

# Legislative Costing Note

Announcement date:	2020-03-25 (C-13)
Publication date:	2020-04-24
Short title:	Loan Guarantee Program for Small and Medium Sized Enterprises (SMEs)
Description:	Export Development Canada (EDC) guarantees 80% of new loans to SMEs, up to \$6.25 million, with a total program envelope of \$20 billion.
Data sources:	<p>Loan Guarantee Fee                      Program Information provided by EDC</p> <p>Financial Data from the                  EDC's Annual Reports</p> <p>Consolidated Balance Sheet</p> <p>and Statement of Income</p>
Estimation and projection method:	<p>The fiscal impact of this cost estimate is the guarantee fees generated through the loan guarantees, minus potential defaults and incremental administration expenses.</p> <p>EDC's guarantee fees of 1.8% are charged to the financial institution providing the loan on the full amount of the loan.</p> <p>PBO used financial data from EDC's annual reports during the most recent economic recession (FY 2007-08 and 2008-09) to calculate the average provision for credit losses as a share of loan guarantees issued (as a proxy for default rates), and the average efficiency ratio (administration expenses as a share of net revenue).</p> <p>PBO estimated the fiscal impact by taking the difference between the guarantee fee revenue, and the sum of the potential defaults and administration expenses.</p>
Aggregate Results:	<p>PBO estimates total net income of this measure to be \$3 million in 2020-21.</p> <p>The time horizon for this costing is aligned to PBO's current Economic and Fiscal Scenario, although there may be potential fiscal impacts for subsequent years.</p>
Source of Uncertainty:	<p>PBO assumes that the entire \$20 billion in loan guarantees will be issued in 2020-21. Should this not be the case, PBO's cost estimate will overstate the annual income amount.</p> <p>PBO assumes that debt seniority (the precedence one credit holder has over another when debt is repaid) is reflected in the provision for credit losses. PBO also assumes that any residual collateral will be shared on the 80/20 basis with the financial institution, after higher ranking debt is repaid. Should this not be the case, it would impact the cost estimate.</p>

Another source of uncertainty arises from the assumption that the average profitability of EDC's loan guarantee program over 2007-09 reflects that of the additional loan guarantees issued through this policy.

Prepared by:

Jason Stanton and Varun Srivatsan

### Cost of proposed measure

\$ millions	2019-2020	2020-2021
Total cost	-	-3

#### Notes:

Estimates are presented on an accruals basis as would appear in the budget and public accounts.

Positive numbers subtract from the budgetary balance, negative numbers contribute to the budget balance.

"-" = PBO does not expect a financial cost