

# Bank Lending to Business



## Fast facts

» Banks represent a little more than half of the business lending market and roughly one-quarter of the overall business financing market in Canada

» Banks are prudent lenders and continually work to make credit available to credit-worthy businesses in Canada. This prudent approach is a key reason why banks in Canada avoided the financial difficulties that recently plagued banks in other countries

» Throughout the current business recovery phase, banks will continue to be there to support their business clients, just as they were during the financial crisis



## The bottom line

Canada's banks remain open for business and committed to providing financing to Canadian businesses.

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## Banks are a key source of credit for Canadian businesses

Banks represent a little more than half (58 per cent) of all lending supplied to businesses through business loans, short-term promissory notes known as bankers' acceptances, non-residential mortgages and other lending products. Considering the financing market more broadly, including capital markets, banks represent roughly one-quarter of the total business financing marketplace.<sup>1</sup>

As we move through the business recovery phase and towards a more sustainable growth path, banks will continue to be there to support the business clients, just as they were during the financial crisis.

## Demand for business credit rebounding

During the recent economic downturn, many businesses reduced their borrowing because of the economic and market uncertainty. And, while banks continued to provide businesses with access to credit, businesses did not access that credit as much as they had in the past.

Business financing is now growing in response to increasingly favourable economic growth and confidence. These conditions are becoming broad-based throughout the Canadian economy and are bolstered by:

- the solid financial positions of Canadian firms. The Bank of Canada recently noted that businesses have relatively high amounts of cash and low levels of leverage on their balance sheets.
- the improved global economic outlook and low government bond yields that have underpinned the strong investor demand for corporate bonds and equities.

## How lending decisions are made

Bankers look at the total business package when making financing decisions and the ability to repay a loan is determined by the business plan, cash flow projections, asset base, sales and marketplace analysis and business viability.

Banks make all lending decisions on a case-by-case basis. The terms of the loan are based on the financial situation of the individual business within the context of financial market conditions more broadly. For example, if the recent global economic difficulties had a negative impact on a business' financial situation, then the risk to the bank of lending to that business could increase. Because of that, the bank may require more security before providing the loan or the loan may be more expensive. But if the business is creditworthy and the bank thinks it has the ability to repay the loan, then the credit would be granted.



## Banks remain prudent lenders

While banks understand the importance of providing credit businesses, they also have a responsibility to protect their depositors' money.

Banks continue to make lending decisions on a case-by-case basis, extending credit to those for whom it would be beneficial and who have the capacity to repay the loans. This prudent approach is a key reason why banks in Canada have largely avoided the financial difficulties that have plagued banks in other countries.

Maintaining these sound, fundamental principles of prudent lending is important to Canada's banking system and also in the best interest of all Canadians.

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## Canadian businesses benefit from Canada's strong banking system

Emerging from the economic turbulence of the past few years, Canada's banks have remained strong, contributing substantially to the economic recovery without requiring the taxpayer-funded bailouts that have occurred in many other countries around the world.

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For the fourth consecutive year the World Economic Forum has ranked Canada's banking system as the world's soundest. This is good news that benefits Canada and Canadians. The banking industry annually contributes tens of billions of dollars to Canada's GDP, directly employs more than a quarter of a million Canadians and provides financing for businesses across the country, including close to \$87.5 billion in credit to small businesses alone last year.<sup>2</sup>

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<sup>1</sup> Bank of Canada

<sup>2</sup> Statistics Canada Survey of Suppliers of Business Financing (2010 data)

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» [The Canadian Bankers Association works on behalf of domestic banks, foreign bank subsidiaries and foreign bank branches operating in Canada and their 267,000 employees. The CBA advocates for effective public policies that contribute to a sound, successful banking system that benefits Canadians and Canada's economy. The Association also promotes financial literacy to help Canadians make informed financial decisions.](#)