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From: David Losier

To: The Department of Finance

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Re: **Government Guaranteed "Ready for Business" Cash Flow Loans**

Many economists are predicting a V-shaped recession, deep and temporary.

Fact is, the V will probably be a lopsided U, a sharp downturn followed by a flat line and a sloping recovery. The longer it takes to give a green light to business as usual, the longer the flat line. Governments must help Canadian businesses through that flat line by providing financial assistance. The economic recovery depends on businesses staying open and getting Canadians back to work.

Ottawa has designated $65 billion for a Business Credit Availability Program (BCAP). Its Canada Emergency Business Account (CEBA) only provides new guaranteed interest-free loans of up to $40,000 to small businesses, so larger ones will likely have to turn toward two other components of the BCAP program being managed by BDC and EDC. The question then becomes whether EDC and BDC have the resources to handle the additional business.

How big might this additional business be? This is a difficult question, but here is one way of thinking about it. According to the Canadian Federation of Independent Business (CFIB), 60 percent of Canada's 1.25 million SMEs have seen a significant drop in sales with 33 percent reporting a reduction of greater than 75 percent. Of those 1.25 million SMEs, a little over 700,000 are micro-businesses that are the likely target of the expedited $40,000 program. This would leave somewhere around 550,000 businesses, 60 percent of which may need significant support for their operational needs, to be managed through EDC and BDC.

Will EDC and BDC be able to support this? First, SMEs cannot predict when the crisis will be over and therefore most SMEs simply won't qualify under standard underwriting criteria. Secondly, the needs are immediate, and the time required to execute current underwriting processes on those larger SMEs facing a significant drop in sales will overload the system and grind it to a halt. Not to mention that many of these processes still require face-to-face meetings and exchanges of paper – interactions currently being avoided.

To the extent that BDC and EDC will not be able to handle the requests from most SMEs, many of which will need far more than $40,000, financial institutions are going to be turned to in droves. CEBA would then have to adapt. Details of an updated CEBA could include:

- An increase to $250,000 to cover the needs for the majority of small businesses;
- A 100 percent government guarantee;
- Eliminating the time required to underwrite (assess the risk) of these loans and ensure that they are made available rapidly. If funds beyond $250,000 are required, a proportionate increase in underwriting standards could be undertaken, as determined by the financial institution;
- Interest being paid by the federal government until the zero-percent interest period has ended;
- Auditing the use of the facility afterwards instead of extended credit adjudication beforehand.

This is not meant to be a traditional lending program; this is a black swan lending program. Borrowers themselves don't know if they will be able to repay.

The uncertain duration of the slowdown means traditional underwriting will be impossible for most of these SMEs.

All financial institutions must be called upon to get these small business loans into the economy, with an absolute minimum of underwriting criteria. The underwriting should be focused on the assessment of the business's needs as opposed to the ability to repay, in order to ensure support is available, widely and rapidly, to all Canadian SMEs. These are the businesses that will get the economy humming again.

David Losier is a corporate director and consultant, and the former CFO for Uni Financial Cooperation, Canada's first federally regulated credit union.