Financing Main Street — Research Series

Report #2: SME Financing Indicators

July 2023

Overview

Small businesses play a crucial role in the economy, contributing to its growth and stability. However, in today's uncertain economic environment, access to financing is even more critical.

Recognizing the significance of this issue, the Canadian Federation of Independent Business (CFIB) has been closely monitoring, including via business owner surveys, the small business financing market since the 1980s. CFIB provides a unique perspective by analyzing financing trends for small businesses and identifying the challenges they face in seeking funding.

This report on Small Business Financing Indicators is the second in CFIB's new *Financing Main Street* series about small business banking. While the first report released in March 2023 examined the distribution of small business market share across major financial institutions, this second report explores why businesses need financing and their experience in accessing it, and how the composition of a financial institution's business customer base impacts its financing decisions and practices.

The third report to come in the series will assess small business customer satisfaction with financial institutions and rank them accordingly.

The *Financing Main Street* research series is based on a survey CFIB conducted with 7,193 Canadian small business owners between October 20 and December 13, 2022.

Key takeaways

- Small business demand for financing markedly increased between 2012 and 2022, going from 35% to 58%.
- Financing requests are accepted for 94% of mid-sized businesses, versus just 77% of micro-businesses.
- Over the last three years, over 1 in 2 business owners had to pledge a personal guarantee for their business loan and 1 in 4 pledged their primary residence.
- Among businesses securing a new loan in the past three years, 2 in 3 did it at a variable interest rate; the remaining third had a fixed rate.
- Since the Bank of Canada started raising its key interest rate to combat inflation, the share of small businesses struggling with borrowing costs has surged from 21% in January 2022 to 39% in May 2023.
- Businesses with variable financing that paid around 4.55% in February 2022 are currently paying around 9.05% in interest annually.

Demand for financing has significantly increased over the last decade (2012 vs. 2022, % response)

Introduction

Small businesses play a crucial role in the economy, contributing to its growth and stability. However, in today's uncertain economic environment, access to financing remains critical. Whether it's maintaining cash flow during financial hardships or supporting growth and expansion during prosperous times, small businesses require adequate financing to thrive. Recognizing the significance of this issue, since the 1980s the Canadian Federation of Independent Business (CFIB) has been closely monitoring, including via business owner surveys, the small business financing market.

Financing Main Street: Research Series

This report is the second in the 2023 update of CFIB's three-part small business banking series, *Financing Main Street*. The first report[1] examined the distribution of small business market share across major financial institutions, finding that the Royal Bank of Canada (RBC) holds the greatest market share of small businesses in Canada. The report also found that certain financial institutions dominate the market for businesses of different sizes and sectors; this second report will further explore how the composition of a financial institution's customer base impacts their financing decisions and practices. Lastly, the third and final report to come in the series will assess small business customer satisfaction with financial institutions and rank them accordingly.

Financing Main Street – Report #2: SME Financing Indicators

This report on small business financing indicators will provide a comprehensive update on the financing trends for small businesses and the challenges they have faced in seeking funding over the last three years, particularly considering impacts from the COVID-19 pandemic. It will offer valuable insights and recommendations to small businesses, financial institutions, and government on how best to support small businesses' financing needs with the ultimate goal of ensuring that they have the necessary resources to succeed and contribute to Canada's economy.

Methodology

This report presents findings from the CFIB 2022 National Banking and Financing online survey that was conducted from October 20 to December 13, 2022, and is based on a sample of 7,193 small business owners across Canada. For comparison purposes, a probability sample with the same number of respondents would have a margin of error of plus or minus 1.2%, 19 times out of 20.

All monetary amounts noted in this report have been adjusted to reflect 2023 dollars. Some totals may not add to 100% due to rounding.

It should be noted that some business owners responding to the CFIB survey may be participating in exclusive discounts offered by Scotiabank through the CFIB Scotiabank Savings Program.

“The legal, administrative and appraisal fees for new loans, etc. are excessive. Interest and bank fees now consume almost 50% of our profits.”

BMO small business client - Retail, ON

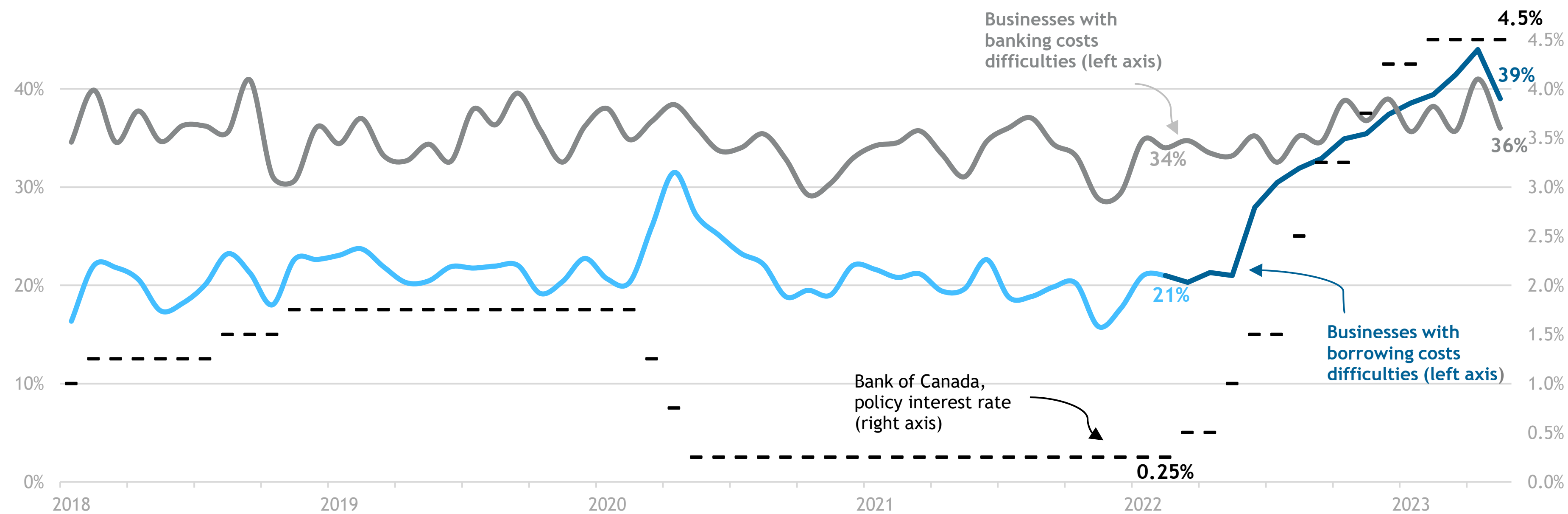
This year, a larger share of businesses than usual face financing challenges

During the COVID-19 pandemic, small businesses increasingly sought financing, resulting in pressure on borrowing costs. The pressure intensified from February 2022 when the Bank of Canada began raising its overnight interest rate, previously stagnant at 0.25%, to combat inflation. As a result, there was a significant increase in the cost of financing. The proportion of small businesses struggling with borrowing costs surged from 21% in January 2022 to 39% in May 2023, aligning with the substantial increase in the overnight rate from 0.25% to 4.5% within a year.[2] Additionally, 36% of businesses cited high banking costs as an obstacle they are facing (Figure 1).

This sustained rise in financing costs raises concerns about small businesses' financial stability and the need for diverse financing options during economic uncertainty.

Figure 1 (% response and effective interest rate)

The share of businesses having difficulties with borrowing costs doubled this past year, while over a third struggled with banking costs



Sources: 1) CFIB, Your Business Outlook monthly survey, January 2018 to May 2023.
2) Bank of Canada, Policy Interest Rate, accessed June 26, 2023. Link: https://www.bankofcanada.ca/core-functions/monetary-policy/key-interest-rate/.
Question: What types of input costs are currently causing difficulties for your business? (Select as many as apply)

Demand for financing has significantly increased in the last decade

Looking back, there has been a clear shift when it comes to the share of businesses seeking out financing. While in 2012 just over a third of small business owners (35%) reported needing financing, there has since been a notable increase. Just three years later, in 2015, half of business owners (49%) needed financing, and by 2019 and 2022, that share had grown further to 58% (Figure 2).

This general increase in the demand for financing likely reflects the more challenging economic and business conditions in recent years and suggests that fewer firms might be able to fund operations through cash reserves or other internal means.

With this increased demand in mind, it is important to consider the financing options that businesses are leaning towards. With a greater share of businesses in need of financing, the types of financing that they are relying on have changed over the last decade.

Figure 2 (% response, 2012-2022)

In 2012, just over 3 in 10 small businesses needed financing, while nearly 6 in 10 do as of 2022

Source: CFIB, Banking, Financing and Payments surveys, 2012, 2015, 2019, 2022.
Question: During the past 3 years, did your business apply for a term loan or line of credit at its main financial institution? (Select one that represents the largest sum)

> "Financing sources from our financial institution are becoming harder and harder to get. If we don't fit into their exact box of requirements, we won't qualify. […] It's all too rigid and we're left scraping for funding from other sources."
>
> *ATB Financial small business client – Construction, AB*

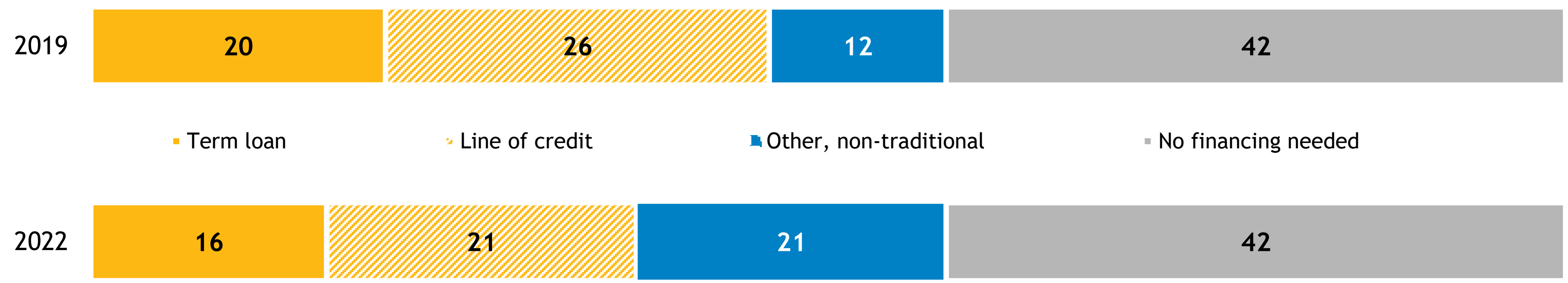
Demand is shifting from traditional to non-traditional financing sources

While overall demand for financing has remained stable over the last three years, the primary sources of financing small businesses target have undergone substantial shifts, moving from traditional to non-traditional options (Figure 3). While in 2019 26% of all businesses sought out lines of credit, that share had dropped to 21% in 2022. Similarly, businesses looking for a term loan dropped from 20% to 16% over the same period. This is the result of many small businesses having newly turned to novel primary financing options, with 21% reporting that they applied for or used other non-traditional sources in 2022 compared to 12% in 2019.

The explanation for this shift can be linked to the sudden need for cash flow that was brought on by the COVID-19 pandemic. Over the last few years, many small businesses accessed the Canada Emergency Business Account (CEBA) loan[3] provided by the federal government or similar relief programs.[4] Though most banks distributed CEBA loans on behalf of the government in the form of term loans or lines of credit, given that this was a new type of government-regulated financing, many businesses did not perceive CEBA loans as traditional financing coming directly from their main financial institution. If pre-pandemic trends[5] return in future years of conducting this study, small businesses' reliance on other non-traditional sources of financing will likely return to levels closer to those observed in 2019.

Figure 3 (% response, 2019 vs. 2022)

While the overall share of businesses requiring financing remained stable over the last three years, their primary source of funds shifted



Source: CFIB, Banking, Financing and Payments surveys, 2019, 2022.
Question: During the past 3 years, did your business apply for a term loan or line of credit at its main financial institution? (Select one that represents the largest sum)

“We bank at RBC for their superior online banking and security. However, we borrow money from the credit unions because they are responsive and understand small business needs.”

RBC small business client – Professional Services, MB

Demand for financing varies by business size

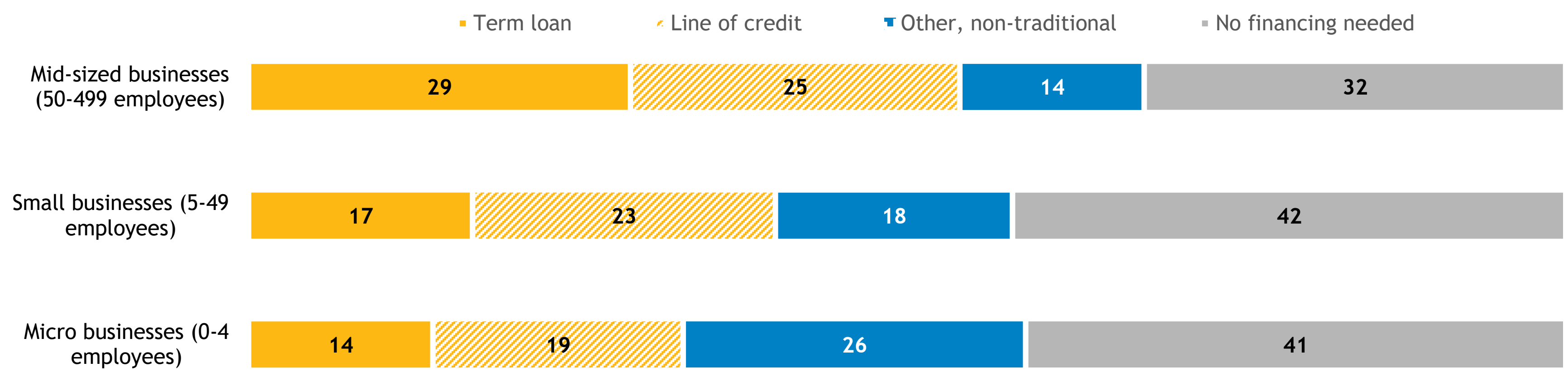
Across all size categories, a majority of businesses sought financing from their main financial institution over the past three years, using both traditional options like term loans and lines of credit, and exploring other non-traditional sources (Figure 4). Demand for financing was highest among mid-sized businesses (68%), followed by small (58%) and micro-businesses (59%). Mid-sized businesses tended to rely more on traditional financing, while more micro and small businesses turned to non-traditional options (18% and 26% respectively). These findings are consistent with previous years.

One explanation for micro-businesses' preference for non-traditional financing options in particular is their heavy reliance on the CEBA loan. On average, 88% of micro-businesses used CEBA, compared to only 30% of mid-sized businesses.[6] This reflects the challenges faced by smaller enterprises during the COVID-19 crisis, leading them to increasingly rely on government programs, potentially due to them struggling to demonstrate viability to traditional banks for conventional financing needs.

The shift towards non-traditional financing options underscores the changing landscape for small businesses, highlighting the need for diverse funding options that can support their financial requirements in different situations. It also emphasizes the unique challenges faced by micro-businesses and the need for tailored financing solutions to ensure their ongoing growth and resilience in the face of economic disruptions.

Figure 4 (% response, by size of business)

Demand for traditional financing increases with business size, while smaller businesses are more likely to seek other, non-traditional sources



Source: CFIB, Banking and Financing survey, October 20-December 13, 2022, final results, n = 6,520.
Question: During the past 3 years, did your business apply for a term loan or line of credit at its main financial institution? (Select one that represents the largest sum)

“Canadian banks are not helpful in financing small business. To get financing, you have to prove that you really don't need it, by providing $3 of equity for every dollar you need to borrow.”

RBC small business client - Enterprises & Admin. Management, ON

Demand for financing is highest in arts, recreation and information; goods-related sectors are more reliant on traditional options

The high demand for financing over the last three years is also present across most major sectors. Some also saw an increase in demand that was likely brought on as a result of the pandemic (Figure 5a, “difference” column). For example, just over half of businesses in the arts, recreation and information sector indicated that they applied for financing in 2019. In 2022, however, that share jumped up significantly to over three quarters.

Preferred sources of financing among businesses that applied in the past three years also varied considerably across sectors (Figure 5b). Businesses in goods-producing sectors (natural resources, construction, wholesale, manufacturing and agriculture) were more likely to rely on term loans or lines of credit, while businesses that are in services-focused sectors were more likely to apply for non-traditional sources of funding.

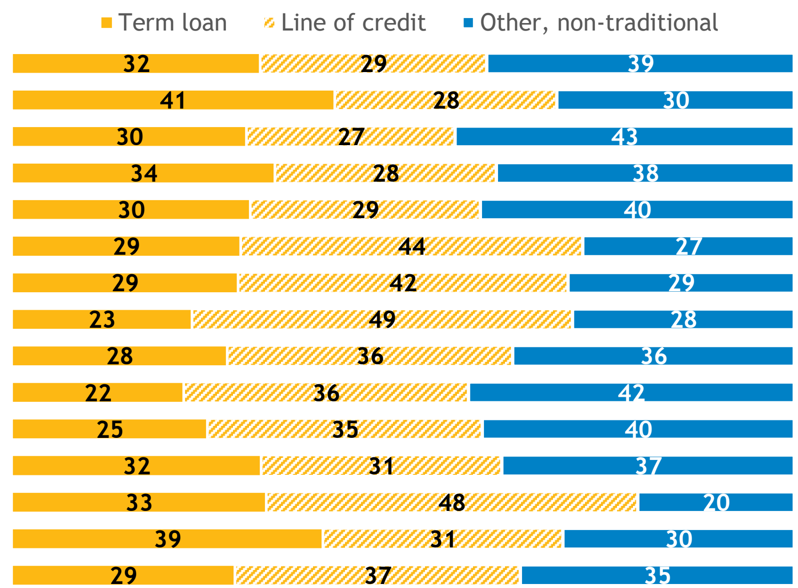
Figure 5a (% response; 2022 vs. 2019 difference, by sector)

Share of businesses seeking funding in past 3 years, 2022 vs. 2019

2022	*2019*	*difference*	
77	54	+23	Arts, recreation and information
67	72	-5	Agriculture
66	60	+6	Hospitality
60	66	-6	Transportation
60	53	+7	Social services
60	60	-	Construction
60	60	-	Manufacturing
59	58	+1	Wholesale
58	58	-	Overall
57	53	+4	Retail
56	53	+3	Personal, misc. services
55	58	-3	Enterprise and admin. mgmt.
49	74	-25	Natural resources
48	52	-4	Finance, insurance, real estate and leasing
48	53	-5	Professional services

Figure 5b (% response, by sector)

Primary funding source across all businesses seeking funding, 2022



Source: CFIB, Banking, Financing and Payments surveys, 2019, 2022.

Question: During the past 3 years, did your business apply for a term loan or line of credit at its main financial institution? (Select one that represents the largest sum)

Adding cash flow and buying both physical capital and inventory are the top reasons driving demand for financing

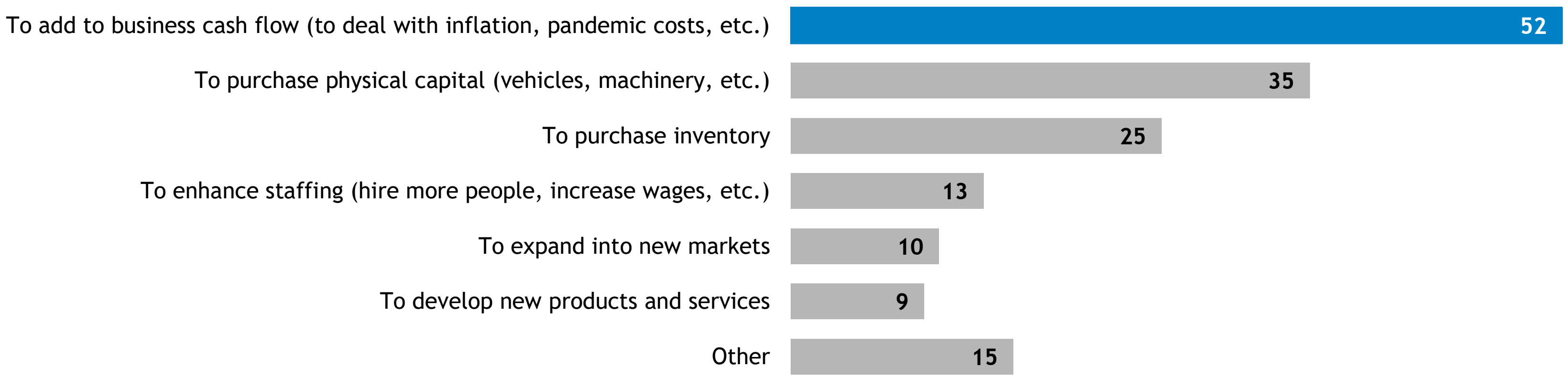
There are a number of reasons why businesses seek out financing and apply for a loan at any point in time. Common motivations often include if they are looking to expand their business in some way or to purchase new machinery. Given the timing of this most recent study on small business banking, it is also important to note that the COVID-19 pandemic took a toll on the small business community in many ways, including forcing many to access financing in order to survive.

Over the last three years, many businesses dealt with financial challenges that could not have been predicted, such as reduced revenues[7] and cash flow, which led many to apply for financing.

The pandemic, as well as inflationary pressures, added to the difficulties normally faced by entrepreneurs, resulting in many requiring financing to maintain their operations. This serves as one explanation for why a majority of businesses (52%) reported applying for financing simply to add to their cash flow. Other notable reasons businesses had for applying for financing included to acquire physical assets (35%) and purchase inventory (25%). As for the notable share (15%) that selected the “other” category, respondents noted various reasons, including to acquire competitors or buy out a partner's share in the company. Businesses’ reasons behind applying for financing are similar across business size.

Figure 6 (% response)

The most common reason for applying for financing is to add to business cash flow



Source: CFIB, Banking and Financing survey, October 20-December 13, 2022, final results, n = 2,424.
Question: Why did your business apply for a term loan or line of credit?

“I am learning that credit lines are much more functional than long-term loans in terms of operational cash flow.”

Credit union small business client – Arts, Rec. & Info., BC

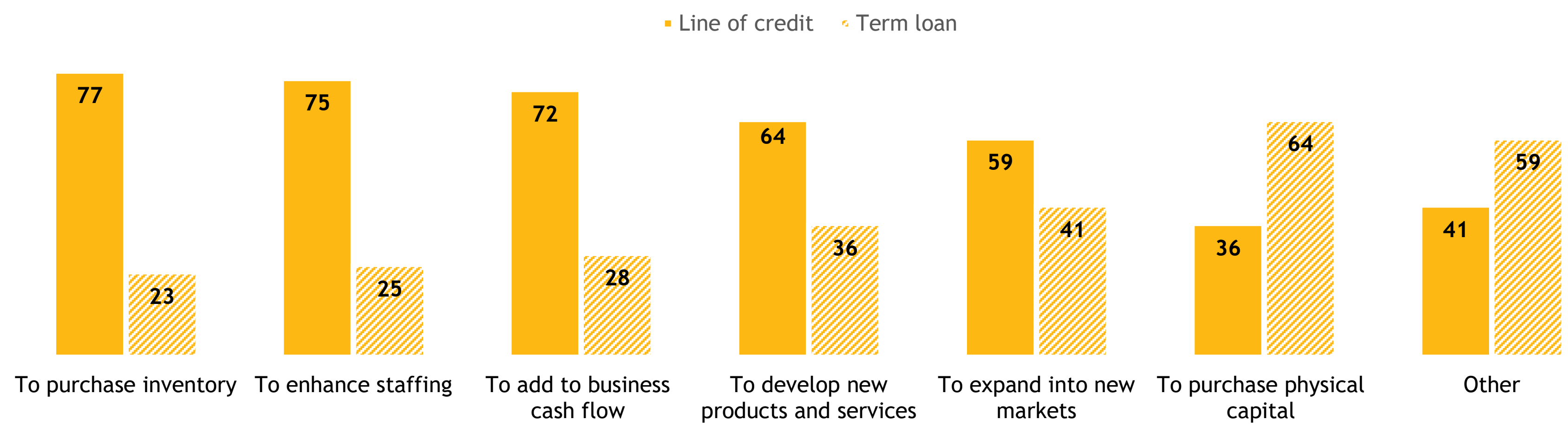
Reason for applying by type of traditional financing

Looking to the reasons why a business applied for financing in the first place can help explain why they chose to seek out a particular funding source. Among those that applied for traditional financing, the majority opted first for lines of credit when it came to purchasing inventory, enhancing staffing, boosting cash flow, developing new products and services or expanding into new markets.

However, when acquiring physical capital or for any other purpose, term loans are the preferred option for most small businesses. This is similar to 2019 where the majority of businesses indicated that they applied for lines of credit to satisfy direct operational needs, such as cash flow or buying inventory, and the demand for term loans was more likely required to invest in capital.

Figure 7 (% response, by type of financing)

A business’s reason for seeking out financing impacts the financing tool that they apply for



Source: CFIB, Banking and Financing survey, October 20-December 13, 2022, final results, n = 2,424.

Questions: Why did your business apply for a term loan or line of credit? (Select all that apply) • During the past 3 years, did your business apply for a term loan or line of credit at its main financial institution? (Select one that represents the largest sum)

The wait time to receive a financing decision has increased, and larger businesses wait longer

The time it takes for small businesses to be notified with a financing decision by their main financial institution has increased in recent years. While the share of businesses that were able to get a response within one month or less remained relatively stable between 2019 and 2022 (73% vs. 70%), within that group, delays worsened (Figure 8a). In 2022, only 23% of respondents reported a process that took less than a week, compared to 27% in 2019. The share of those that received a decision within one to three weeks also shrank (36% vs. 31%), while the cases that took about a month saw a notable increased (10% vs. 16%).

At the other end of the spectrum, a substantial number of businesses (23% in 2022 and 22% in 2019) still experienced processes lasting over a month.

Application processing times also vary based on the size of the business applying. Micro (59%) and small businesses (52%) have the quickest response time, with the average processing time to be notified of a decision being less than three weeks (Figure 8b). Mid-sized businesses, however, have relatively longer processing times, with over half them having to wait a month or more before receiving a response.

Figure 8a (% response, 2019 vs. 2022)

The time it takes for businesses to be notified with a decision on their financing application has increased since 2019

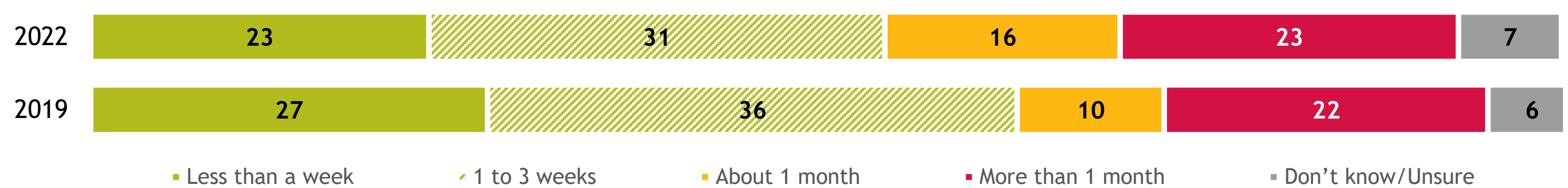
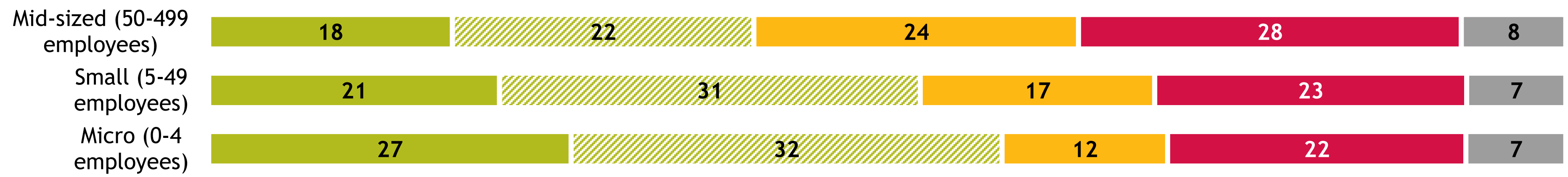


Figure 8b (% response, by business size)

The larger the business, the longer it takes for them to be notified with a decision on their financing application



Source: CFIB, Banking, Financing and Payments surveys, 2019, 2022.

Question: How long was the process from filing the application for financing to being notified with the decision on the financing by your business's main financial institution? (Select one)

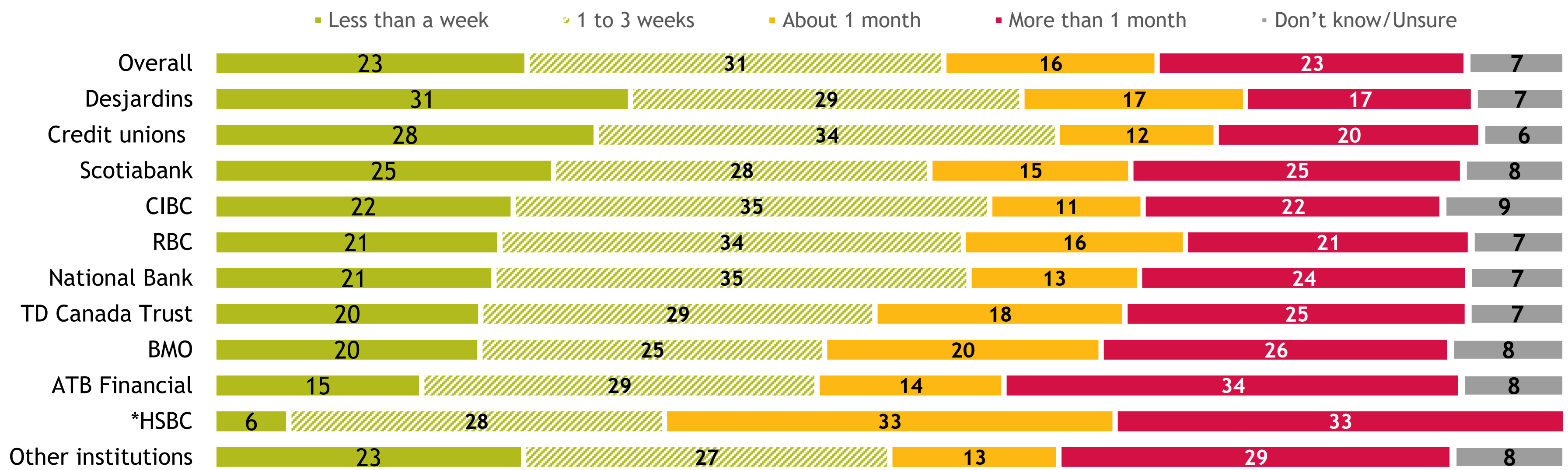
Wait time for financing applications by bank

When it comes to processing times related to the banks themselves, there are some financial institutions that stand out for being able to provide a timely response and others that drag behind. Business clients from credit unions reported the fastest average process, with 62% reporting that they received a decision on their application in three weeks or less (Figure 9). A majority of customers from Desjardins (60%), CIBC (57%), National Bank (56%), RBC (55%), and Scotiabank (53%) also reported receiving a response within the same timeframe.

At the other end of the scale, HSBC (66%) and ATB Financial (48%) have a large share of small business customers reporting that their application processing time took one month or more (Figure 9). As these two financial institutions account for a notable segment of the small business market, it is important that they seek to improve their processing speed, especially for businesses with urgent needs. Improving in this area can also result in overall economic improvement given that many entrepreneurs seek out financing to grow and expand their business in some way. As a result, extensive processing times can also needlessly reduce productivity.

Figure 9 (% response, by financial institution)

Desjardins, Credit unions and Scotiabank review the most financing applications in less than a week out of all financial institutions



Source: CFIB, Banking and Financing survey, October 20-December 13, 2022, final results, n = 2,409.
Question: How long was the process from filing the application for financing to being notified with the decision on the financing by your business's main financial institution? (Select one)
Note: *Small sample (<40).

"After 10 years of climbing profit and increases over the pandemic, we were told we would not qualify for a loan unless it was government backed. It took 7 months from application to loan being finalized and we had to pay $5,000 to be government backed."

BMO small business client - Hospitality, ON

While the acceptance rate has remained stable, smaller businesses still get rejected more

When it comes to the outcomes of their financing applications, overall, the share of small businesses that were approved remained stable between 2019 and 2022, only declining slightly from 73% to 71% (Figure 10a). This means that most businesses were still able to secure financing during this period. Meanwhile, the group of businesses whose applications were rejected also held steady, with 15% rejected in 2022 compared to 14% in 2019.

As has been observed in previous years, differences in financing approvals are clear across business sizes, and the likelihood of acceptance tends to increase with size. Larger businesses are seen as posing a lower risk and are more likely to have their financing application approved as a result, either outright or at a lower amount than originally requested. On average, 94% of mid-sized businesses are approved for financing, compared to 77% of micro-businesses (Figure 10b). Sectorally, most sectors experience relatively high acceptance rates, on average. Hospitality stands out on the low end with only 72% of businesses having their financing application accepted, falling significantly below the national average of 82%. This has been an observed trend for hospitality businesses, however, as they also reported a relatively lower share of approved applications in 2019 and 2015.

Figure 10a (% response, 2019 vs. 2022)

The acceptance rate of financing applications remains largely unchanged compared to three years ago

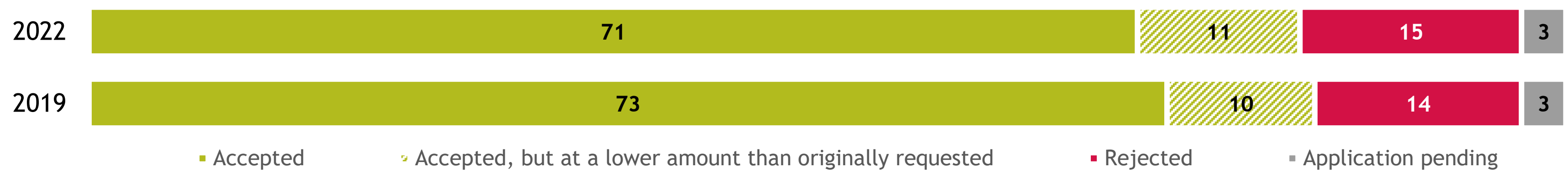
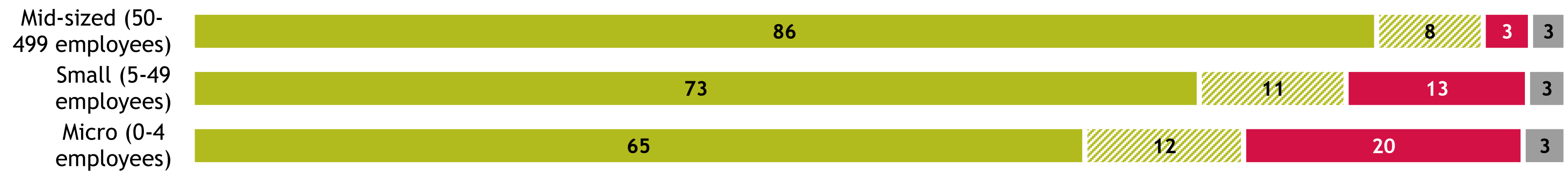


Figure 10b (% response, by size of business)

The larger the business, the more likely their application for financing will be accepted



Source: CFIB, Banking, Financing and Payments surveys, 2019, 2022.

Question: Was your business's application for financing accepted or rejected? (Select one)

“My loan application took more than 4 months and was ultimately rejected. We had 80% equity in our commercial property and were rejected for a mortgage through our bank due to cash flow.”

CIBC small business client – Manufacturing, BC

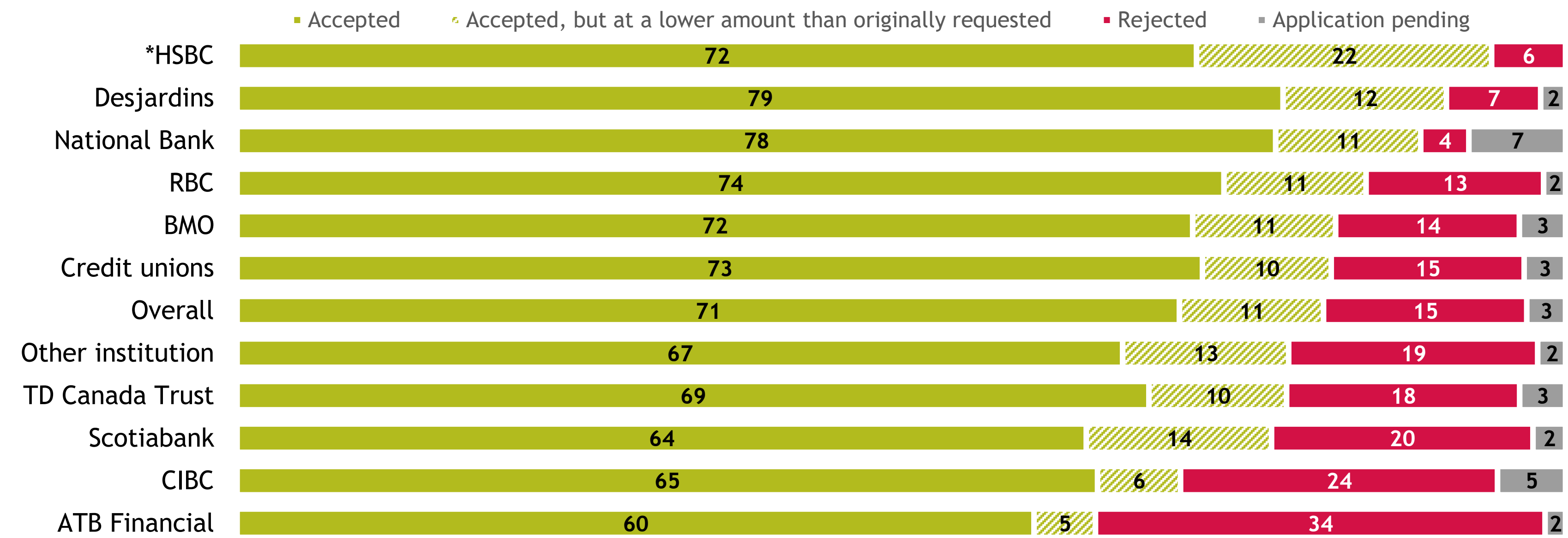
Financing application outcomes by bank

Approval or rejection of a small business’s financing application also varies considerably depending on the bank that is reviewing the application. The share of financing applications that a bank accepts is often tied to a number of factors, including the size distribution of their business customers, as well as the interest rate they charge on approved financing. HSBC, for example, accepts the most funding applications, but the institution also tends to service mostly larger business clients[8] who are regarded as posing a comparatively lower risk. Among the other banks, Desjardins accepts the second most applications (91%), followed by National Bank (89%) and RBC (85%) (Figure 11).

Conversely, CIBC and ATB Financial report the lowest financing acceptance rates, at only 71% and 65%, respectively. Given that 12% of the Canadian small business market are customers of these two financial institutions[9], any improvements in their acceptance of applications would make a significant difference in enhancing small businesses’ access to financing.

Figure 11 (% response, by bank)

Desjardins and National Bank report highest shares of applications for financing accepted outright



Source: CFIB, Banking and Financing survey, October 20-December 13, 2022, final results, n = 2,405.
Question: Was your business’s application for financing accepted or rejected? (Select one)
Note: *Small sample (<40).

Two in three businesses pay a variable rate and the smaller the business, the higher the rate

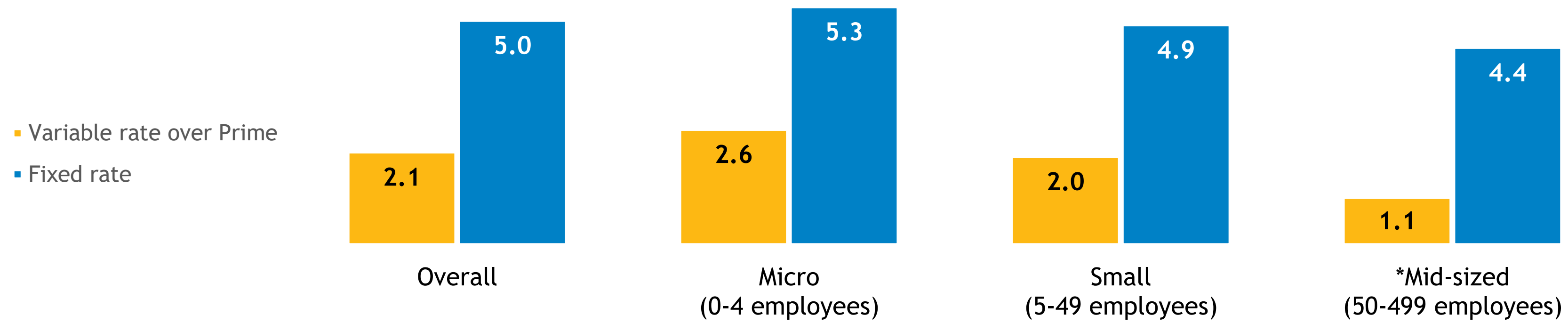
Two thirds of the small businesses that were successful in obtaining financing from their main financial institution in the last three years secured their loan at a variable interest rate while the remaining third have a fixed rate. This result was stable in comparison to previous years. Despite the similarity, however, a major difference to note is that the Bank of Canada has made several significant increases to the overnight rate since March 2022, resulting in major surges in the Prime rate charged by banks over the same period.

When this study was conducted between October-December 2022, the Prime rate charged by major financial institutions increased from 5.45% to 6.45%; at the time of writing, it has increased even more and currently sits at 6.95%.[10] As a result, businesses paying a variable rate have been experiencing extraordinarily high borrowing costs, further explaining the drastic increase observed over the last year in the share of businesses with borrowing cost difficulties (Figure 1).

Regardless of whether the interest rate charged on a loan is variable or fixed, however, the cost of bank financing tends to increase as business size decreases (Figure 12), as many lenders view smaller businesses as being higher-risk borrowers. In terms of variable rates, as of 2022 micro-businesses were charged, on average, 2.6% above the Prime rate, while the rate for small and mid-sized businesses is significantly lower, at 2.0% and 1.1% over Prime, respectively.

Figure 12 (Average %, by size of business)

The cost of borrowing is highest for micro-businesses, regardless of whether they are charged a variable or fixed interest rate



Source: CFIB, Banking and Financing survey, October 20-December 13, 2022, final results, n = 936.
Question: What interest rate did your business pay on this financing? (Please enter the fixed rate or variable rate)
Notes: 1) *The sample size for mid-sized businesses being charged a fixed rate was <40.
2) When this study was conducted between October-December 2022, the Prime rate charged by major financial institutions increased from 5.45% to 6.45%.
3) Among businesses that were approved for financing in the last three years, 66% have a variable rate loan and 34% have a fixed-rate loan.

Banks are pricing for risk

The cost of small business financing also varies by financial institution (Table 1) and appears to be connected to the share of applications that each bank rejects or accepts. As of 2022, CIBC offers the lowest average variable rates to its clients at an average rate of 1.1% over Prime. As CIBC tends to service more business clients in the micro and small categories, the bank rejects more financing applications as these businesses are often seen as posing a higher risk (Figure 13, next page).

BMO, National Bank and TD Canada Trust also offer competitive variable rates for their clients that are below the national average, each at 1.9% above Prime. Though each bank charges an identical interest rate, they vary in terms of the number of financing applications that they reject. While BMO squeezes in right below the national rejection rate, National Bank comes out on top of the three as they reject the fewest financing applications out of all banks. This may be linked to the fact that National Bank's business clients tend to be older and more established[11], therefore posing a lower risk. TD, while offering a lower rate, rejects more financing applications, again suggesting that the bank is opting to keep rates lower by accepting a lesser volume of riskier clients.

While the cost of variable financing for Desjardins clients is the highest of all banks at 3.7% above Prime, it is clear they are pricing for risk as the institution rejects the second-fewest share of financing applications across all banks (7%). Desjardins' rates have significantly increased since 2019[12], however, when their clients reported being charged, on average, 2.7% above the Prime rate (Table 1). When it comes to fixed rates, most banks have increased the interest rates they charge since 2019.

"The recent increase in interest rates put me very close to the tipping point of being able to survive."

CIBC small business client – Retail, ON

Table 1 (Average rate, lowest → highest)

Across major banks, CIBC offers the lowest variable interest rate over Prime while Desjardins' reports the highest

Variable rate + Prime	*Financial institution*	*CIBC*	*TD Canada Trust*	*National Bank*	*BMO*	*Scotiabank*	*Overall*	*RBC*	*Credit unions*	*Desjardins*
	2022 *(2019)*	**1.1** *(1.5)*	**1.9** *(1.9)*	**1.9** *(1.8)*	**1.9** *(1.7)*	**2.1** *(2.4)*	**2.1** *(2.1)*	**2.2** *(2.2)*	**2.2** *(2.1)*	**3.7** *(2.7)*
Fixed rate	*Financial institution*	*TD Canada Trust*	*BMO*	*Credit unions*	*Scotiabank*	**CIBC*	*National Bank*	*Overall*	*RBC*	*Desjardins*
	2022 *(2019)*	**4.0** *(4.8)*	**4.3** *(4.2)*	**4.8** *(5.3)*	**4.8** *(4.8)*	**4.8** *(4.0)*	**4.9** *(4.4)*	**5.0** *(5.0)*	**5.5** *(4.9)*	**6.0** *(5.7)*

Source: CFIB, Banking, Financing and Payments surveys, 2019, 2022.

Question: What interest rate did your business pay on this financing? (Please enter the fixed rate or variable rate)

Notes: 1) *Small sample (<40).

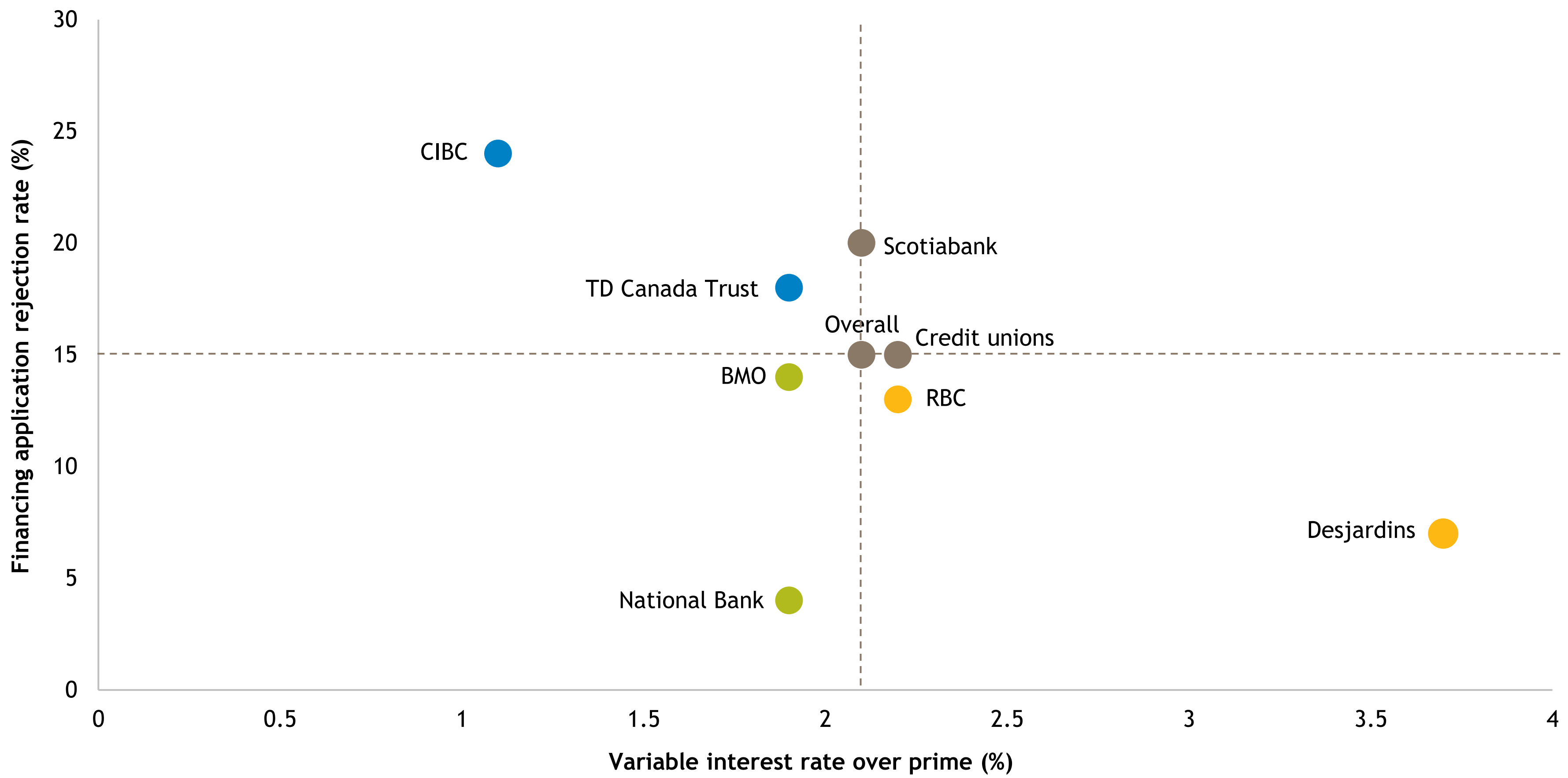
2) HSBC and ATB Financial have been excluded due to small sample sizes (<25).

"Today's current lending climate is antithetical to business growth and sustainability. Canada's financial institutions have the capability and resources to greatly help small businesses but seem quite reluctant to do so."

RBC small business client - Retail, Nova Scotia

Figure 13 (Average variable % over Prime vs. average rejection of financing applications, by bank)

While some banks keep interest rates low by rejecting more applications, others reject less but price for risk



Source: CFIB, Banking and Financing survey, October 20-December 13, 2022, final results, n = 936.

Questions: Was your business' application for financing accepted or rejected? (Select one answer only) • What interest rate did your business pay on this financing? (Please enter the fixed rate or variable rate)

Notes: 1) The prime rate charged by the major chartered banks at the time of writing was 6.95%.
2) ATB Financial, HSBC, and "Other" Institutions have been excluded due to small sample sizes (< 25).

> “The banking process for the loan was very long and drawn out. We had to provide all our personal and business financial information for a $250,000 loan where our business building is paid in full and worth 4X the loan amount.”
>
> *BMO small business client - Wholesale, AB*

The median amount of financing approved has been on a downward trend in the past decade

In general, the median amount of financing approved for small businesses has decreased from year-to-year since 2012, the only exception being from 2015 to 2019 when it increased by about $44,000. While this trend may be an indication of a comparatively weaker economic situation overall, it could also be linked to a lower risk tolerance by banks and, during the most recent study, increased access to other sources of financing as a result of the COVID-19 pandemic.[13]

Across size categories, mid-sized businesses were the only ones that saw an increase in the median amount of financing approved over the last three years. As of 2022, for micro-businesses the median amount approved was $62,600, increasing to $208,800 for small businesses and $2,088,100 for mid-sized businesses (Table 2). The national median amount of financing approved was $156,600.

Table 2 (2012-2022, Median amount of financing approved in 2023 dollars, by business size)

Overall, the median amount of financing approved has decreased significantly over the last decade

Business size (# of employees)	***2012***	***2015***	***2019***	***2022***
Micro (0-4 employees)	76,800	62,000	80,500	62,600
Small (5-49 employees)	320,000	247,900	287,500	208,800
Mid-sized (50-499 employees)	1,535,800	1,859,000	1,150,000	2,088,100
Overall	**217,600**	**185,900**	**230,000**	**156,600**

Source: CFIB, Banking, Financing and Payments surveys, 2012, 2015, 2019, 2022.
Question: What was the amount of financing approved by your business’s main financial institution? (Enter total value of loan or credit line limit approved)
Note: All amounts are displayed in 2023 dollars and rounded to the nearest hundred.

“This credit line was opened at far less than I required—I wanted $55K but got around $30K.”

BMO small business client - Personal & Misc. Services, ON

Median approved loan amounts have also decreased across all banks (Table 3). Scotiabank and credit union clients tend to report lower median loan amounts which indicates that they are likely to be serving more micro-businesses than other financial institutions. The median amounts approved for credit unions and Scotiabank clients were $104,400 and $78,300, respectively.

It should also be noted, for the last three years in particular, the shrinking median amount of financing approved may be linked to the COVID-19 pandemic in a number of ways. For example, businesses had access to other sources of financing in the form of government relief programs (such as CEBA or HASCAP). Another potential reason could be that financial institutions likely had a lower overall risk tolerance during this period.

Table 3 (2012-2022, Median amount of financing approved in 2023 dollars, by financial institution)

Compared to 2019, the median amount of financing approved by all banks has decreased

Bank	*2012*	*2015*	*2019*	*2022*
BMO	366,000	371,800	402,500	261,000
National Bank	256,000	247,900	287,500	208,800
CIBC	320,000	247,900	230,000	156,600
RBC	256,000	216,900	230,000	156,600
TD Canada Trust	192,000	185,900	230,000	156,600
Desjardins	160,000	123,900	230,000	156,600
**ATB Financial*	639,900	570,100	345,000	125,300
Credit unions	128,000	124,500	138,000	104,400
Scotiabank	115,200	99,100	115,000	78,300
Overall	**217,600**	**185,900**	**230,000**	**156,600**

Source: CFIB, Banking, Financing and Payments surveys, 2012, 2015, 2019, 2022.

Question: What was the amount of financing approved by your business' main financial institution? (Enter total value of loan or credit line limit approved)

Notes: 1) All amounts are displayed in 2023 dollars and rounded to the nearest hundred.
2) *Small sample (<40).
3) HSBC has been excluded due to small sample sizes (<25).

“Access to lending is a major issue faced by small businesses. Following 2+ years of closures, we should have lower interest rates to facilitate survival as well as access to loans. There is no hope.”

TD small business client – Wholesale, QC

Two in three businesses with traditional loans are impacted by Bank of Canada overnight rate increases

Given that a majority of small businesses that secured financing over the last three years have variable loans, the recent increases to the Bank of Canada’s overnight rate are extremely concerning and have resulted in many seeing their interest payments grow substantially over the last year.

Since February 2022, the Bank of Canada's overnight rate has steadily increased from 0.25% to 4.75% as of June 2023.[14] As the rate set by banks is closely tied to changes in the overnight rate, significant increases to the Prime lending rate have followed, increasing from 2.45% in February 2022 to 6.95% in June 2023.[15]

Unfortunately, this has meant that all borrowers with bank financing secured at a variable rate are paying much more than they did in previous years.

The average variable interest rate for small businesses is 2.1% above Prime (Table 1). With the Prime rate at the time of writing being 6.95%[16], on average, businesses with loans secured at variable financing rates are currently paying around 9.05% in interest annually. This reality points to why small businesses are feeling pressure and constraints as a result of borrowing costs now more than ever.[17]

Impact of variable rate increases on select sectors

Changes to the Prime lending rate have resulted in corresponding significant increases in interest payments for small business borrowers who secured financing at a variable rate, and businesses in some sectors are facing bigger surges than others. For example, the median amount of financing approved at a variable rate for a small farm business was $550,000 and the average variable rate for that sector is 1.4% over Prime. This means that this sample farm’s total annual interest payment will be $45,925 if the Prime rate does not decrease, with $24,750 of that amount being attributable to rate hikes introduced since February 2022 (Figure 14). While some predict rates will decrease in the near future, to date this example business has already had to pay over $21,400 in additional interest as a result of month over month Prime rate increases (Table 4).

Further, with three in five small businesses still holding debt related to the pandemic at an average of over $126,000, the current cost of financing only adds to the substantial financial challenges faced by entrepreneurs, particularly those that were hit hard during the pandemic.

Hospitality businesses, for example, were among those that were closed the longest due to pandemic restrictions. As a result of rate hikes, the average business in this sector with a variable rate loan currently faces a total annual interest payment of over $25,000 if the Prime rate does not decrease and has paid nearly $10,000 in additional interest to date (Table A1, Appendix). This is a significant added cost for any business to pay, let alone one that is still trying to recover from COVID-19.

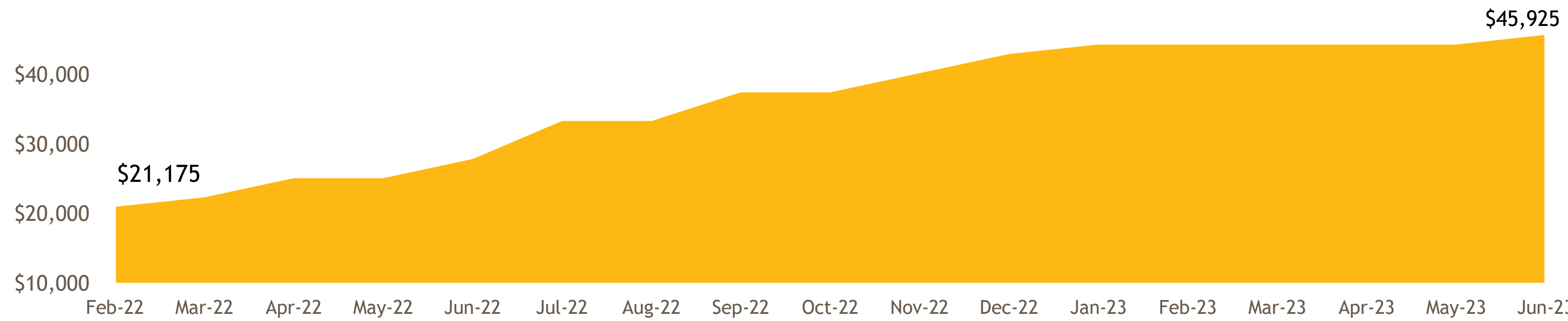
"The interest rates are sky rocketing. Prime +2% was the rate for our business loan we got from a private investor. We started at 4.45% and now, not even a year later, are paying 7.45%.

Times are tough right now for everyone. High interest rates are only adding to the problem."

BMO small business client, Retail, PEI

Figure 14

Total annual variable interest payment for a typical farm business - month over month increase (in $)



Source: CFIB, Banking and Financing survey, October 20-December 13, 2022, final results, n = 618.

Notes: 1) The prime rate charged by the major chartered banks at the time of writing is 6.95%.
2) Agriculture businesses that secured financing at a variable rate are charged 1.4% over Prime, on average.
3) Total annual variable interest is calculated using the median amount of financing awarded to businesses in the Agriculture sector as of 2022, $550,000.

Table 4

Cost of monthly variable interest payments for a typical farm business - total paid to date

	Feb-22	Mar-22	Apr-22	May-22	Jun-22	Jul-22	Aug-22	Sep-22	Oct-22	Nov-22	Dec-22	Jan-23	Feb-23	Mar-23	Apr-23	May-23	Jun-23	Total
*Variable rate** + Prime rate	3.85%	4.10%	4.60%	4.60%	5.10%	6.10%	6.10%	6.85%	6.85%	7.35%	7.85%	8.10%	8.10%	8.10%	8.10%	8.10%	8.35%	
Total annual interest on loan**	$21,175	$22,550	$25,300	$25,300	$28,050	$33,550	$33,550	$37,675	$37,675	$40,425	$43,175	$44,550	$44,550	$44,550	$44,550	$44,550	$45,925	
Monthly interest payment	$1,765	$1,879	$2,108	$2,108	$2,338	$2,796	$2,796	$3,140	$3,140	$3,369	$3,598	$3,713	$3,713	$3,713	$3,713	$3,713	$3,827	
Additional interest cost vs. Feb. 2022	-	**$114**	**$343**	**$343**	**$573**	**$1,031**	**$1,031**	**$1,375**	**$1,375**	**$1,604**	**$1,833**	**$1,948**	**$1,948**	**$1,948**	**$1,948**	**$1,948**	**$2,062**	$21,424

Source: CFIB, Banking and Financing survey, October 20-December 13, 2022, final results, n = 618.

Notes: 1) The prime rate charged by the major chartered banks at the time of writing is 6.95%.
2) Agriculture businesses that secured financing at a variable rate are charged 1.4% over Prime, on average.
3) Total annual variable interest calculated using median amount of financing awarded to businesses in the Agriculture sector as of 2022, $550,000.

SME collateral requirements

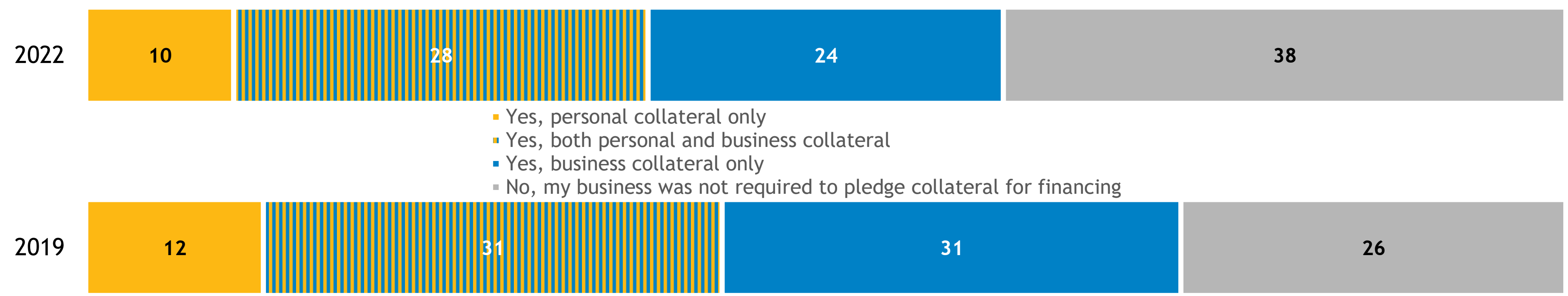
To have their applications for financing accepted, it is common for lenders to require the borrowing business to pledge some kind of collateral, with the end goal of limiting the risk for the financial institution. While there can be certain benefits to loans secured by pledging collateral, such as being able to secure a bigger loan, the implications can be very serious for a business that cannot make their payments on time. Further, if a business is asked to pledge some form of personal collateral, their inability to repay a loan will not only have negative impacts on their business, but it will also negatively affect their personal financial standing.

Among small business owners that were approved for financing, 62% were required to pledge some form of personal or business collateral (Figure 15). Of this group, a significant portion of them were required to pledge personal collateral, either on its own or in combination with business collateral (38%).

Compared to 2019, overall requirements to pledge collateral have decreased, largely as a result of a 7% drop in the requirement to pledge business collateral only. This is an unfortunate development given that the type of collateral that is riskiest for a business owner to pledge is that which would be classified as personal.

Figure 15 (% response, 2019 vs. 2022)

While more business owners could avoid pledging collateral in 2022 compared to 2019, the share pledging personal collateral remains high



Source: CFIB, Banking, Financing and Payments surveys, 2019, 2022.
Question: Were you required to pledge collateral for the financing you were approved for? (Select one)

> “It takes a fair amount of time to get the loan approved and then get the money advanced. Using investments as collateral is complicated, paperwork required is ridiculous and the collateral is $2 to every $1 of loan. Which means for a $562,500 loan, the collateral needs to be $1,125,000.”
>
> *BMO small business client – Retail, NB*

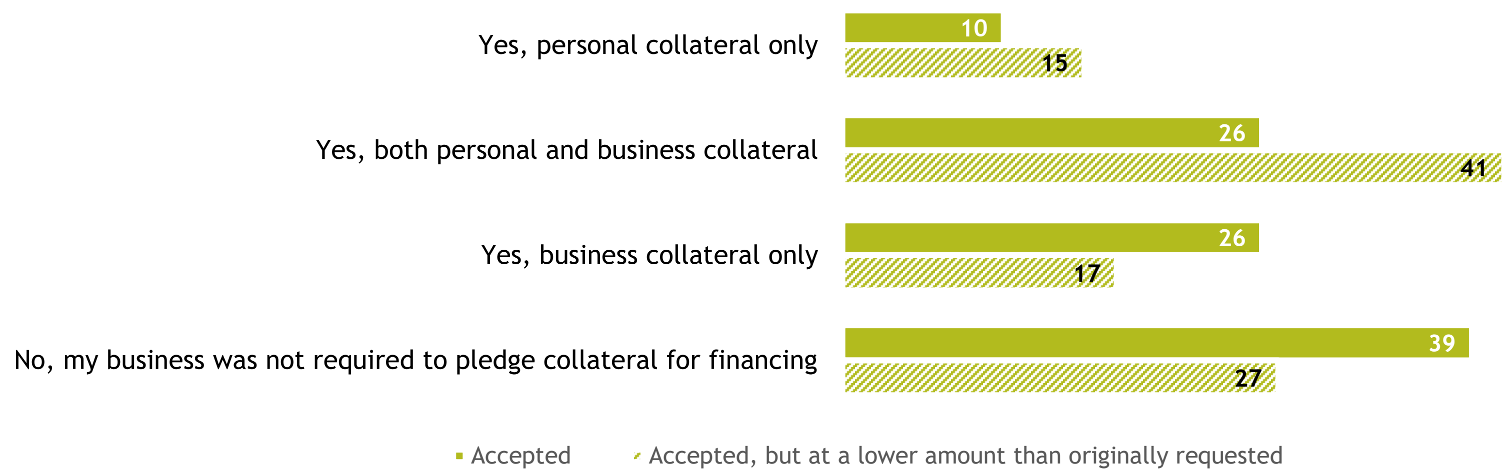
Collateral requirements more common among business owners who received a lower loan amount than they requested

When further breaking down the group of businesses whose applications for funding were accepted, it is clear that there is a relationship between collateral requirements and whether a business is accepted at the full amount that they requested on their application or at a lower amount. Those that were accepted at a lower amount are more likely to be required to pledge either personal collateral or both personal and business collateral (Figure 16). Further, while 39% of businesses whose application was accepted at the amount they requested reported not being required to pledge any collateral at all, this share fell to 27% for those who were approved at a lower amount than requested.

What is most concerning in this area is the significant difference between the two groups and their requirements to pledge either personal collateral only or both personal and business collateral to be approved for financing. For those that were accepted at the amount they requested, 10% needed to pledge personal collateral and 26% needed to pledge both. While this is already a large portion of small businesses needing to pledge some form of their personal worth and putting themselves on the line to be able to grow their business, the same figures jump to 15% and 41% for businesses that were accepted at a lower amount than what they originally asked for.

Figure 16 (% response, by level of acceptance)

Businesses accepted at a lower amount of financing than requested more likely to be required to pledge personal collateral



Source: CFIB, Banking and Financing survey, October 20-December 13, 2022, final results, n = 1,907.

Questions: Were you required to pledge collateral for the financing you were approved for? (Select one) • Was your business’ application for financing accepted or rejected? (Select one answer only)

Overall collateral requirements increase with business size, but personal collateral requirements are highest for micro-businesses

A business's size and, by association, the amount of financing they are seeking, also have a clear impact on their requirements to pledge collateral. While 44% of micro-businesses indicated that they were not required to pledge any collateral to be approved for the financing, this number drops to just 21% for medium-sized businesses, indicating that four in five of these businesses were required to pledge some form of collateral.

Mid-sized businesses report the highest instance of only being required to pledge business collateral (50%), compared to just 26% of small businesses and 18% of micro-businesses. In comparison, the relationship between business size and requiring only personal collateral flips, with micro-businesses reporting the highest likelihood of having to pledge personal collateral only (14%). This trend may be because smaller businesses have relatively less access to business collateral that they can pledge, so they need to draw upon their personal assets to be approved for financing.

For those being asked to pledge both personal and business collateral, the requirement was comparable across all business sizes. In terms of requiring personal collateral only or some combination of personal and business collateral, it is micro and small businesses that reported the greatest incidence of this being required of them (each 38%).

"Total refusal to lend us $20,000 to buy out our leased vehicle valued at $50,000 without putting our house up as collateral. We are 8 mortgage payments from being fully paid. Reasoning? Because we are 'self-employed'."

CIBC small business client – Hospitality, BC

“We did not proceed with the financing through the bank because of all the personal guarantees and fees.”

RBC small business client - Manufacturing, ON

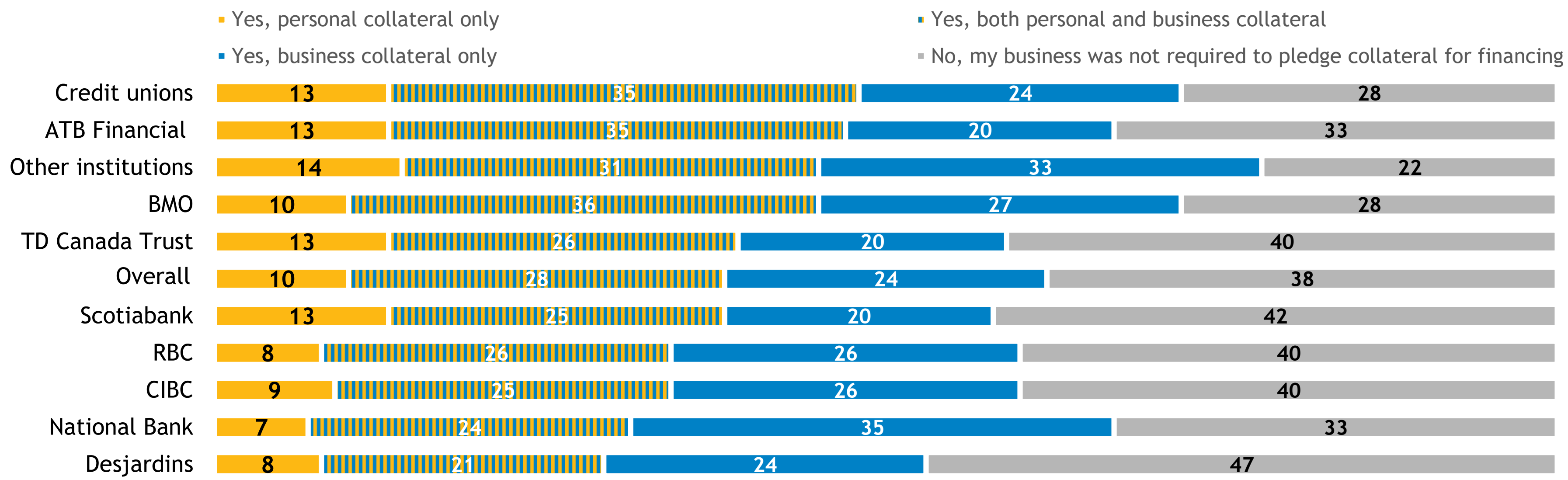
Small or regionalized financial institutions are more likely to require their clients pledge collateral

Across banks, business clients from credit unions and ATB Financial reported the greatest incidence of needing to pledge some form of personal collateral in order to be approved for financing (Figure 17). While credit unions still sit around the national average in terms of the share of business financing applications that they approve, ATB Financial accepts the lowest number of applications across all banks. This coupled with their higher-than-average requirement for personal collateral signals that they are comparatively less willing to take on risk when it comes to financing their small business clients.

In general, collateral requirements seem to be more likely if a business is dealing with a smaller or more regionalized bank, and personal collateral requirements are most often needed for micro and small businesses. If a bank has a greater share of their client base made up of smaller clients, they are more likely to require personal collateral. When it comes to the Big 5 banks, while most require a relatively smaller share of their clients to pledge any type of collateral, they also either tend to accept fewer financing applications overall or price the financing they approve for risk.

Figure 17 (% response, by bank)

Credit unions, ATB Financial and BMO clients reported the highest incidence of needing to pledge some form of personal collateral



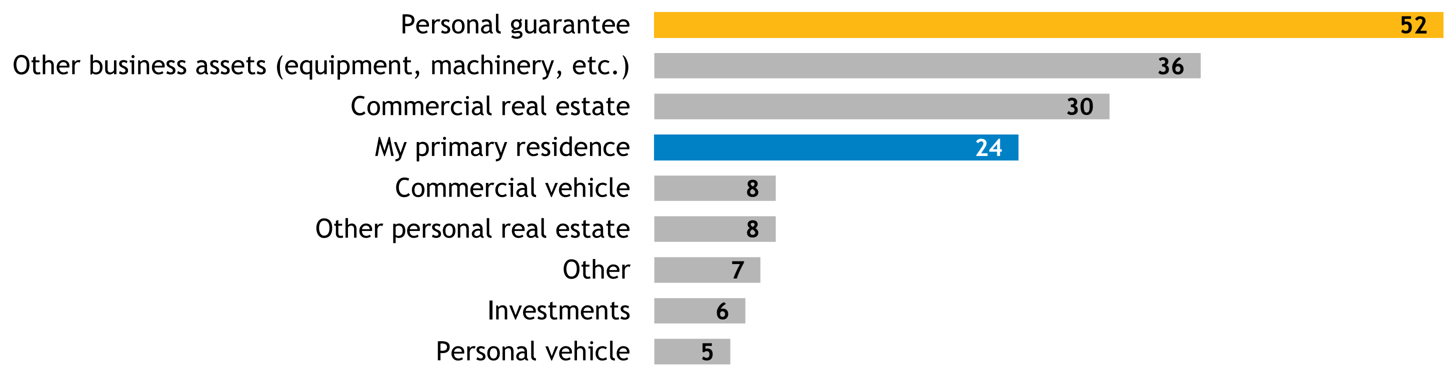
Source: CFIB, Banking and Financing survey, October 20-December 13, 2022, final results, n = 1,907.
Question: Were you required to pledge collateral for the financing you were approved for? (Select one)
Note: HSBC has been excluded due to small sample sizes (<40).

Differences in the type of personal or business collateral required to secure a loan

In this 2022 iteration of CFIB's banking study, small businesses were asked for the first time to share details around what kinds of personal and business collateral they were required to pledge in order to be approved for financing. The top result selected by more than half of businesses (52%) was a personal guarantee (Figure 18), meaning that a bank can come after a business owner's personal assets if they default on their business loan. While personal guarantees are relatively common, it is concerning that so many small businesses report having to provide them due to the negative impact that it can have on their personal credit rating. Another area for concern is that one in four businesses report pledging their primary residence to be approved, meaning that their family home may be on the line if they cannot make the required payments on their business loan. Less risky collateral options are also commonly requested, however, such as business assets (36%) and commercial real estate (30%) (Figure 18).

Figure 18 (% response)

A personal guarantee was required of 1 in 2 businesses that had to pledge collateral; 1 in 4 pledged their primary residence



Source: CFIB, Banking and Financing survey, October 20-December 13, 2022, final results, n = 1,161.
Question: What type of collateral were you required to pledge in order for your business to be approved for financing? (Select all that apply)

As micro and small businesses are more likely to need to provide some form of personal collateral, it follows that businesses in these size categories are more likely to have to pledge a personal guarantee or their primary residence than mid-sized businesses. While the requirement to pledge a personal guarantee is highest among small businesses (54%), micro-businesses are the most likely to be required to pledge their primary residence (29%). Conversely, as they tend to have greater access to commercial assets, mid-sized businesses are more often required to pledge business assets (57%) or commercial real estate (49%) to be approved for financing.

"I am not happy with bank financing in general [...]. They want personal guarantees for a business loan when the business is more than capable of supporting the loan. They want no risk and all the interest/finance charges/penalties."

Scotiabank small business client – Wholesale, SK

> "I don't understand why after 5 years our business can't get a line of credit on its own without my personal guarantee, or why it remains so hard to get that line of credit set up!"
>
> *CIBC small business client - Retail, ON*

The type of collateral required by a bank is impacted by their portfolio of small business clients

There are also key differences between banks when it comes to the specific types of collateral that they are requesting from their small business clients. Personal guarantees, for example, are more likely to be required of clients of credit unions and ATB Financial (both 59%) (Table 5). Conversely, National Bank and CIBC had the smallest share of small business clients reporting this being requested (41% and 42%, respectively). When interpreting these results, however, it should be noted that the types of collateral required are likely impacted by each bank's portfolio of clients.

For example, though Scotiabank reports the highest incidence of requiring business clients to pledge their primary residence, they are also the most likely of the Big 5 banks to provide financing to micro-businesses. Conversely, financial institutions more likely to cater to larger businesses are less likely to require a business to pledge their personal residence or provide a personal guarantee. One exception to this trend is ATB Financial, which has a relatively higher proportion of mid-sized business clients. Given this, it is surprising that they tie with credit unions for being most likely to require their clients to provide a personal guarantee.[18]

Table 5 (% response, 4 most common types of collateral, by bank)

Scotiabank, CIBC and TD Canada Trust had the greatest share of clients being asked to pledge their primary residence

	Personal guarantee	Primary residence	Other business assets	Commercial real estate
Overall	***52%***	***24%***	***36%***	***30%***
BMO	58%	24%	36%	28%
CIBC	42%	**26%**	33%	28%
National Bank	41%	14%	41%	42%
Scotiabank	56%	**28%**	33%	23%
**ATB Financial*	59%	19%	33%	30%
TD Canada Trust	52%	**26%**	38%	24%
RBC	52%	21%	42%	26%
Credit unions	59%	25%	32%	34%
Desjardins	44%	21%	34%	35%

Source: CFIB, Banking and Financing survey, October 20-December 13, 2022, final results, n = 1,161.

Question: What type of collateral were you required to pledge in order for your business to be approved for financing? (Select all that apply)

Notes: 1) *Small sample size (<40); 2) HSBC has been excluded due to small sample sizes (<25).

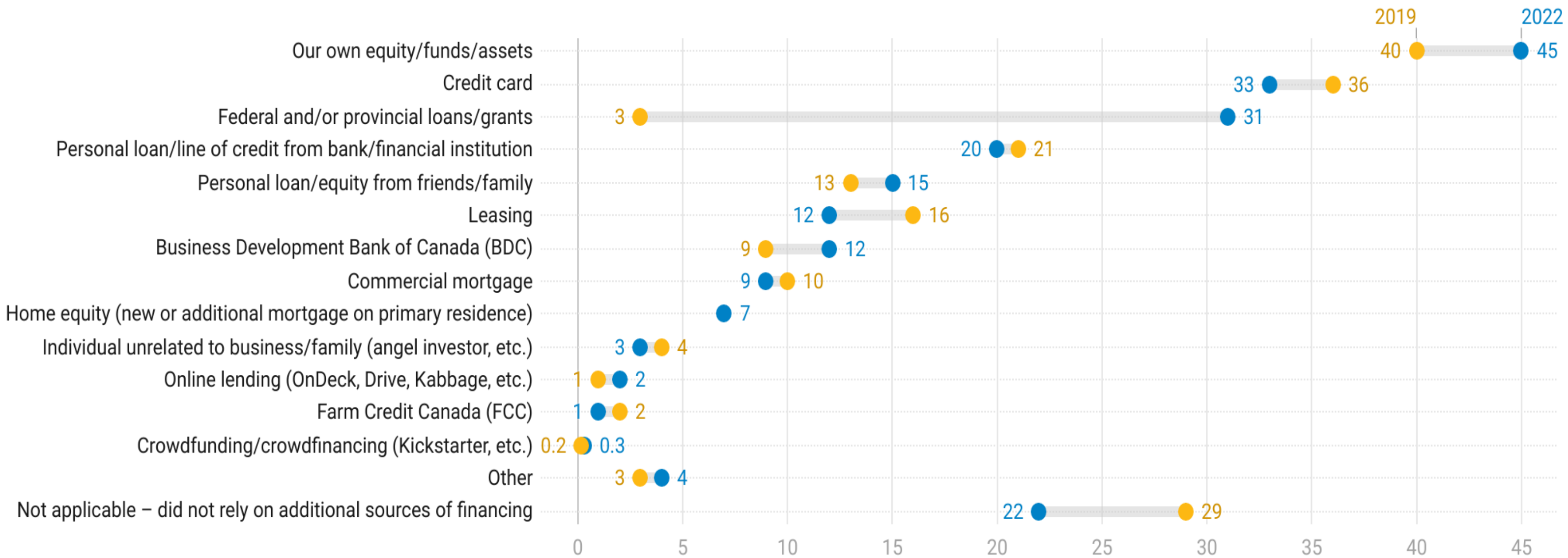
More businesses relied on non-traditional financing in 2022 compared to 2019

In addition to traditional loans and lines of credit, small businesses also rely on other non-traditional financing sources (Figure 19). Consistent with previous years, the most common additional source of financing for businesses during the last three years was personal funds, equity and other assets (45%). Further, since 2019 there was an increase in the share of small businesses using their own equity/funds/assets, and a decrease in the use of credit cards as a means of financing. The number of small business owners that rely on using credit cards is still significant, however, with a third indicating that they have used them as an additional source of financing over the last three years. Other less risky means of financing were also used, such as personal loans and lines of credit (20%) and loans from family and friends (15%).

Whereas in 2019, 71% of businesses relied on additional financing, in 2022 this number increased to 78%. This jump as well as the massive increase observed in the use of federal and/or provincial loans/grants (Figure 19), is likely the result of small businesses needing greater access to non-traditional sources of financing to cope with the economic impacts of COVID-19. The increased use of the Business Development Bank of Canada (BDC) can also be linked to COVID-19, as they played a role in distributing some government grants/loans over the course of the pandemic.

Figure 19 (% response, 2019 vs. 2022)

Compared to 2019, in 2022 there was a massive increase in the share of clients using federal and/or provincial government grants



Source: CFIB, Banking, Financing and Payments surveys, 2019, 2022.
Question: During the past 3 years, what additional sources of financing did you rely on for your business? (Select all that apply)

“We picked a company that was recommended to us and that had fair lending practices. This lender allowed us to repay the loan at our convenience […]. However, the fees were very, very high.”

Scotiabank small business client – Retail, BC

While still marginal, business awareness and use of alternative financing like online lending and crowdfunding is growing

While still in its infancy, alternative types of financing options such as online lending and crowdfunding have been growing. Further, with the introduction of Open Banking in Canada soon approaching, there may be even more alternative financing options for small businesses in the very near future. As the market for alternative sources of financing continues to advance, it will be important to monitor how small businesses’ use of these options changes, their customer experience in doing so, and whether they are able to provide financing at a fair price under reasonable terms.

As of 2022, very few business owners reported using either online lending or crowdfunding (less than three per cent) (Figure 19 above). Among business owners that have not relied on these alternative sources of financing in the last three years, the greatest share of businesses indicated that they are unaware of the opportunities that exist with regards to online lending or crowdfunding (40%) or do not understand how these options work and where to start (31%) (Figure 20). Compared to 2019, there are significantly fewer businesses that indicated they are not familiar with these options, but a greater level of familiarity has not yet resulted in any notable increase in the number of businesses using these sources of financing. Other concerns with online lending and crowdfunding include that they are too risky (11%), that they do not provide access to a personal relationship from a lender (10%) and that they are simply too costly (9%).

Figure 20 (% response)

A lack of familiarity is still the top reason for why businesses are not using online lending or crowdfunding as financing options

Source: CFIB, Banking, Financing and Payments surveys, 2019, 2022.
Question: Why has your business not used online/lending crowdfunding? (Select as many as apply)

Businesses that have tried online lending report easier and quicker access accompanied by a higher cost of borrowing

Business owners that did use online lending or crowdfunding were asked to elaborate on any positive or negative aspects of their experience. Overall, there were many more small business owners that shared their experiences with online lending than crowdfunding. Businesses that secured financing through an online lender generally reported being able to access funds more quickly and easily but having to pay a much higher borrowing fee. Many also cited having to use an online lender as a last resort because they did not feel that traditional banks were there to help small businesses. From their responses, it is clear that this form of financing comes with a number of potential challenges and benefits.

For businesses considering using an online lender as a means of financing, it is important to research the options that are available and to make an informed choice, as with any financing decision. It is also the responsibility of government to ensure that small business owners are treated fairly and that all Canadian lenders, no matter their platform, are accountable to certain standards that protect borrowers. That said, to encourage competition, such standards should only be imposed where necessary as safeguards to ensure small business clients are not taken advantage of.

Comments from business owners

Business owners' positive and/or negative experiences with online lending/crowdfunding

Driven has been a great asset for us—we use it for our big lumber buys and to catch up on things in winter. They are worth the interest because it's short term. *Retail business, RBC business client, Ontario.*

Daily payment type loans suck, but I still have loan payments from these [online] lenders as a last resort to keep the business afloat [...] If my bank would have been willing to lend, I wouldn't be in this position. *Personal services business, Scotiabank business client, Nova Scotia.*

Online lenders have come through in times when small bridge loans were needed to pay off suppliers while waiting for payment from customers when the bank rejected our application. *Retail business, TD Canada Trust business client, Ontario.*

[…] Interest is really high and puts lots of pressure on us and the business, but it was our only option. *Social services business, Credit union business client, BC.*

Online funds are more expensive, however, they serve a purpose. Since we are limited to a few banks in Canada, borrowing is very difficult with direct banks. *Transportation business, BMO business client, Ontario.*

Source: CFIB, Banking and Financing survey, October 20-December 13, 2022, final results, n = 54.

Recommendations

Recommendations

Taking into account the findings of this report, CFIB offers the following recommendations directed at the banking sector and policymakers:

Banks and credit unions

1. Abide by SME Banking Code of Conduct with respect to financing.
2. Hold other financial institutions in the industry accountable under the Banking Code of Conduct.
3. Do not promote credit cards as a main alternative source of long-term financing for SMEs.
4. Increase access to low-cost financing for SMEs.
5. Strongly consider whether personal collateral is really necessary, and if there are alternate solutions, before requesting it from SME clients.
6. Do not restrict financing during economic downturn if SME client has good history.
7. Reduce account manager turnover so SME clients are served by someone that knows and understands their business.
8. Provide more flexibility in lending and more information on banking solutions to SME clients. For example, share information about the Canada Small Business Financing Program if financing application is denied.

Government

1. Expand the consumer provisions of the Bank Act to include small businesses.
2. Improve the investment climate for non-traditional sources of financing to provide more finance options to SMEs—for example, a tax credit for investing in a small business.
3. Monitor the use of the Small Business Financing Program and ensure small business owners know that it can be an option and they are benefiting from it.
4. Ensure the Small Business Financing Program benefits smaller businesses and not just the larger ones.
5. Monitor newer online SME lending technology to ensure they do not charge excessive rates of interest.
6. Accelerate the introduction of open banking while ensuring it will benefit SMEs and consumers by providing more competitive options, making it easier to shop around, and providing additional financing opportunities.
7. Increase flexibility around SME repayment of government loans during extenuating economic circumstances (such as extending the Canada Emergency Business Account (CEBA) repayment deadline to access the forgivable portion), but still exercise caution when determining whether a situation warrants business subsidies from government.

Appendix

Table A1

Cost of monthly variable interest payments for a typical hospitality business - total paid to date

	Feb-22	Mar-22	Apr-22	May-22	Jun-22	Jul-22	Aug-22	Sep-22	Oct-22	Nov-22	Dec-22	Jan-23	Feb-23	Mar-23	Apr-23	May-23	Jun-23	Total
*Variable rate** +* Prime rate	5.75%	6.00%	6.50%	6.50%	7.00%	8.00%	8.00%	8.75%	8.75%	9.25%	9.75%	10.00%	10.00%	10.00%	10.00%	10.00%	10.25%	
Total annual interest on loan**	$14,375	$15,000	$16,250	$16,250	$17,500	$20,000	$20,000	$21,875	$21,875	$23,125	$24,375	$25,000	$25,000	$25,000	$25,000	$25,000	$25,625	
Monthly interest payment	$1,198	$1,250	$1,354	$1,354	$1,458	$1,667	$1,667	$1,823	$1,823	$1,927	$2,031	$2,083	$2,083	$2,083	$2,083	$2,083	$2,135	
Additional interest cost vs. Feb. 2022	**-**	**$52**	**$156**	**$156**	**$260**	**$469**	**$469**	**$625**	**$625**	**$729**	**$833**	**$885**	**$885**	**$885**	**$885**	**$885**	**$937**	$9,736

Source: CFIB, Banking and Financing survey, October 20-December 13, 2022, final results, n = 618.

Notes: 1) The prime rate charged by the major chartered banks at the time of writing is 6.95%.

2) Hospitality businesses that secured financing at a variable rate are charged 3.3% over Prime, on average.

3) Total annual variable interest calculated using median amount of financing awarded to businesses in the Hospitality sector as of 2022, $250,000.

Endnotes

[1] Taylor Matchett, CFIB, Financing Main Street (Report 1): SME Market Share Among Major Banks, 2023. Link: https://www.cfib-fcei.ca/en/research-economic-analysis/research-series-financing-main-street.
[2] Bank of Canada, Policy Interest Rate, accessed June 26, 2023. Link: https://www.bankofcanada.ca/core-functions/monetary-policy/key-interest-rate/.
[3] See CFIB's recent release – Back in business? - Spring update on small business debt and CEBA, 2023. Link: https://www.cfib-fcei.ca/hubfs/research/reports/2023/2023-06-spring-update-small-business-debt-ceba-en.pdf.
[4] Over the course of the pandemic, governments provided a number of additional financing options to businesses to help deal with the financial impacts of the pandemic. Some of the major programs were the CEBA loan, the Highly Affected Sectors Credit Availability Program (HASCAP), and loan and financing options that were provided in specific provinces.
[5] According to CFIB's past banking studies, in 2015 and 2012, 13% and 12% of businesses used other non-traditional sources of financing, respectively.
[6] Simon Gaudreault and Alchad Alegbeh, CFIB, Back in business? – Spring update on small business debt and CEBA, 2023. Link: https://www.cfib-fcei.ca/hubfs/research/reports/2023/2023-06-spring-update-small-business-debt-ceba-en.pdf.
[7] According to CFIB's May 2023 Your Voice survey, 47% of business owners reported that they are currently making less than normal revenues for this time of year.
[8] According to CFIB's 2022 Banking and Financing survey, 13% of HSBC's SME business clients are mid-sized, which is significantly higher than the national average for mid-sized SME business clients across all financial institutions (3%).
[9] Taylor Matchett, CFIB, Financing Main Street (Report 1): SME Market Share Among Major Banks, 2023. Link: https://www.cfib-fcei.ca/en/research-economic-analysis/research-series-financing-main-street.
[10] WOWA, Canada Prime Rates, accessed June 26, 2023. Link: https://wowa.ca/banks/prime-rates-canada.
[11] According to CFIB's 2022 Banking and Financing survey, 70% of National Bank's SME business clients have been established for 11 years or more.
[12] CFIB, Banking, Financing and Payments survey, April 9-July 29, 2019, final results, n = 11,599.
[13] Additional sources of financing that eligible businesses had access to include but are not limited to the Canada Emergency Business Account (CEBA), the Highly Affected Sectors Credit Availability Program (HASCAP), and loan and financing options that were provided in specific provinces.
[14] Bank of Canada, Policy Interest Rate, accessed June 26, 2023. Link: https://www.bankofcanada.ca/core-functions/monetary-policy/key-interest-rate/.
[15] WOWA, Canada Prime Rates, accessed June 26, 2023. Link: https://wowa.ca/banks/prime-rates-canada.
[16] Ibid.
[17] According to CFIB's May 2023 Monthly Business Outlook survey, 39% of business owners indicate they are feeling constraints due to borrowing costs, a historic high.
[18] Taylor Matchett, CFIB, Financing Main Street (Report 1): SME Market Share Among Major Banks, 2023. Link: https://www.cfib-fcei.ca/en/research-economic-analysis/research-series-financing-main-street.

About CFIB

CFIB is a non-partisan organization exclusively representing the interests of 97,000 small and medium-sized businesses in Canada. CFIB's research capacity is second-to-none because it is able to gather timely and concrete information from members about business issues that affect their day-to-day operation and bottom line. In this capacity, CFIB is an excellent source of up-to-date information for governments to consider when developing policies impacting Canada's small business community.

To learn more, visit cfib.ca.

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Questions or data requests
research@cfib.ca

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Authors

Taylor Matchett
Senior research analyst

Links to: Full bio LinkedIn

Alchad Alegbeh
Research Analyst

Links to: Full bio LinkedIn