by financial institutions. Business owners were asked if they had defaulted on term loans or exceeded line of credit limits.

There were 2,785 respondents to the 1990 questionnaire, 28 of whom did not respond to the question of whether they had sought any form of debt financing in the years 1987-1990. There were five people who said they had not sought debt financing, but then indicated later that they had actually done so. Five hundred and ninety-four respondents indicated they had sought a term loan in the years 1987-1990, 627 respondents had sought a line of credit in the years 1987-1990; 635 respondents had sought an increase in their line of credit. Seven hundred and eighty-six respondents had not sought any of these three sources of business financing. Eighty-two respondents did not answer questions about the type of financing sought after indicating they had sought financing. Again, respondents from the agricultural sector were deleted from consideration because of the specialized nature of lending to that sector.

2.3.2 The 1994 Survey

The 1994 questionnaire was an expansion of the 1990 instrument and retained most of its content and structure. Mailed to all members of the CFIB, it added questions that dealt with bank services, bankruptcy experience, communications, and such bank activities as calling of loans and requirements for more collateral.

Of the 10,713 responses, 7,053 respondents indicated their firm had sought a line of credit, an increase in a line of credit, or a term loan from a financial institution since 1991. As in the two previous surveys, small businesses in the agriculture sector were excluded. A total of 2,185 respondents reported having sought a term loan since 1991; 2,396 had sought to establish a new line of credit; and 1,741 had applied to increase the limits on existing lines of credit.

2.3.3 CFIB Follow-Up of Term Loans

Given the importance of the issues of economic impact and incrementality of SBLA lending, the CFIB agreed to carry out a follow-up of their 1994 survey. This involved contacting more than 2,300 members who had reported a term loan on their response to the 1994 survey. This was carried out by fax and telephone during July 1994. A total of 1,441 responses were obtained to the data collection form attached as Appendix C.

With these data in place, issues of economic impact, incrementality, and risk profile analysis can be conducted.

3. Economic Impacts of SBLA Lending

3.1 A Profile of SBLA Borrowers

Table 1 lists the size distribution of SBLA borrowers, as measured by the number of employees, against the size distribution of firms that have reported a term loan that is not an SBLA loan. An alternative measure of size of firm is the level of annual sales. Table 2 breaks down SBLA and non-SBLA bank clients according to annual sales volume.

From these tables it appears that SBLA borrowers do not differ substantially from non-SBLA borrowers in terms of the number of people employed; however, a higher proportion of SBLA borrowers are among the lower categories of annual sales volumes. These tables document that SBLA borrowers are less likely to be among the very smallest (less than 4 employees) firms but are also less frequently encountered among the larger firms (more than 20 employees).

Table 1
Size Distributions of SBLA and Non-SBLA Term Loan Borrowers, by Employment

Size of firm (Number of employees)	SBLA Borrowers (% of borrowers in category)	Non-SBLA Borrowers (% of borrowers in category)
Up to 4	27.8	36.8
5 to 9	31.4	26.7
10 to 14	18.3	11.5
15 to 19	9.2	5.4
20 to 49	10.5	13.7
50 to 99	2.0	3.7
More than 100	1.0	2.0

*Source: 1994 Carleton University survey of bank loan files.

Table 2
Size Distributions of SBLA and Non-SBLA Term Loan Borrowers, by Sales Volume

Size of firm (Annual Sales $000)	SBLA Borrowers (% of borrowers in category)	Non-SBLA Borrowers (% of borrowers in category)
Less than 250	31.3	26.5
$251 to $500	21.6	19.7
$501 to $750	11.7	11.2
$751 to 1,000	8.4	9.0
$1,001 to 2,000	18.8	15.5
$2,000 to 5,000	8.4	13.0
More than 5,000	0.2	5.2

*Source: 1994 Carleton University survey of bank loan files.

Table 3 presents the breakdown of term loan borrowers, both SBLA and non-SBLA, by broad industrial sectors, according to data drawn from the 1994 CFIB surveys.[1] SBLA borrowers tend to be over represented in the hospitality and the manufacturing sectors. Predominant among the borrowers in the hospitality, it is estimated that 14 percent of SBLA borrowers are restaurants, particularly of the 'fast-food' segment. Four percent of the borrowers were trucking or transportation firms.

Table 3
Sector Distributions of SBLA and non-SBLA Term Loan Borrowers

Industry	SBLA Borrowers (% of borrowers in category)	non-SBLA Borrowers (% of borrowers in category)
Mining, Primary Industries	1.3	1.3
Manufacturing	18.3	13.1
Construction	10.8	9.2
Transport'n, Communic'n	7.8	6.3
Wholesale	7.5	5.2
Retail	19.6	26.7
Financial, Ins., Real Estate	4.2	4.8
Business Services	6.9	5.6
Community Services	1.6	5.1
Hospitality, Pers. Services	17.0	14.9

*Source: 1994 CFIB membership survey.

Table 4 compares SBLA borrowers with non-SBLA borrowers and by stage of development. Because of the potential for survivorship bias among the CFIB sample, these data are drawn from the Carleton University sample of bank loan files.

Table 4
Stage of Development of SBLA and non-SBLA Borrowers

Age of Firm	SBLA Borrowers	non-SBLA Borrowers
Start-Ups (less than 1 year)	20.6%	4.2%
1 to 3 years	14.5%	8.2%
More than 3 years	64.9%	87.5%

*Source: 1994 Carleton University survey of bank loan files.

Clearly, SBLA borrowers display a greater tendency to be at earlier stages of development than non-SBLA borrowers. Among the SBLA borrowers, 4.6 percent are women-business owners while 6.0 percent of non-SBLA business borrowers are women.

Fully 55.7 percent of SBLA borrowers had taken out their loans during the last half of 1993. This is to be expected given the recent surge of activity under the terms of the SBLA..

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1 Note: percentages do not sum to 100% because firms in agriculture are omitted along with firms that were not classifiable

3.2 Economic Impacts of SBLA Borrowers

Most of the borrowing under the terms of the SBLA were new loans in the sense that less than five percent of the loans replaced a previous debt. In 50 to 59 percent of the cases[2] the loan was prompted by the suggestion of the firms' bankers. A large majority of respondents (91%) to the Carleton University telephone survey pronounced themselves either "very satisfied" or "somewhat satisfied" with the manner by which the loan was handled. Almost 60 percent of the respondents to the CFIB follow-up survey were either satisfied with the program as-is, thought the program should be accorded more publicity, or felt that the program should be expanded to cover more types of loan. This high level of satisfaction suggests that the program has helped business owners achieve their objectives.

Both the CFIB follow-up survey and the Carleton University survey asked SBLA borrowers how the funds borrowed had been employed and to what effect. Both surveys showed that, by far, the primary uses of the borrowed funds were to obtain new equipment or to fund new property or floorspace. In both surveys, 75 to 80 percent of respondents indicated these uses of the funds. In 28 percent of the cases this was accomplished, at least in part, through leasehold improvements.

Overall, it can be said that SBLA borrowers tend to be smaller and more marginal than the general population of bank SME clients. Respondents to the Carleton survey reported as follows:

- 64.5 percent of respondents indicated that sales increased as a result of the loan, by an average of $341,000 annually;
- 88 percent of respondents reported that an average of 5.3 new jobs were created;
- 29.1 percent of respondents reported cost decreases;
- 9.2 percent reported an increased ability to export
- 41.7 percent reported that the SBLA loan helped the firm to survive.

The CFIB follow-up survey also reported that SBLA borrowers had benefited from the loan; however, the specifics of the CFIB data differ from those reported above. According to the CFIB data: 36 percent of SBLA borrowers reported increased sales and 28 percent reported increased employment. One explanation of these differences lies in the survivorship bias inherent in the CFIB data: that CFIB members have survived (and even flourished) to the level that they can afford membership in the organization. As such, CFIB members are arguably less marginal, in general, than the larger population of Canadian SMEs: CFIB data, for example, include substantially fewer start-ups than those reported in the bank file survey. Additional capital, therefore, would probably have less of an impact on CFIB member firms.

Expansion of the eligibility criteria for SBLA borrowing has resulted in some incremental activity. An estimated 8.6 percent of borrowers reported sales in excess of $2,000,000 (Table 2) and 8 percent of borrowers are in the professions; another 4 percent are in the finance, insurance,

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[2] Fifty-one percent according to the Carleton survey; 59 percent according to the CFIB survey.

and real estate sectors Table 3). However, these levels do not account for the magnitude of current SBLA lending. This raises issues of incrementality.

4. Issues of Incrementality

One of the concerns raised recently with respect to the SBLA is that of incrementality. In the context, there are two aspects to incrementality. The first relates to the 1993 revisions to the eligibility criteria. According to these changes, firms with sales of $2 million to $5 million became eligible borrowers. In addition, firms in particular industrial sectors became newly eligible. In this sense, some borrowers are incremental in that they would not have been eligible prior to April 1993.

The second aspect of incrementality relates to the "bankability" of the firm. The question has arisen as to whether or not firms that have borrowed under the SBLA would have qualified for a term loan without the need for a government guarantee. That is, "...what proportion of SBLA lending is really incremental, in the sense that the loans would not have been made without the program?"[3]

In terms of the first definition of incrementality, Table 2 presented the distribution of SBLA borrowers by level of annual sales. From this table, it is seen that 8.6 percent of borrowers reported sales in excess of $2,000,000 per year and are incremental in the first sense. In terms of the new sectoral criteria, data from the 1994 Carleton University survey of bank loan files reveals that 8 percent of borrowers are in the professions; another 4 percent are in the finance, insurance, and real estate sector.

The revisions to the Act increased the amount that firms could borrow under the SBLA. Table 5 lists the distribution of borrowers by size of loans. Clearly, small loans predominate. Almost six out of ten SBLA loans are for less than $50,000. From the perspective of the lenders, such loans are not cost-effective. Moreover, bankers contend that lending to SMEs is, in general, an unprofitable segment of the banking business. Small borrowing balances, losses to bad debts, and direct and indirect costs of administration necessitate that account managers frequently cover 80 to 120 accounts. The extent that bad debt losses can be mitigated by means of a guarantee lenders have incentive to encourage loans to firms that may not otherwise be considered. For reasons of reduction of investigation costs, lenders may also be tempted to make guaranteed loans where the guarantees are not needed.

Table 5
SBLA Borrowers by
Size of Loan

Size of Loan	Percent of Borrowers
Less than $25K	36
$25K to $49K	22
$50K to $99K	22
$100K to $149K	7
$150K to $199K	7
More than $200K	7

*Source: 1994 Carleton University of bank loan files.

[3] Internal memorandum, ESBO, Industry Canada, April 1994.

Evaluation of incrementality in this second sense, or 'bankability', is less straightforward. The CFIB surveys asked borrowers for their *perceptions* of incrementality. Eleven percent of respondents reported that all other loan requests had been turned down. Fifty percent *believed* that they could have borrowed elsewhere without the SBLA. Another 27 percent replied that the SBLA loan wasn't necessary in the sense that the firm could have survived without the loan. However, without the loan these businesses might not have employed more people, increased sales, reduced costs, or increased exports. These, of course, are perceptions. They provide a good first impression of incrementality and they reflect beliefs at large in the community. However, additional, more direct, empirical evidence is available.

Table 6
Salient Features of SBLA
Borrowers and Non-Borrowers

	SBLA Borrowers			Non-SBLA Borrowers		
Item	**Mean**	**Std Dev**	**N Cases**	**Mean**	**Std Dev**	**N Cases**
Financial Statement Variables ($000)						
CASH	32.95	79.73	238	105.71	686.24	473
NET FIXED ASSETS	181.26	292.39	354	330.59	915.53	668
TOTAL ASSETS	421.90	470.77	360	1,013.66	2,892.12	737
SHORT TERM BANK LOANS	65.29	94.53	256	135.13	431.86	514
LONG TERM BANK LOANS	139.17	251.77	219	346.43	846.47	309
OTHER LONG TERM DEBT	114.55	202.57	188	201.52	433.56	319
TOTAL EQUITY	109.05	197.75	337	1,041.44	18,390.71	666
SALES	769.25	824.94	403	1,464.89	3,815.71	748
GROSS PROFIT	334.11	347.18	302	476.53	770.13	489
PROFIT BEFORE TAXES	49.15	189.61	339	53.77	251.32	639
Bank File Information						
RELIABILITY OF INFORMATION	5.28	2.06	428	5.67	1.76	857
BUSINESS PLAN	1.73	1.26	434	1.50	1.44	867
HISTORICAL F/S	2.43	1.27	434	2.61	1.28	867
PRO-FORMA F/S	1.75	1.29	435	1.52	1.37	867
PERSONAL FINANCIAL DATA	2.49	1.19	434	2.16	1.37	865
Risk Measures						
BURDEN COVERAGE RATIO	3.52	0.61	139	3.49	0.77	237
YRS CLIENT WITH BANK	5.72	9.29	418	13.10	17.36	849
NUMBER OF FTE EMPLOYEES	7.54	9.91	212	9.44	20.80	283
AGE OF BUSINESS	8.76	10.38	407	15.17	14.77	712

*Source: 1994 Carleton University survey of bank loan files.

Table 6 compares SBLA borrowers with borrowers who did not avail themselves of the SBLA, according to a variety of criteria. It is seen that, on average, non-SBLA borrowers boast more assets, more equity, and higher profits than do SBLA borrowers. The bank loan files of SBLA borrowers are, on average, more complete and more reliable than for non-SBLA borrowers. SBLA borrowers tend to be younger, smaller firms but with burden coverage ratios that are similar to those of non-SBLA borrowers. SBLA borrowers were also found to be no more likely than non-

SBLA borrowers to report histories of previous loan defaults or of exceeding the limits of their lines of credit.

On average, then, SBLA borrowers do appear to be those targeted by the Act: they tend to be smaller, more risky, and with fewer resources than other firms. However, a closer examination does reveal some questions about incrementality. One contention, for example, is that banks may be "... reducing the funds ... available to small business as lines of credit, and replacing these lines of credit with SBLA loans".[4]

To investigate this contention, turndown rates on lines of credit, non-SBLA term loans and SBLA term loans were computed from CFIB data for loan applications prior to mid-1993 and for loan applications made since mid-1993. Table 7 reports the findings of these calculations.

Table 7
Turndown Rates, Various
Loan Categories by Date

Type of Loan	Turndown Rates Jan 1991 - June 1993		Turndown Rates *post* June 1993	
New Operating Loans	14.7%	(1,998 cases)	16.2%	(707 cases)
New non-SBLA Term Loans	8.9%	(707 cases)	12.0%	(291 cases)
SBLA Term Loans	10.7%	(109 cases)	10.9%	(119 cases)

* source: April1994 CFIB membership survey, July 1994 telephone/fax follow-up survey

While the changes in turndown rates for non-SBLA loans are greater than that for SBLA loans, none of the changes in turndown rates are statistically significant. That is, the probability is high that the observed changes are attributable to the vagaries of sample selection. Again, this evidence is suggestive of the possibility that operating loans and on non-guaranteed loans are being discouraged more than guaranteed loans (turndown rates have increased, though the possibility of this being a statistical artifact is high while the turndown rates on SBLA loans has increased marginally, if at all).

A further means of investigating incrementality is to examine the banks' treatment of SBLA clients with respect to terms of credit on operating loans and non-SBLA term loans. For example, 254 firms had borrowed under the terms of the SBLA and also maintained an operating loan facility with the same lender. Likewise, 326 firms had both a term loan under the SBLA as well as one or more term loans that were not guaranteed. Table 8 presents the distributions (and cumulative distributions) on *operating loans* held by SBLA borrowers and by non-SBLA term loan borrowers. Table 9 presents similar distributions of rates on *non-SBLA term loans* for borrowers who also held a SBLA loan and for term loan borrowers who did not report an SBLA loan.

The median rate on operating loans paid by non-SBLA borrowers is 125 basis points above prime. In finance theory and according to stated bank practice, the interest rates charged by lenders reflects the lenders' assessments of client riskiness. From Table 8, it is seen that among SBLA borrowers, 30.3 percent have been assessed an operating loan interest rate that reflects a ranking that lies in the lower half of rates assessed operating loan clients. Even though SBLA

[4] Internal memorandum, ESBO, Industry Canada, April 1994.

borrowers are, *on average*, smaller, younger, and have less assets etc., 30.3 percent of these firms do not seem to have been regarded by the lender as among the riskier firms.

Likewise, in Table 9, 39.4 percent on SBLA borrowers paid lower than median (150 basis points above prime) rates on non-SBLA term loans from the same lender from whom an SBLA loan had been advanced. Figures 1 and 2 present these findings in a graphical format.

Table 8
Distributions of
Interest Rates on
Operating Loans

Interest Rate Ranges Above Prime	SBLA Borrowers (%)	(Cumulative %)	Non-SBLA Borrowers (%)	(Cumulative %)
0 to 0.25	1.6		7.4	
0.251 to 0.5	3.9	5.5	10.5	17.9
0.501 to 0.75	2.4	7.9	6.6	24.5
0.751 to 1.00	17.3	25.2	21.0	45.5
1.001 to 1.25	5.1	30.3	5.5	51.0
1.251 to 1.5	24.0	54.3	16.3	67.3
1.501 to 1.75	4.3	58.7	2.9	70.2
1.751 to 2.0	21.3	79.9	17.3	87.4
Greater than 2.0	20.0	100.	12.6	100.

*Source: 1994 Carleton University survey of bank loan files.

Table 9
Distributions of
Interest Rates on
Term Loans

Interest Rate Ranges Above Prime	SBLA Borrowers (%)	(Cumulative %)	non-SBLA Borrowers (%)	(Cumulative %)
0 to 0.25	1.8		2.5	
.251 to 0.5	0.0	1.8	4.0	6.5
.501 to 0.75	1.8	3.6	4.6	11.0
.751 to 1.00	12.5	16.1	17.2	28.2
1.001 to 1.125	5.4	21.5	4.3	32.5
1.126 to 1.5	17.9	39.4	19.9	52.5
1.501 to 1.75	8.9	48.3	4.3	56.7
1.751 to 2.0	31.3	79.6	24.8	81.6
Greater than 2.0	20.5	100	18.4	100

*Source: 1994 Carleton University survey of bank loan files.

It can be argued that such rates could result from the possibility that the SBLA loan was more recent than the operating non-SBLA term loan. If true, the SBLA loan could be viewed as a source of additional, incremental, risk to other debt and therefore more risky. However, 55 percent of the SBLA loans reported in the surveys were granted since June of 1993.

These results indicate that from 30 to 40 percent of SBLA loans were to firms that are among the least risky in the lenders' portfolios. This finding speaks directly to the question of incrementality. Incrementality, however, is a multi-faceted concept. On the one hand, extension of loans to less risky SMEs is good news for the government: each firm pays a two percent fee but the likelihood of default is low. Moreover, lenders have been subject to considerable pressure to increase lending to SMEs. The SBLA provides an useful vehicle through which this goal may be accomplished. On the other hand, non-incremental loans use up part of the limited $4 billion portfolio of guarantee under the terms of the SBLA.

With this high take-up rate, increased costs can be expected. These costs take two forms: additional loan losses due to defaults and higher costs of program administration due to the volume of program-related responsibilities. Estimation of these costs is not straightforward. Past experience of default rates is rooted in the record of firms that met the old, more narrow, eligibility criteria. These experiences may or may not be projected into the future reliably. This experience can provide only a first approximation of loan losses. Refinement of these estimates requires two sets of analysis: identification of sectoral distributions of SBLA borrowers and evaluation of the relative riskiness of each of these sectors.

Figure 1:
Interest Rates on non-SBLA Term Loans:
SBLA Borrowers vs Non-SBLA Borrowers

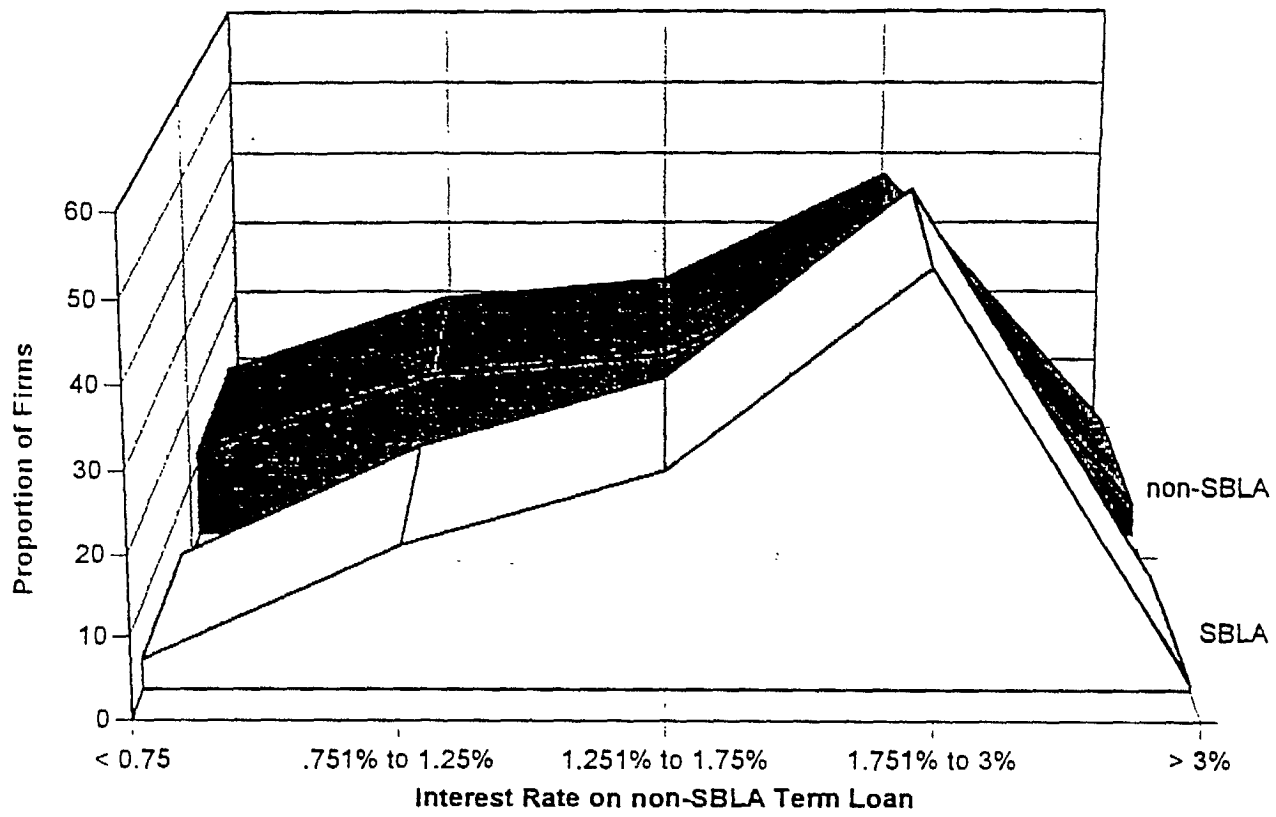
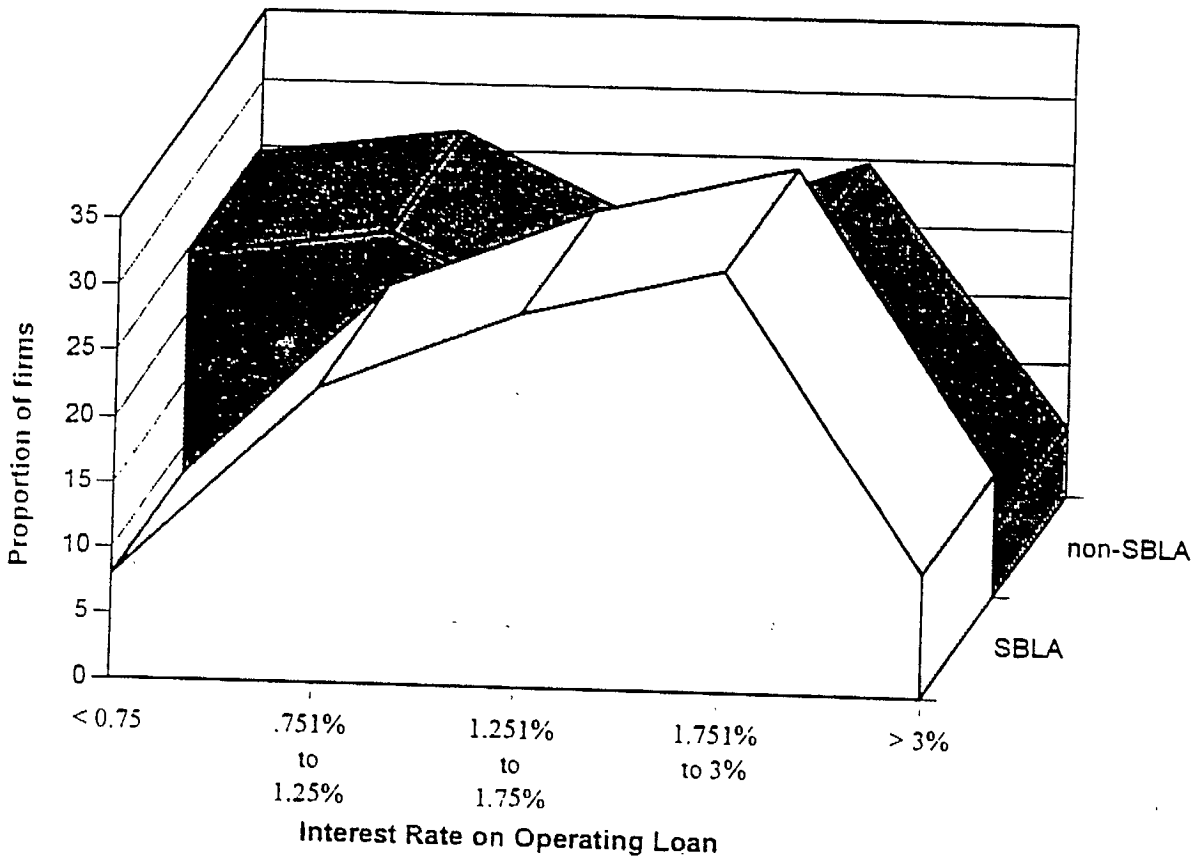


Figure 2:
Interest Rates on Operating Loans:
SBLA Borrowers vs Non-SBLA Borrowers



5. Risk Profile Analysis

The first requirement is to establish a profile of the current SBLA portfolio in terms of industrial sector, size of business, age of borrower firm, use of funds, and lender. These data will indicate the importance of the SBLA in economic development and, in conjunction with sector-specific default rates, will provide a more clear estimate of prospective loan losses. In large part, this has been done in previous sections.

The next task is to determine how risk and the expanded eligibility criteria relate to each other. This second task is to identify the relationships between loan default rates and the expanded eligibility criteria. For example, larger firms, firms with sales of $2 million to $5 million, may be less risky than smaller firms. Professionals may also be less risky, etc.

5.1 Methodology

Data from the bank file survey provided information business sector, age of firms, sizes of firms, location, etc. In addition, the Carleton University telephone survey askedrespondents if they had defaulted on a term loan or been involved in a business bankruptcy. Therefore, these surveys provide micro-level data that potentially permits statistical modeling of the relationships between propensity to default and profile characteristics. This modeling was carried out using:

- basic statistical breakdowns of default experience with respect to profile characteristics; and,
- techniques that discriminate, in the statistical sense, between firms that have defaulted and firms that have not. For example, one application of logistic regression could be to use such inputs as firm size, sector, etc. to predict jointly the probability of default.

It needs to be recognized that the data do not identify if the loan default was SBLA-related. Therefore, the links between default and sector, size, etc. could not be directly applicable to SBLA borrowers, borrowers that on average are arguably more risky than most small businesses. The estimations, however, can provide inferences about the manner in which such factors as size of firm, industrial sector, etc. are, in general, related to default rates.

5.2 Empirical Findings

Tables 10 and 11 present default rates by size of firm (as measured by annual $ sales) and by broad industry sector, respectively. These findings are based on the combined data from several of the surveys employed in this study. In Table 11 two sets of default rates are shown: the first for the pre-recession period ending in November 1990 and the second for the less economically robust period ending with the April 1994 data collection period. These results reflect that the recession has particularly affected the construction and finance/real estate sectors.

Table 10
Default Rates by Firm Size

Annual Sales Volume ($000)	Default Rate
Less than $500	8.2%
$501 to $1,000	4.8%
$1,001 to $2,000	7.6%
$2,001 to $5,000	6.6%

*Sources: Various surveys.

Table 11
Default Rates by Sector

Industrial Sector		Default Rate
Construction	1990	3.0%
	1994	9.3%
Manufacturing	1990	8.4%
	1994	6.7%
Transport'n & Communic'ns	1990	19.2%
	1994	7.6%
Wholesale	1990	4.4%
	1994	5.5%
Retail	1990	8.9%
	1994	6.6%
Finance, Insurance, Real Estate	1990	4.8%
	1994	7.0%
Services, Professions	1990	5.7%
	1994	5.9%
Hospitality (1994 data only)	1994	7.2%

*Sources: Various surveys

Table 12 provides a geographical perspective on default rates for the 1991-1994 period (Yukon and NWT are omitted due to small sample sizes).

Table 12
Default Rates by Province

Province	**Default Rate (%)**
British Columbia	4.5
Alberta	6.0
Saskatchewan	8.9
Manitoba	10.0
Ontario	7.0
Quebec	6.6
New Brunswick	7.5
Nova Scotia	14.7
P.E.I.	12.7
Newfoundland	8.7

*Sources: Various surveys.

From these tables, it appears that default rates are simultaneously governed by location, industry, and firm size. To identify more precisely the nature of this multi-dimensional relationship, multivariate statistical methods are required. The technique of choice is logistic regression.[5] By employing this technique, factors that are significantly related to default rates can be simultaneously estimated and tested for statistical significance.

Application of logistic regression modeling to 1990 data revealed only three significant factors:

- firms in Nova Scotia default at a much higher rate than do other firms;
- firms in the transportation and communications sector default more often; and,
- in 1990, firms in the construction sector were least likely to default.

When the model was re-estimated based on 1994 survey data, only two significant factors emerged:

- unlike in 1990, firms in the construction industry were now more likely to default than firms in other sectors;

---

[5] The general form of the logistic model is:

$$E\{y/n\} = e^{f(x)} / (1+e^{f(x)})$$

The left hand term may be regarded as the probability of a default given a series of firm-specific characteristics denoted by the vector $\{X_i\}$ (e.g., industry sector, size, etc.). The right hand term is based on observations of firms that have either defaulted or not: A large value of $e^{f(X)}$ yields a value of $E\{y/n\}$ of close to 1.0 (e.g., default). A small value of $e^{f(X)}$ results in $E\{y/n\}$ of close to zero (e.g., no default). The $f\{X\}$, then, represent those corporate characteristics that best discriminate between actual historical defaulters and non-defaulters.

Here: y is the actual number of defaults in a sample of n cases,
$E\{y/n\}$ is the predicted proportion of defaults, and,
$f\{X\}$ is a linear model of the form $a_0 + a_1X_1 + a_2X_2 + a_3X_3 + \ldots$ in which the X variables are properties of the firm (e.g., firm size, etc.) and the a_i are parameters that are estimated in a regression-like fashion and that are related to the weight that each factor contributes to the likelihood of a default.

The concept is to estimate the parameters $\{a_i\}$ of a linear model that will predict the proportion of defaults for combinations of values of a set of independent variables, $\{X\}$, in the above equation. In essence, this approach parallels the failure prediction models employed commercially but in this instance is based on actual data on defaulters and non-defaulters.

Logistic regression is considered an improvement on commercial approaches for several reasons. First, logistic regression is a multivariate technique which permits the identification of sets of variables which, in linear combination, are statistically associated with the probability of membership in one of two mutually exclusive categories: default or not. Second, the use of this approach improves on the type of approach which attempts to relate default rates to individual (univariate) attributes of the sample. Third, because the statistical assumptions which underly logistic regression admits both continuous and categorical variables, the use of this technique is likely to be less subject to concerns over the assumptions than would discriminant analysis. Finally, logistic regression is more easily interpreted than discriminant analysis. The logistic regression function forecasts the probability of a default given the right hand side variables.

- firms with sales of $2,000,000 to $5,000,000 were also more likely to default; and,
- no geographic factors were identified.

The finding that the construction sector switched from being the least risky to the most risky is consistent with the experience of the 1990-1993 recession.

These findings allow relatively easy refinements of previous esumates of failure rates. First, the results indicate that historical rates may be projected for most firms in the SBLA portfolio. They indicate that expansion of the eligibility criteria across industry sectors will not affect the overall loan loss experience. However, expansion of the criteria to allow larger firms to borrow under the terms of the program will increase the loan loss rate. Default rates for firms with annual sales of $2,000,000 to $5,000,000 are 14.5 percent higher than for other firms. This needs to be factored into computations of loan loss esumates.

5.3 Tying it Together: Implications for SBLA Loan Loss Rates

The April 1992 change in the SBLA legislation included several potential ramifications for future loan losses. Specifically, the amendments:

- raised the borrowing ceiling from $100,000 to $250,000. Twenty-one percent of SBLA borrowers reported loan sizes within the new range. Therefore, when defaults occur, they will, on average, be for larger amounts of capital.
- The amendments allowed larger firms, those with annual sales of $2 million to $5 million to qualify for SBLA borrowing. Surprisingly, these firms have reported higher average rates of default than smaller firms. Larger firms also typically borrow larger amounts of money. Accordingly,this aspect of the amendment has a two-fold effect such that loan losses can be expected to increase.
- Finally, additional industry sectors became eligible. In general, these sectors have reported default rates that are slightly lower than average

In order to determine the combined effect of these changes, global default rates were simulated for two populations of firms under each of three economic scenarios.

The first population corresponds to those firms that would have qualified for the SBLA under the terms of the pre-April 1993 eligibility criteria: firms with less than $2,000,000 in annual sales and firms in the industry sectors permitted under the pre-April 1993 legislation. The second population corresponds to those firms that are eligible for SBLA borrowing under the revised criteria.

For each population, the average loan size was computed by major industry sector. As expected, average loan sizes were larger for the post-April 1993 synthetic portfolio. Thus, the portfolios totals are simulated by weighting the average loan size in each industry sector by the

representation of SBLA borrowers in that sector (taking into account the additional sectors in the post-April 1994 portfolio).

For each simulated portfolio, overall loan losses were approximated by relating industry-specific default rates (Table 11) to the industry-specific average SBLA loan size. Total loan losses for each portfolio were then calculated as the weighted average of the industry-specific loan losses. Default rates for the post-April 1994 portfolio were adjusted to reflect the higher default rates for firms with sales in excess of $2 million according to the fraction of such firms.

Table 13 provides an example of this calculation. This simulation was repeated using default rates that reflected three levels of economic scenarios: recession, prosperity, and the mean of these two extremes.

Table 13
Example of Default Rate Simulation

Industry Sector	Industry Weighting Index	Average Loan Size ($000)	Default Rate (Table 11)	Weighted Loan Portfolio	Weighted Loan Losses
Pre-April 1993 Breakdown	(1)	(2)	(3)	=(1)x(2)	=(1)x(2)x(3)
Manufacturing	47	63	0.075	2961	222.075
Construction	28	84	0.060	2352	141.12
Transportation etc.	17	100	0.140	1700	238
Wholesale	16	100	0.050	1600	80
Retail	47	85	0.075	3995	299.625
Finance, Real Estate	0	68	0.060	612	36.72
Professions, etc.	17		0.055		0
Hospitality etc.	32	78	0.065	2496	162.24
Simulated Portfolio Total	**213**			**15716**	**1179.78**
Post-April 1993 Breakdown	(1)	(2)	(3)	=(1)x(2)	=(1)x(2)x(3)*
Manufacturing	49	64	0.075	3136	236.592
Construction	28	84	0.06	2352	141.12
Transportation etc.	18	151	0.14	2718	383.5853
Wholesale	17	117	0.05	1989	100.2983
Retail	47	85	0.075	3995	299.625
Finance, Real Estate	9	68	0.06	612	36.72
Services, Professions	17	66	0.055	1122	61.71
Hospitality etc.	35	91	0.065	3185	209.598
Simulated Portfolio Total	**220**			**19109**	**1469.25**

(3)* is an adjusted rate of default based on (3) that allows for the higher default rate of larger firms.

On net, the default rates were found to increase. Table 14 presents the number of basis points by which loan loss rates can be expected to increase for each of the three levels of economic activity simulated here. For example, current loan loss rates may be expected to increase by 10 to 28 basis points over current rates during prosperous economic conditions, and by 26 to 59 basis points if the higher default rates associated with recession occur.

Table 14
Simulated Changes in Loan Losses by
Economic Conditions

Economic Scenario	Minimum Change in Loan Losses (basis points)	Maximum Change in Loan Losses (basis points)
Recession	26	59
Average	18	42
Prosperity	10	28

In summary, this section has simulated the combined effects of:

- sectoral redistributions of SBLA borrowing;
- sectoral default rate experiences;
- larger loan sizes per amended legislation; and,
- changes in default rates that reflect additional industrial sectors and larger firms.

The purpose of this simulation was to evaluate the combined impact of the the April 1993 SBLA amendment on loan loss rates under various economic conditions. Higher loan losses due to the higher default rates and larger loan sizes of larger firms outweigh the lower loss rates of professionals etc. Rates of loan losses can be expected to increase, with the changes dependent on economic conditions.

6.0 Summary

The profile of the 'average' SBLA borrower is a firm that:

- comprises 7.5 employees;
- reports annual sales of $769,000 and before-tax profit that averages $49,000;
- is 8.7 years old.
- has been with their current banker 5.7 years;
- is, on average, smaller and younger than non-SBLA borrowers; and,
- has, on average, fewer assets, less equity, and lower profits than non-SBLA borrowers.

On average, then, SBLA borrowers do appear to be those targeted by the Act: they tend to be smaller, more risky, and with fewer resources than counterpart firms. This report addressed three primary issues. It employed empirical evidence drawn from bank loan files, follow-up telephone interviews of SBLA borrowers, and CFIB survey data of small businesses. The issues at hand are:

- the economic impacts of lending under the SBLA;
- the extent to which loans made under the terms of the SBLA incremental in the sense that the loans would not otherwise have been granted; and
- the extent to which broadening of the eligibility criteria and increased take up of the program is likely to change default rates.

The primary uses of the borrowed funds were to obtain new equipment or to fund new property or floorspace. SBLA borrowers had benefited from the loan through increased sales, cost reductions, and aversion of failure.

SBLA borrowers tend to be smaller and more marginal than the general population of bank SME clients. Expansion of the eligibility criteria for SBLA borrowing has resulted in some incremental activity. An estimated 8.6 percent of borrowers reported sales of $2,000,000 to $5,000,000; 8 percent of borrowers are in the professions and; another 4 percent are in the finance, insurance, and real estate sectors.

Even though SBLA borrowers are, on average, smaller, younger, and have less assets etc., 30.3 percent of these firms do not seem to have been regarded by the lender as among the riskier firms. The reason for this conclusion lies in the observation that interest rates charged these firms by lenders on operating loans were less than those the lenders charged other firms of average risk; likewise, 39.4 percent of SBLA borrowers paid lower than median rates on non-SBLA term loans from the same lender. Figures 1 and 2 presented these findings in a graphical format. These findings imply that 30 to 40 percent of term loans made under the SBLA are to firms that are otherwise bankable.

It was also found that the April 1993 amendments to the Act are likely to change historical loan loss rates. In particular, it was found that firms with sales of $2,000,000 to $5,000,000 were more likely to default than other firms. The finding that the construction sector switched from being the least sector in 1990 to the most risky by 1994 is consistent with the experience of the 1990-1993 recession. These findings allow refinements of previous estimates of failure rates.

Historical rates for most firms in the SBLA portfolio may be projected reliably with the addition that default rates for firms with annual sales of $2,000,000 to $5,000,000 are 14.5 percent higher than for other firms.

APPENDIX A

PRIMARY BANK DATA COLLECTION FORM

GENERAL INFORMATION

1/ IDENTIFICATION:

Transit No.: _____

2/ LOCALITY: (Circle one)

1. Rural (<10,000 pop.)
2. Small city (10,000 - 100,000 pop.)
3. City (100,000 - 500,000 pop.)
4. Large city (>500,000 pop.)

3/ BANK: (Circle one)

1. BMO
2. BNS
3. CIBC
4. CU/CAISSE
5. FBDB
6. NAT
7. ROY
8. TD

4/ FILE NO:_____

5/ ACCOUNT IS HANDLED BY: (Circle one)

1. Full Service Branch account manager
2. IBC Account Manager
3. IB Specialist in IBC
4. Account manager in CBC

6/ ACCOUNT MANAGER CREDIT APPROVAL LIMIT ($000): _____

7/ YEARS CLIENT HAS BEEN WITH BANK:____

8/ YEARS CLIENT HAS BEEN WITH SAME ACCOUNT MANAGER:____

9/ NUMBER OF DIFFERENT ACCOUNT MANAGERS IN LAST 3 YEARS:____

10/ FORM OF BUSINESS: (Circle one)

1. Proprietorship
2. Partnership
3. Corporation

10 a/ INDUSTRY OF BUSINESS ACTIVITY: (Circle one)

1. Construction
2. Mining/Oil Field Services
3. Manufacturing
4. Financial Services
5. Wholesale
6. Retail
7. Agriculture/Forestry
8. Transportation/Communications
9. Services
10. Professions
11. Other_____

INDUSTRY

11/ Number Of Full Time (Or Equivalent) Employees: _____

12/ Age Of Business: _____

13/ Owned By Current Principals For _____ Years.

14/ Gender Of Principal Owner: (Circle One)

1. Male
2. Female
3. Equal partnership
4. Indeterminate

15/ D&B Rating: (Circle One)

1. Prior Bankrupt
2. Evidence of payment problems
3. Acceptable

16/ Credit Bureau Rating Of Owner/Managers: (Circle One)

1. Prior Bankrupt
2. Evidence of payment problems
3. Acceptable

17/ Managers' Shares Of Ownership: (Circle One)

1. Manager 1:____%
2. Manager 2:____%
3. Manager 3:____%

MOST RECENT LOAN APPLICATION

18/ Type Of Credit Application: (Circle One)

1. Term Loan
2. New Line of Credit
3. Increase of LOC facility
4. Change in loan terms
5. Annual Review
6. Other

19/ Loan Package Requested By Customer: (Fill In Appropriate Blanks)

	Line Of Credit	Term: Floating Rate	Term: Fixed Rate	Govt Guarantee
1. Amount Requested ($000)				
2. Interest Rate (Above Prime)				
3. Repayment Term (Yrs)				

20/ Decision: (Circle One)

1. Bank reject
2. Bank accept, customer decline (GOTO: 21)
3. Bank accept (GOTO: 23)

21/ Why Reject: (Circle Appropriate Reasons)

1. Company lacks track record
2. Company has too much debt / too little equity
3. Insufficient collateral / guarantees
4. Anticipated repayment difficulty
5. Poor financial history
6. Not enough information provided
7. Insufficient fiscal management ability
8. Insufficient general management ability
9. Lack of confidence in owner/manager
10. Company too small
11. Loan too small
12. Other

22/ Why Customer Decline: (Circle Appropriate Reasons)

1. Too much collateral /guarantee required
2. Interest rate too high
3. Fees too high
4. Too many conditions
5. Company's requirements changed
6. Amount of loan approved too low
7. Decision took too long
8. Company looking for competitive quote (ie shopping)

23/ Loan Package Accepted: (Fill In Appropriate Blanks)

	Line Of Credit	Term: Floating Rate	Term: Fixed Rate	Govt Guarantee
Amount Proposed ($000)				
Interest Rate (Above Prime)				
Repayment Term				
Amount Guaranteed By Govt ($000)				
Type Of Govt Guarantee				
Annual Loan Mgmt Fee ($)				
Net Loan Application Fee ($)				
Date Loan Requested D/M/YR				
Date Loan Approved/ Reviewed D/M/YR				

24/ Account Manager Comments: (Fill In Appropriate Blanks)

	STRENGTH	WEAKNESS
1. Sensitivity To Economic Environment (Generic)		
2. Sensitivity Of Economic Conditions (Current)		
3. Client's Marketing Management		
4. Client's Operations Management		
5. Client's Character		
6. Client's Financial Management		
7. Security		
8. Future Cash Flows		
9. Anticipated Future Financing Needs		
10. Vulnerability		

25/ Is Client Changing Financial Institutions? (Circle One)

1. Yes
2. No
3. Switch from other branch of same bank

26/ Bank Scoring System Rating:_____

27/ Current Status Of Loan: (Circle One)

1. Satisfactory
2. Problem Loan

28/ Problems Perceived By Account Manager: (Fill In Appropriate Blanks)

Problems	# of Occurances
1. High administrative effort	
2. Recurring overdraft	
3. Margin violations	
4. Late information	
5. Difficult to contact	
6. Poor skills of client	
7. Poor character of client	
8. Poor communications with client	

29/ Problems Raised By Client: (Fill In Appropriate Blanks)

Problems	# of Occurances
1. Loan conditions too restrictive	
2. Collateral requirements	
3. Collateral requirements	
4. Fees	
5. Speed of processing	
6. Term of loan	
7. Information requested by bank	
8. Loan margin too low	
9. Amount of bank involvement	
10. Other	

30/ Collateral ($000): (Fill In Appropriate Blanks)

	Book Value	Eligible Or Appraised Value	Margining Value
1. Personal Assets			
2. A/R			
3. Inventory			
4. Other Business Assets			

31/ Financial Data: (Fill In Appropriate Blanks)

$000	YEAR:_____
Cash	
Receivables	
Inventory	
Other Current	
Total Current	
Net Fixed Assets & Land	
Investments	
Intangibles, Goodwill, Etc.	
Total Assets	
A/P	
Short Term Bank Loans	
Other Current Liabilities	
Total Current Liabilities	
Long Term Bank Loans	
Other Long Term Debt	
Total Long Term Liabilities	
Share Capital	
Retained Earnings	
Deferred Taxes	
Due to Shareholders	
Total Equity	
Sales	
Gross Profit	
Interest	
Leases, Rentals	
Profit Before Tax	
Profit After Tax	
Dividends To Shareholders	
Salaries & Draws By Owner(s)	

32. Quantity of Information Provided to Bank: (Fill In Appropriate Blanks)

	Not in File	Partial	Comprehensive
1. Business Pla			
2. Historical F/S			
3. Pro-Forma F/S			
4. Personal Financial Data			

33. Reliability of Financial Data: (Circle One in Your Opinion)

1_____2_____3_____4_____5_____6_____7

1: Unreliable 6: Outside Financial Professional 7: Audited

APPENDIX B

FOLLOW UP DATA COLLECTION FORM

Loan File sequence number _____.

Hello, my name is _____. I am doing a study of the Small Business Loans Act program on behalf of Industry Canada with Professors Allan Riding and George Haines of Carleton University. I would like to ask you a few questions. This should not take more than 10 minutes of your time. We are hoping to develop a better understanding of the strengths and weaknesses of the program. Your replies will, of course, be kept confidential.
Would you have the time? (thank-you)

1. You do have a current term loan administered under the SBLA program?

a. Yes b. No

If NO, prompt the respondent as to the nature of the loan program. If no success, end interview with "Thank-you, we require no further information from you at this time. This survey is to contact current SBLA loan participants, so we require no further information from you. Thank-you for your co-operation." Please go to question 18.

2. How would you describe the main function of your business:

_____.

3. Did your SBLA loan replace a previous loan?

a. Yes b. No

4. Who recommended that you take out an SBLA loan?

a. My Banker b. Financial Advisor/accountant c. I did d. Other _____.

5. To what extent are you satisfied with the way your current loan is being handled?

a. Very satisfied b. Somewhat satisfied c. Somewhat dissatisfied d. Very dissatisfied

6. What, if any, personal assets were demanded as collateral at the time of the application for credit? (Circle all applicable assets).

Personal Assets	Demanded as collateral Yes	No	Percentage
Automobile	1	2	
Real estate	1	2	
Bonds and securities	1	2	
Other_____	1	2	
Personal guarantees	1	2	_____
Personal guarantees of family, associates, etc.	1	2	

7. How were the proceeds of your SBLA loan used?

a. to obtain premises
b. to obtain equipment
c. to obtain leasehold improvements
d. other _____

8. Please check either YES or NO as appropriate:

Did the SBLA loan help your firm to:	NO	YES	If YES, please provide "off-the-top" estimates (in the dimensions noted) of the extent of help:
Increase sales?			Sales increased by $_____,000. annually.
Increase employment?			_____ new jobs resulted.
Decrease costs?			Annual savings of $_____,000. AND/OR One-time savings of $_____,000.
Increase exports?			Exports increased by $_____,000. annually.
Attract new equity?			Amount of new equity: $_____,000.
Survive?			
Other?			Specify:

9. Are there ways to improve the SBLA program? (circle as many as apply)

a. I am satisfied with the SBLA as is.
b. The program should be discontinued.
c. SBLA should apply to more types of loans.
d. The government guarantee should be increased above 90 percent.
e. The SBLA prescribed interest premium should be lowered.
f. Paperwork should be simplified.
g. There should be more publicity about the program.
h. I have no opinion.
i. Other _____.

10. What is the age of your business?_____years.
(i.e. start of business, not necessarily the date of incorporation)

11. a. How many full time or equivalent employees does your business have?_____.

b. What is the current annual sales or revenue of your business? _____.

12. How, on average, have your gross sales or revenues changed over the past three years? (circle one)

a. Declined (more than -5 %)
b. No change (-5% to −5%)
c. Grew (−6% to −20%)
d. Grew rapidly (over −20%)
e. N/A

13. In the past three years, has your firm experienced market or financial difficulties?

a. Yes b. No c. N/A

14. Have you ever defaulted on a business loan? (circle one)

a. Yes b. No c. N/A

15. If you have a line of credit, have you ever exceeded the limit? (circle one)

a. Yes b. No c. N/A

16. Would you rate your final product/service as high, medium or low tech relative to all goods/services in the economy?

a. Low tech b. Medium tech c. High tech

17. Would you rate the process involved in delivering your final product/service as high, medium or low tech relative to the technology employed in the economy?

a. Low tech b. Medium tech c. High tech

18. Would you like a brief summary of the results of this survey?

a. Yes b. No

IF YES: Name:
Company:
Address:

That concludes the survey. Thank-you once again for your co-operation.

APPENDIX C

CFIB FOLLOW UP FAX/TELEPHONE DATA COLLECTION FORM

Special CFIB Follow-up Survey on Term Loans

M-SV0052-9406

Instructions: Please circle answer as shown: (1.) 1-6

1) What was your business able to do as a result of the term loan? (Circle as many as apply) 9-16

1. Obtain new equipment
2. Obtain new property or floorspace
3. Increase sales
4. Increase employment
5. Increase exports
6. Avert bankruptcy or shutdown
7. Reduce costs
8. Other (Please specify) _____

2) Is your current term loan administered under the federal government's Small Business Loans Act (SBLA) program? (Circle **one**) 17

1. Yes
2. No (Go to Q.6)
3. Don't know (Go to Q.6)

3) If yes, did your SBLA loan replace a previous loan? (Circle **one**) 18

1. Yes
2. No
3. Don't know

4) Who recommended that you take out an SBLA loan? (Circle **one**) 19

1. My banker
2. I did
3. My financial advisor
4. Other (Please specify) _____

5) Was the SBLA your "last resort" option for financing? (Circle **one**) 20

1. Yes, all other loan requests were turned down
2. No, could have borrowed without SBLA elsewhere
3. No, firm could have survived without SBLA loan
4. Don't know

6) Are there ways to improve the SBLA program? (Circle as many as apply) 21-28

1. I am not aware of SBLA program
2. I am satisfied with SBLA as is
3. The program should be discontinued
4. Should apply to more types of loans (i.e. export loans, operating loans)
5. Personal guarantees should not be required
6. There should be more publicity about the program
7. I have no opinion
8. Other (Please specify) _____

Please fax to 905-949-7741

(this is a temporary fax number–do not use a cover sheet)

or mail to CFIB (envelope enclosed)