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

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The Canadian Small Business Financing Loan (CSBFL) is a financing solution provided by traditional banks and by some credit unions.

It was created by the Canadian Federal Government and is designed to encourage business growth and expansion. What makes it unique is that the government provides a guarantee for 85% of the loan for which it charges a small fee. So, if the business cannot repay the loan, the bank can look to the government to get repaid.

The fee for the guarantee makes these loans more expensive than traditional term loans, but as you will see below, they have many other features and benefits that make them very attractive to many businesses.

The CSBFL has been around for several decades and was recently updated to expand the types of solutions it can be used for, as well as the total amount that a business can apply for.

I have prepared this article in a Q&A format to help readers quickly understand this financing solution.

What types of businesses can use it?

It is ideally suited for start-ups, early-stage businesses or even established businesses (with revenues under $10 million). However, the business should be generating revenues within the next 6 to 12 months and have sufficient equity raised to fund start-up losses.

How much can your business borrow?

The CSBFL was historically capped at $350,000 but was recently increased to $500,000.

What can I use it for?

It has quite a broad application and can generally be used for:

- Leasehold improvements
- Machinery & equipment
- Office furnishings and fixtures
- Software apps and websites
- Warehouse equipment

- Working capital costs such as rent, professional fees, marketing costs, etc.
- Certain intangible assets such as franchise fees or goodwill
- And more!

Does the bank look at my personal credit score?

Yes, as part of the approval process, banks look closely at the business owner's personal credit score, and one needs to meet certain credit score minimums to qualify (normally 700+).

How long do I have to repay it?

This loan is generally repaid over the useful life of the asset being financed and in the case of leasehold improvements, is tied to the term of the occupancy lease. Most are repaid over 5 years (ie: 60 months). Banks can also make these loans interest-only for their first 3 to 6 months.

What are the interest rates & fees?

The interest rate is generally bank prime plus 3% plus the government guarantee fee which is typically 2% of the loan. Banks also charge an annual loan monitoring fee and an application fee.

Can I use it to refinance any assets I already bought for my business?

Yes, a great feature of this financing solution is you can go back 6 months from its approval and get reimbursed for any capital the business outlaid for eligible costs. You have one year going forward to use it if you don't need to use all of it now.

Do I need to provide any Personal Guarantees?

The Canadian Federal Government guarantees up to 85% of the loan and lenders usually require a limited personal guarantee from the business owner (normally 25% of the loan). They also don't normally require you to pledge any of your personal assets as collateral for this loan (ie: they don't need a mortgage on your home).

Does the bank need to place a lien on my business assets?

Yes, banks typically require a first charge on financing the business assets.

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Some "fine print" that you need to be aware of:

Having sourced several of these for clients over the past 10 years, I also wanted to include some nuances that come up on these loans that are important to keep in mind:

- The shareholders need to have injected some equity into the business
- Banks tend to avoid businesses with complicated share structures and a lot of shareholders
- They normally require the active majority shareholders to sign the limited personal guarantee and can exclude non-active investors
- For start-ups and early-stage businesses, they require shareholders to have access to additional capital to fund the business if it takes longer to get to profitability
- This loan cannot be used to fund start-up losses

In summary, if your business is looking for a cost-effective financing solution and one that comes with a limited personal guarantee, then CSBFL might be the ideal solution. Even if the CSBFL is not sufficient to meet a business's entire financing requirement, it can be used in combination with other financing products to meet the total financing needs of the business.

At Isaacs Advisory, we have extensive experience in advising, structuring, and sourcing financing solutions for start-up, early-stage, and growth businesses.

For more information on financing solutions please contact Adrian Isaacs at 416-835-4511 or aisaacs@isaacsadvisory.ca.