

Background

May 2015

Small Business Loans

Core Issue: The 2015-16 provincial budget included the termination of the Small Business Loans Association (SBLA) Program. While there are other non-traditional lending options available for start-ups and small businesses, there is concern that cancelling the SBLA Program will hinder entrepreneurs. This backgrounder will examine the SBLA and lending programs still available to entrepreneurs.

Small Business Loans Association Program

On March 19, 2015 the provincial government terminated the Small Business Loans Association (SBLA) program. As per *The Small Business Loans Association Program Regulations*, the program was created in 1989 to “provide economic development opportunities” and “enhance the economic status of women and other persons involved in eligible business.” The Ministry of Economy said the program was intended to provide loans to entrepreneurs that could not access loans from traditional lenders.

The program was centrally administered by the Saskatchewan Ministry of Economy, but entrepreneurs applied for funding through local SBLAs. SBLAs functioned in accordance to the SBLA Handbook provided by the Ministry of Economy. This handbook outlined the program and administrative processes to be followed. Entrepreneurs were eligible to receive loans for business purchases of capital items, renovations, and inventory. Operating expenses, including wages, were not eligible projects. More detail regarding eligibility of projects can be found in the regulations.

When local SBLAs issued and collected loans, they returned the principle to the provincial government and retained the interest. SBLAs are responsible for covering their own costs, which are usually offset by the interest they collect. These costs are not tracked by the Ministry. The Ministry of Economy has its own costs for administrating the program; the 2014-15 budget allocated \$480,000 as a loan loss provision and \$267,000 in concessionary allowance for the program, totalling \$747,000. Three ministry staff are assigned to the program, with additional staff assisting as needed.

At the time of its cancellation, there were 156 active SBLAs. While new loans will not be issued, current loans will remain in place and continue to be managed in accordance to the original terms and conditions of the loan. Existing agreements between the Government of Saskatchewan and each SBLA will remain in place. The Ministry of Economy will work with SBLAs to collect outstanding loan portfolios; it may take up to five years to collect all loan portfolios.

Between 1989 and 2015, there were 11,499 loans issued through SBLAs, totaling \$85,202,169. From these loans, SLBAs reported that 7,418 full-time jobs were created and 6,938 full-time jobs were maintained. Over the program's lifespan, the average loan amount was \$7,409. It should be noted, however, that at its inception the maximum loan amount was \$5,000. Over the years the maximum loan amount was increased to \$10,000, \$15,000 and then finally \$20,000 per business.

In the 2014-2015 fiscal year, 211 loans were issued through SLBAs for a total of \$3,202,332; 197 full-time jobs were created and 201 full-time jobs were maintained. The average loan amount was \$15,176. Since its inception, the program has a loan default rate of approximately 6.9 per cent. The Ministry tracked loans by sector, though not all applicants identified a sector on their applications. The following is the data the Ministry has on the majority of loans issued since 1989.

Sector	Number of loans	Percentage of loans	Dollars disbursed
Service	4,370	43	\$24,694,769
Retail/Consumer	3,811	38	\$36,696,998
Manufacturing/Processing	988	10	\$6,545,055
Agriculture/Agri Value	557	6	\$4,521,792
Tourism	318	3	\$2,367,824
Energy	45	0	\$700,018
Technology/Communications	38	0	\$451,387
Mining	13	0	\$189,845
Total loans tracked by sector	10,140	100	\$76,166,688

The Ministry of Economy also tracked demographic data:

- 44 per cent of loans were issued to women.
- 24.5 per cent of loans were entrepreneurs under the age of 35.
- 80 per cent of loans were issued to SBLAs located outside of Saskatchewan's major urban centers, Regina and Saskatoon.

By cancelling the program, the provincial government will see an immediate savings of \$747,000 annually. As existing loan portfolios are collected, the government will see further savings as administration costs, including staffing costs, are lowered. Over the past 10 years, uptake of the program declined by over 67 per cent. Currently, there are 829 loans outstanding for a total of \$8,325,625.

Women Entrepreneurs of Saskatchewan

Women Entrepreneurs of Saskatchewan (WE) operates a lending program that offers loans of up to \$150,000 to new or existing businesses owned and operated by women. Women must

maintain more than 50 per cent ownership in the business for the business to be eligible. WE's has two lending programs: the General Loan Program and the Micro Loan Program. Entrepreneurs can borrow up to \$150,000 through the General Loan Program and up to \$5,000 through the Micro Loan Program. Eligibility criteria and interest rates are the same for both programs. Loans may be used to fund tangible and/or intangible assets, working capital for inventory, and start-up costs.

To be eligible for a WE loan, applicants must be operating or about to operate a business in Saskatchewan, be able to contribute 20 to 25 per cent equity towards the total projected cost of the business, and assume full membership with WE. Men can access the loan program, but only if women hold more than 50 per cent ownership and control. In seeking a loan, applicants must work with a business advisor and provide a completed application, a personal financial statement, and a business plan that includes debt serviceability.

The terms of a loan and its repayment schedule are determined based on the nature of the needs of the borrower and project. The interest rate is set at chartered bank prime rate plus three per cent. Borrowers are required to sign a debenture, which includes a general security agreement on all business assets. An assignment of appropriate insurance on assets is necessary and a guarantee and postponement of claim may also be requested.

While there is no limit on the number of loans a borrower can have, the maximum loan amount a borrower can carry is \$150,000. If a borrower owns multiple businesses, their total exposure across all businesses cannot exceed \$150,000 in WE loans. In 2014-15, WE approved and distributed 39 loans. The average loan amount was \$61,000. The average loan amount is usually a bit higher at approximately \$75,000. From these loans, 178 jobs were created.

Futurpreneur Canada

Futurpreneur Canada, partnered with the Business Development Bank of Canada (BDC), operates a lending program for entrepreneurs between the ages of 18 and 39. There are two streams of funding, based on age: loans for 18-34 year olds and loans for 35-39 year olds.

The program for entrepreneurs aged 18 to 34 offers collateral-free loans at better interest rates than most banks. Futurpreneur can finance up to \$15,000 per business over five years, and if more money is necessary BDC may additionally provide up to \$30,000. Repayment terms and fees differ between money financed by Futurpreneur and BDC.

Futurpreneur Canada repayment terms and fees:

- Interest is charged at CIBC's prime rate plus 3 per cent.
- Interest-only payments for the first year.
- Principal repayments are made in equal monthly installments together with interest over the remaining four years.
- There is no penalty for early repayment.
- There is a program registration fee of \$50, payable by cheque.

- A \$15 program fee is charged monthly for the duration of the loan, added to the monthly repayment installment.

BDC repayment terms and fees:

- Interest-only repayment in the first year.
- The interest charged is the BDC Floating Base Rate plus five per cent
- Repayment of outstanding BDC principal by monthly repayment schedule that is similar to the Futurpreneur Canada loan. A borrower may prepay all or any part of the outstanding principal, but BDC must receive the interest owing to the time of repayment, together with an indemnity equal to three months' interest on the principal repaid.
- Once a year (non-cumulative) on the anniversary date of the loan authorization date, the borrower may repay 15 per cent of the principal outstanding without indemnity.
- BDC charges a \$50 processing fee, which is deducted from the initial loan disbursement.
- Applications are subject to BDC approval and eligibility criteria; some restrictions may apply.
- Applicants must show a minimum investment of 10 per cent of total value of the project.

Entrepreneurs aged 35-39 apply to receive loans through BDC, but still apply through Futurpreneur and work with a Futurpreneur Canada mentor. Financing terms and conditions, however, are from BDC and the same as the BDC repayment terms and fees listed above.

Though Futurpreneur is a national organization, they were able to provide us with Saskatchewan-specific data from the last four years. The 2014-15 fiscal year saw an uptake in loan usage, which Futurpreneur credits to having two staff members on the ground in Saskatchewan, more collaboration, and social media.

Futurpreneur in Saskatchewan	2011-12	2012-13	2013-14	2014-15
Number of loans	11	18	10	20
Average loan amount	\$13,318	\$12,139	\$12,800	\$14,417
Number of jobs created	53	82	48	96
Estimated revenues generated to governments	\$330,000	\$510,000	\$300,000	\$600,000

Community Futures Saskatchewan

Community Futures Saskatchewan (CFS) is a federally funded organization that provides loans, advice, and support to Saskatchewan businesses and communities through 13 offices around the province. Loans are provided through two streams: a general loans fund and the Entrepreneurs with Disabilities Program. Some offices market the general loans program into a number of different products, but it is essentially one fund. Both streams have the same terms and conditions. The maximum loan to any one entity is \$150,000 though there are mechanisms through which this maximum can be increased. If regional offices make arrangements to combine their funding, the maximum loan available is \$500,000. Loans are subject to a fixed

interest rate and amortization that is established at the time of the application. There are no repayment penalties.

In 2013-2014, 245 loans were distributed through CFS, creating 666 jobs among 245 new businesses. Success measures for the 2014-2015 should be available within the next couple of months.

Some Community Futures Saskatchewan offices were involved in administering the Small Business Loans Association program. Community Futures is concerned about the termination of the program as their funds are fixed and already under considerable stress. To compensate for the loss of the program, CFS will try to move capital around from low demand areas in the province to high demand, as they essentially work with a provincial pool of money. These funds, however, are already stressed and therefore CFS is quite concerned about the cancellation of SBLA.

Summary of Loan Programs

2014-2015	Number of Loans	Average loan amount	Jobs created	Jobs created/loan	Maximum Loan Amount*
SBLA	211	\$15,176	197	.93	\$20,000
WE of Saskatchewan	39	\$61,000	178	4.56	\$150,000
Futurpreneur SK	20	\$14,417	96	4.8	\$15,000
CFS**	245	n/a	666	2.72	\$150,000

* Some programs have mechanisms to make more funding available.

**These are 2013-14 numbers. 2014-15 data is not yet available.

Conclusion

There are aspects of the SBLA program that make it unique from other lending programs. First, the SBLA program can fill the eligibility gaps in the province. Lending programs such as Women Entrepreneurs and Futurpreneurs have specific target audiences of women and young adults, respectively. Community Futures Saskatchewan does not have such eligibility requirements, but it is not available to entrepreneurs in our major urban centres. The SBLA program's eligibility was not based on fixed factors such as sex or age; it was available to those unable to receive a loan through Women Entrepreneurs, Futurpreneurs, or Community Futures. Indeed, approximately 75 per cent of loans were issued to entrepreneurs over the age of 35 and 80 per cent of loans were issued to SBLAs located outside of Regina and Saskatoon. Most loans are going to smaller communities, which Community Futures also serves, but 20 per cent of loans are issued in the major cities. At approximately 56 per cent, over half of SBLAs loans were issued to male entrepreneurs, who are essentially not eligible under Women Entrepreneurs program. Lending programs aimed at specific populations have an important purpose, but a program such as the SBLA program fills the gaps.

Second, the SBLA functions primarily at the local level. This works particularly well for smaller communities, though the program is still available to entrepreneurs in Regina and Saskatoon. With 156 SBLA offices, lending decisions are being made in communities. Local SBLAs have a better understanding of their own communities and what entrepreneurs and businesses will be successful. SBLAs can also offer more flexibility with borrowers, working on a one-on-one basis. On the other hand, it is possible that the sheer number of SBLAs drives the cost of administration up within the Ministry.

There are some concerns with the SBLA program, however. In 2014/15 the program only generated .93 jobs per loan. Over the past decade uptake of the program has declined 67 per cent, despite an increase in the maximum loan amount. Furthermore, while SBLAs bear their own costs, the Ministry of Economy spends \$747,000 a year to centrally administrate the program. This is not insignificant, particularly in a tight budget year.

Despite its challenges, there is value in the SBLA program. The program helps all kinds of entrepreneurs across the province start and expand their businesses. If the program cannot be reinstated in its current form, here are some things to consider:

- Would central administration of the program be more feasible if there were fewer SBLA offices?
- Should a registration fee be put back in place to help the Ministry recoup their costs?
- Can another organization, such as Affinity Credit Union, take over the program?

Affinity Credit Union has been discussed because it has a program called BusinessCents Micro-Loans. These loans are available to new entrepreneurs who might not be eligible to receive conventional financing because they have a limited business history, a lack of collateral, a low income level, and a weak credit history. Applications are evaluated based on the character of the owner and the strength of the business plan. Entrepreneurs can borrow up to \$50,000 for business start-up or expansion. Eligible individuals are those who: operate or are about to operate a business in Saskatchewan (including social enterprises); employ less than 50 employees and have annual total sales of less than \$1,000,000; and have a convincing business plan, strong passion for the idea, and demonstrate commitment to success and loan repayment. This financing can be used to prepare a product or service for sale, R & D or enhancement of a product or service, marketing and promotion, or purchasing equipment or other assets, excluding real property.