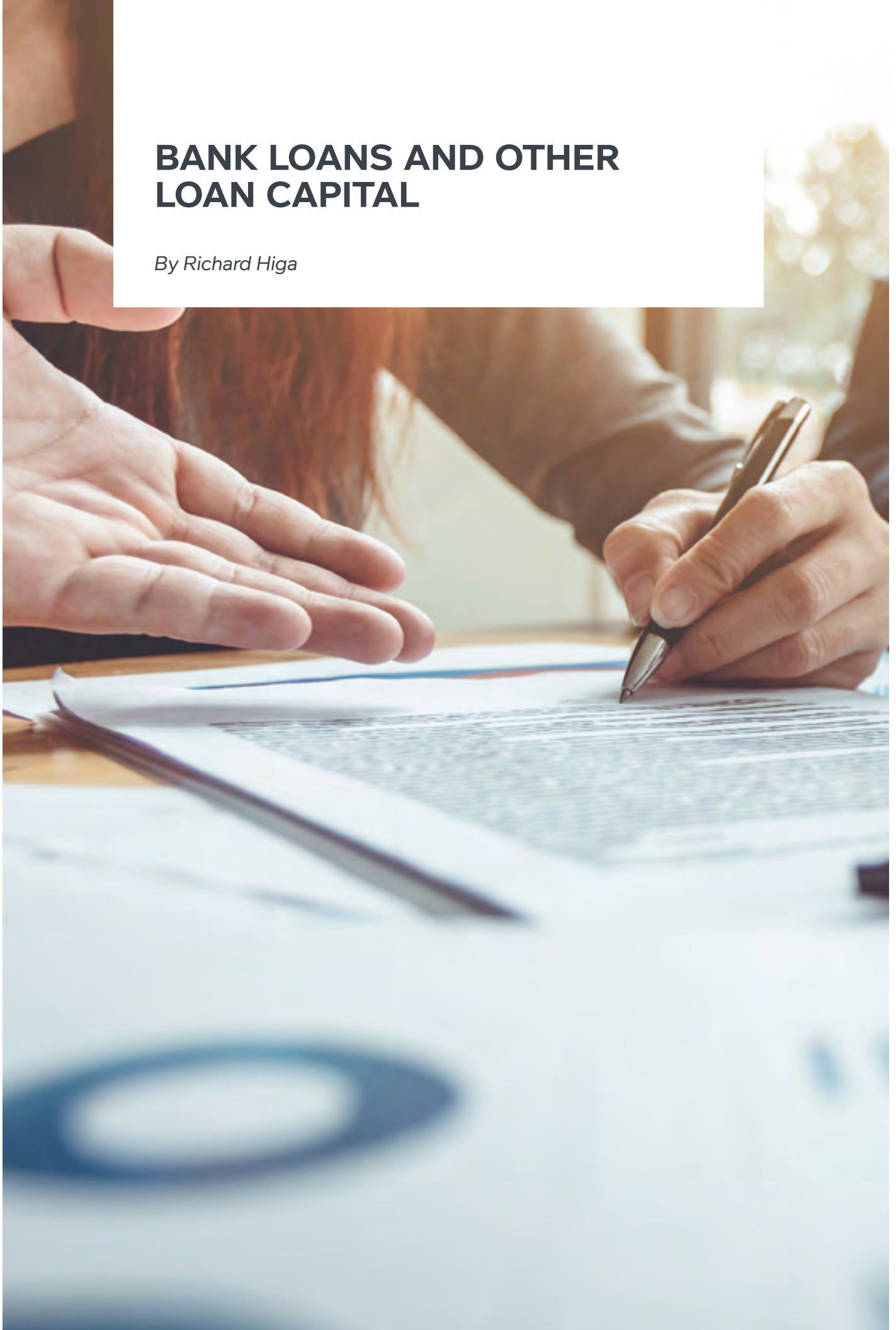


# **BANK LOANS AND OTHER LOAN CAPITAL**

*By Richard Higa*



## BANK LOANS AND OTHER LOAN CAPITAL

Bank loans in Canada are readily available from sophisticated domestic banks, as well as from non-Canadian foreign bank subsidiaries and Canadian branches of non-Canadian banks. The Canadian banking system is well regulated and Canadian banks are well capitalized. Canada also has competitive non-bank lenders that are particularly active in the asset-based loan, mezzanine debt and project finance markets. As well, there are two federal government financial institutions that provide financing — the Business Development Bank of Canada, which offers financing to small- and medium-sized businesses, and Export Development Canada, which is specifically targeted to assist Canadian exporters with financing.

Floating-rate loans are often indexed to a “prime rate” set by a Canadian bank on a periodic basis and based on the rate announced weekly by Canada’s central bank, the Bank of Canada. Fixed-rate loans are typically priced off long-term Government of Canada bond rates. Other forms of borrowing and interest rate pricing (such as SOFR, SONIA, ESTR and CORRA loans) are also offered, depending on availability and currency. Borrowers generally incur some fees associated with such transactions. These typically include legal costs, commitment and processing fees and other charges.

Short- and long-term loans in Canada can be unsecured or secured against the personal property and/or real property of the borrower. Lenders may insist that unsecured loans be supported by a parent company guarantee, or by a “negative pledge,” where the borrower agrees (with some exceptions) not to grant security over its assets. All provinces provide an electronic registry for the recording of security interests over personal property. All provinces also have established land registry systems to record interests in real property. See [Real Property](#). As a general matter, the systems for registering security over personal and real property are similar to those in the United States.

Canada has no currency restrictions. Loans are available in multiple currencies but are most commonly denominated in Canadian and U.S. dollars. Due to the competitive nature of Canada’s loan markets, interest rates are often lower for comparable credits compared to other jurisdictions, particularly the U.S. Where Canadian tax rates are higher

than those of a foreign jurisdiction, the benefits of deducting interest expenses for loans in Canada are correspondingly higher. There are other tax advantages when borrowing in Canada. For example, thin-capitalization rules do not apply to arm's-length, third-party debt to limit the deductibility of interest. In addition, Canadian withholding tax will generally not apply to interest (other than certain types of interest) paid on arm's-length, third-party debt. Finally, Nova Scotia, Alberta and British Columbia have unlimited liability companies. These are hybrid entities that create tax-planning opportunities for U.S. cross-border transactions. See [Taxation](#).

A number of federal and provincial programs and agencies provide grants and/or loans to Canadian businesses. The availability of government assistance will depend upon a number of factors. These include the location of the proposed investment, the number of jobs that will be created, the export potential for the product or service, whether the investment would be made without the government assistance and the amount of equity the owners of the business are investing. Foreign ownership of a corporation does not generally preclude the availability of government assistance programs.

All provinces and territories in Canada have *Securities Transfer Act* (STA) legislation. These acts govern, among other matters, the transfer of securities and other investment property and work with personal property security legislation to regulate the perfection of security interests in securities and other investment property, including securities in uncertificated form. The STA legislation was modelled after Revised Article 8 of the Uniform Commercial Code of the United States. This approach was taken so that there could be a more consistent regime governing the transfer of securities and other investment property cross-border between Canada and the U.S., as well as a uniformity of approach across Canada.

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