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Canada Small Business Financing Loan (CSBFL): What is it and how does it work?

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Background:

Your business is either a start-up, an early stage business, or even an established business (with revenues under $10 million) looking for financing. It also possibly has a limited personal guarantee. You are looking to perhaps acquire the assets of another business or to buy a new/used warehouse, manufacturing equipment, computers, furniture, and fixtures, or do leasehold improvements.

What is a CSBFL?

The Canada Small Business Financing Loan (CSBFL) is a federal government guaranteed loan that provides financing to Canadian businesses. It is typically provided by traditional banks or credit unions. The CSBFL is capped at $350,000, but can reach up to $1 million if used for the purchase or improvement of commercial real estate. This loan is designed to help business owners purchase, install, refurbish, or improve business fixed assets. It cannot be used for working capital, fund losses, goodwill, inventory, or franchise fees.

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To qualify, banks generally look at your personal credit score and you need to meet certain minimums. If using funds will help your business grow and you can afford the loan payments, the CSBFL may be a suitable financing solution.

Key Features

Lending criteria – Lenders can loan up to 100% of the cost of eligible fixed assets. The final percentage will depend upon the bank's lending policy, your industry, and the risks of your business. Asset purchases made within the past six months can be eligible for the CSBFL, and you can apply to get these qualified costs reimbursed.

Term – This loan is generally repaid over a maximum period of 10 years, except for real estate, which can be repaid over a maximum of 15 years. Ultimately, the term will depend on the useful life of the financed asset and is up to the bank's discretion. In the case of leasehold improvements, the term is tied to the occupancy lease term.

Interest rate and fees – The interest rate for these loans is bank prime, plus 3% and usually charge an annual loan monitoring fee. There is also a government registration fee of 2% and a lender's fee or an application fee of 0.5% of the loan. Some of the fees can be added to the loan and, in some circumstances, lenders may choose interest-only at their discretion for a certain number of months.

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Guarantees – The Canadian Federal government guarantees up to 85% of the loan and lenders usually require a personal guarantee from the business owner. The percentage of the loan that needs to be personally guaranteed can range from 25% to 100%. It is important to note that the personal guarantee does not decrease with the repayment of the loan.

Security – Lenders require a first charge on the assets being financed. Banks do not typically require you to pledge any of your personal assets as collateral for this loan.

Conclusion

If your business is looking for a cost-effective and long-term solution to finance fixed assets, a CSBFL could be an ideal solution. It can also be used as a stepping stone to build a relationship and credit history with a traditional lender. Even if the CSBFL does not meet the entire financing requirement on its own, it can be used in combination with other creative financing products to meet the total financing needs of the business.

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At Isaacs Advisory, we have extensive experience in advising, structuring, and sourcing a wide range of traditional and non-traditional financing solutions of $100K to $1 million for our clients.

For more information on raising financing solutions for a start-up, early stage, growth, or in-transition business, or a business in distress, please contact Dheeraj Nair at 647-673-4969 or dnair@isaacsadvisory.ca.