



# The CEBA Tsunami

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How Canadian Lenders and  
Small Businesses Can Ride the  
Loan Refinancing Wave in 2023

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angus reid group

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JUDI.AI



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**898,271**

BUSINESSES WERE  
APPROVED FOR  
CEBA LOANS

**571,851**

BUSINESSES WERE  
APPROVED FOR  
CEBA EXPANSION

**\$49.2B**

IN TOTAL  
FUNDS WERE  
DISTRIBUTED

# The opportunity

## CEBA overview

In 2020, the federal government of Canada created the Canada Emergency Business Account (CEBA) to provide financial aid to businesses during the pandemic. The program offered interest-free loans of up to \$60,000 to small businesses.

As part of the program, the Government of Canada offered loan forgiveness to applicants. Repaying the balance of the loan on or before December 31, 2023 will result in loan forgiveness of up to 33% of the original debt (or \$20,000). We anticipate that many will consider refinancing prior to the deadline. This presents a unique opportunity to help existing borrowers, and potentially to acquire new ones. There was broad uptake of the program, and the resulting numbers are significant.

Source: [ceba-cuec.ca](https://ceba-cuec.ca)





## How small businesses view CEBA: JUDI.AI + Angus Reid survey

We believe there is an opportunity for lenders to leverage a CEBA loan refinancing strategy to both grow their loan books and better support local businesses in their communities.

To validate our hypothesis, in August 2022, JUDI.AI worked with Angus Reid on a market research project to gain a clearer picture of borrower perceptions of CEBA loan forgiveness and related repayment intentions. We surveyed Canadian small businesses with less than 10 employees that received a CEBA loan.

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**64%**  
**NEEDED A LOAN  
TO SUPPORT  
CASH FLOW**

**17%**  
**NEEDED A LOAN  
FOR EMERGENCY  
FUNDING**

## Cash flow was the top driver of CEBA loan demand

The primary reason for applying for a CEBA loan was to support cash flow (64%), followed by emergency funding (17%).



## 3 out of 4 businesses have yet to fully repay their CEBA loan

Only one quarter (26%) of businesses have fully repaid their loans, and those who received the expansion (\$40K + \$20K) are the least likely to have repaid.

ONLY  
**26%**  
HAVE FULLY  
REPAID LOANS





**71%**

**OWNERS PLAN  
TO REPAY LOAN  
BY END OF 2023**

**28%**

**OWNERS DO NOT  
PLAN ON REPAYING  
OR KNOW IF THEY CAN  
MEET DEADLINE**

**13%**

**OWNERS ARE  
UNAWARE OF  
CEBA LOAN  
FORGIVENESS**

## Lenders have an important advisory role to play

While awareness of the repayment forgiveness opportunity is high (87% among businesses who have not fully repaid their loan), surprisingly, 13% of CEBA borrowers are unaware. 71% of businesses plan to repay their CEBA loan by the end of 2023, leaving 28% who do not plan on repaying or are not sure if they will repay by the deadline.



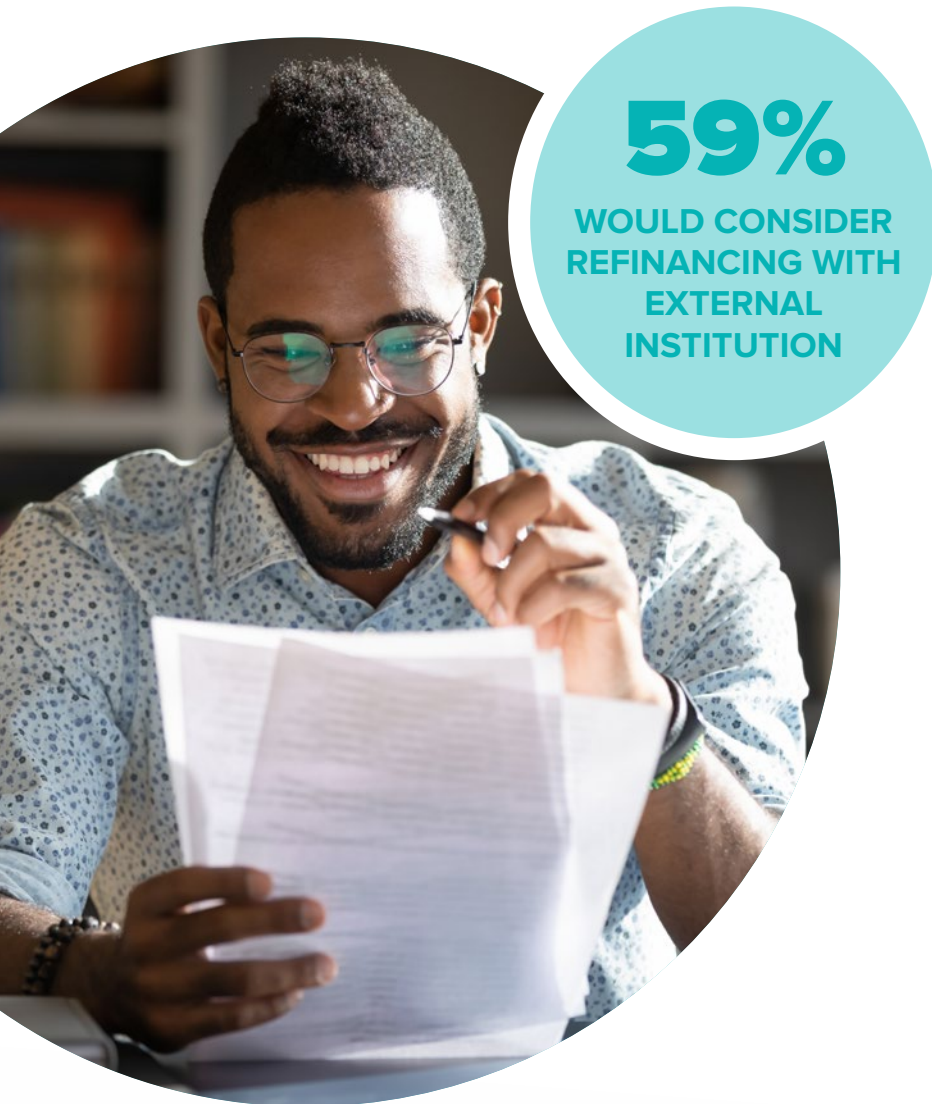
The majority of business owners intend to repay with existing cash reserves...

63% of businesses who plan to repay the loan in 2023 say they intend to do so with cash on hand.

...but at the same time, interest in a loan offer is strong

Interestingly, despite a stated plan to use existing cash reserves by those businesses which haven't fully repaid their loan, there is strong interest in a refinancing option. 71% say they would be somewhat likely or very likely to accept a loan offer from their current financial institution.





## Think about borrower retention and acquisition

59% say they would be somewhat likely or very likely to accept a loan offer from an external financial institution with which they don't currently have a relationship. In addition, 30% say their personal and business banking accounts are at different financial institutions.



## CEBA is also a DEI opportunity

55% of the businesses surveyed are owned (in part or in full) by women, people of colour, or Indigenous people.

**55%**  
OF BUSINESSES  
ARE OWNED  
BY WOMEN OR  
BIPOC

**\$50B IN TOTAL CEBA FUNDS**     **=**     **~900,000 LOANS**

**75% OF BUSINESSES HAVEN'T  
REPAID THEIR LOAN**     **=**     **~675,000 LOANS**

**71% OF BUSINESSES INTEND TO  
REPAY LOAN + 20% UNSURE**     **=**     **~615,000 LOANS**

**71% OF BUSINESSES INTERESTED  
IN LOAN FROM THEIR FI**     **=**     **~437,000 LOANS**

**X AVERAGE REMAINING CEBA  
LOAN SIZE (ESTIMATED)**     **=**     **\$35,000**

**\$15B**

## A \$15 billion opportunity

Triangulating all the data, we estimate that the “CEBA Tsunami” presents a tremendous opportunity for lenders to refinance approximately \$15 billion of existing CEBA loans into new and renewing business.





# Operational readiness considerations

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It's entirely possible that lenders could receive hundreds (or even thousands for larger lenders) of loan refinancing applications in a matter of a few months as the **CEBA** loan repayment and forgiveness deadline approaches at the end of 2023.

If even **25%** of these borrowers apply for a conventional loan within three months of the **December 31, 2023** repayment deadline, this could put a significant strain on existing lending operations.

## Underwriting and risk management



**93%**  
**ARE MODERATELY  
PROFITABLE,  
BREAK EVEN OR  
UNPROFITABLE**

Generally speaking, we are talking about very small businesses — more than half have less than 10 employees. 25% have been in business for less than five years. And while 60% of these small businesses are optimistic for their future, 93% describe themselves as moderately profitable, break even or unprofitable, making credit assessment — and more specifically, assessing ability to pay — both challenging and essential.

With high inflation and climbing interest rates putting additional strain on small businesses, many owners are struggling to keep their businesses afloat and remain profitable. While we would like to be able to help all small businesses take advantage of the loan forgiveness opportunity, these businesses simply will not qualify for conventional financing.

Lenders will need to find a way to quickly and easily evaluate the creditworthiness of their borrowers in order to handle the anticipated influx. Re-engineering your risk assessment process by investing in technology can enable you to process and assess real-time banking data automatically, versus manually reviewing and spreading stale, unreliable financial statements. This will result in a safe, but scalable assessment process.

You may also want to consider a relationship management strategy around declined applications. Small business loan application approval rates are typically around 50%, and we should anticipate similar (or higher) levels of declines as CEBA refinancing plays out.



## Channel delivery

When preparing your CEBA refinancing program, consider your channels:

- » **How will you accept loan applications?**
- » **Will your loan process be completely staff-assisted (either in-branch or remote) or completely digital (or a hybrid of both channels)?**
- » **How does this relate to your current loan process?**
- » **Do your Small Business Advisors have the capacity to support a new program?**
- » **Can you onboard new borrowers quickly?**

With the rise in fintech credit options, borrower expectations of customer service and online experiences have put much more pressure on traditional lenders to revisit their channel strategy. By investing in the right tools, lenders can engage borrowers with self-service features, and help Account Managers and/or Advisors make informed, real-time decisions, deliver faster response times and eliminate human error when it comes to loan application processing and decisioning.



**13%**

OF BORROWERS  
ARE NOT AWARE  
OF FORGIVENESS  
OPPORTUNITY

**28%**

OF BORROWERS  
DO NOT INTEND  
TO REPAY ON  
TIME

**71%**

OF CEBA BORROWERS  
LIKELY TO ACCEPT  
LOAN OFFER FROM  
THEIR FI

**59%**

OF CEBA  
BORROWERS  
LIKELY TO ACCEPT  
LOAN OFFER FROM  
EXTERNAL FI

## Marketing support

As small businesses recover from the financial hardships of the pandemic and look for new funding sources to help refinance government relief efforts, now is the right time for lenders to both secure their relationship advantage with small businesses and grow market share. Positioning the benefits of refinancing the CEBA loan will be critical in order to maximize assistance provided and to build loan portfolios.

Plan your marketing activity to drive business growth and generate loan demand.

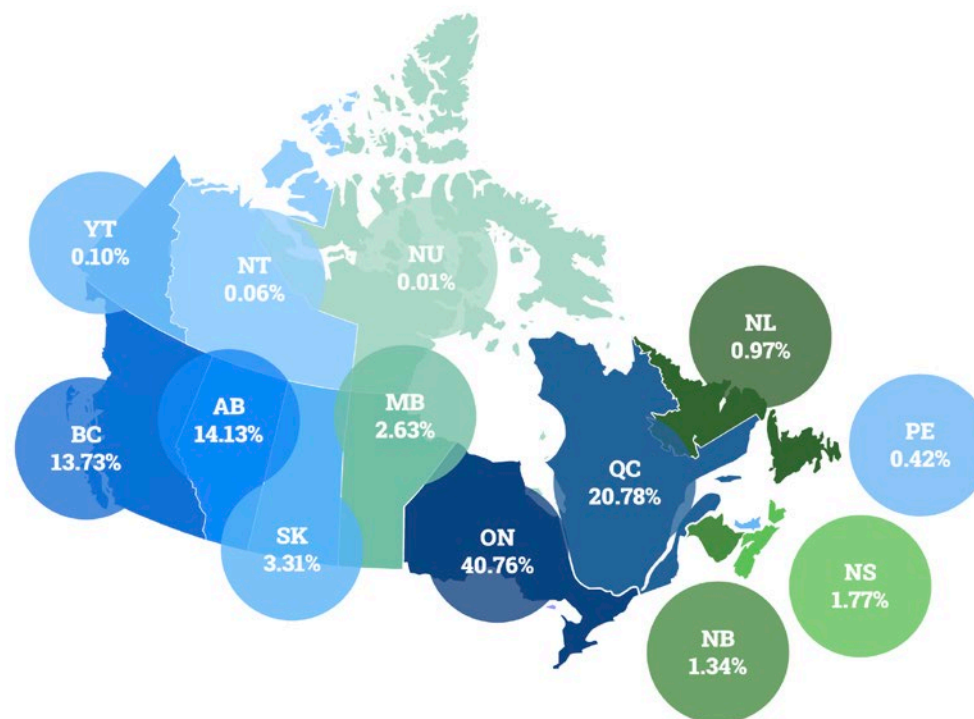
- » 13% of CEBA borrowers with outstanding balances are not aware of the forgiveness opportunity
- » 28% of CEBA borrowers with outstanding balances do not intend to take advantage of the forgiveness opportunity, which seems unfortunate and worthy of some pressure testing
- » Despite stated intentions to repay with cash on hand,
  - 71% of CEBA borrowers who have not fully repaid are likely to accept a loan offer from their primary FI; and
  - 59% of CEBA borrowers who have not fully repaid are likely to accept a loan offer from an external FI

## CEBA Regional Statistics

Province or Territory	Number of businesses approved for CEBA loans <sup>1</sup>	Funding Approved for CEBA Loans and Expansions <sup>1</sup> (In Millions) <sup>2</sup>
Ontario	360,339	\$19,732
Quebec	182,923	\$10,059
Alberta	125,015	\$6,838
British Columbia	122,890	\$6,645
Saskatchewan	29,088	\$1,600
Manitoba	23,424	\$1,273
Nova Scotia	16,028	\$855
New Brunswick	12,091	\$648
Newfoundland and Labrador	8,457	\$469
Prince Edward Island	3,737	\$204
Yukon	910	\$48
Northwest Territories	511	\$28
Nunavut	114	\$6.2
<b>Total<sup>3</sup></b>	<b>885,527</b>	<b>\$48.4 Billion</b>

1. Source: [ceba-cuec.ca/statistics/](https://ceba-cuec.ca/statistics/)

## Funds Approved by Province or Territory (%) for CEBA Loans and Expansions<sup>1</sup>



Will your strategy target existing borrowers only, or will you also consider new borrower acquisition? There is a pool of thousands or tens of thousands of CEBA loans in local regions across the country. Do you have an offer and distribution strategy designed to acquire new market share?

If your marketing efforts to existing borrowers are successful, we estimate that you might see 50% of your CEBA borrowers apply for credit, and of those, you could end up funding around 50% in a very short timeframe at the end of 2023. If you extend your marketing efforts beyond existing borrowers, these numbers could be substantially higher.

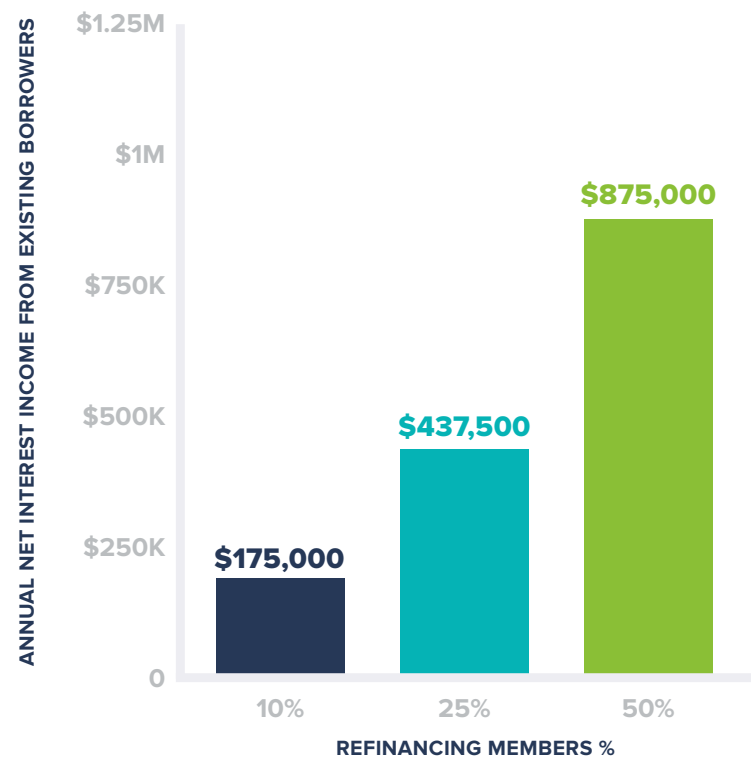
# The case for CEBA refinancing

To help paint the picture of the opportunity at hand for CEBA loan refinancing, we framed the following example using a fictitious credit union based in Manitoba.

## Existing borrowers

Let's assume this credit union has:

- » 1,000 CEBA loans in their portfolio
- » An average loan size of \$35,000
- » A Net Interest Margin on small business loans of 5%







## Prospective borrowers

Based on the CEBA regional statistics referenced earlier in this report, this credit union would also have access to a pool of ~22,400 small businesses in Manitoba who have received CEBA loans. Let's assume their geographic reach allows them to access 10,000 prospective small business members.

$$\begin{array}{ccccc} \mathbf{10,000} & \mathbf{x} & \mathbf{2\%} & \mathbf{=} & \mathbf{200} \\ \text{PROSPECTIVE SMB MEMBERS} & & \text{CONVERSION RATE} & & \text{NEW MEMBERS} \end{array}$$

$$\begin{array}{ccccc} \mathbf{200} & \mathbf{x} & \mathbf{\$35,000} & \mathbf{x} & \mathbf{5\%} \\ \text{NEW MEMBERS} & & \text{AVERAGE REMAINING CEBA} & & \text{NET INTEREST} \\ & & \text{LOAN BALANCE (EST)} & & \text{MARGIN} \end{array}$$

$$\begin{array}{c} \mathbf{=} \mathbf{\$350,000} \\ \text{ANNUAL NET INTEREST INCOME} \end{array}$$



# Key takeaways

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- » With rising interest rates and inflation, cash flow remains a priority for small businesses.
- » Community lenders are in a prime position to support local small businesses with capital and grow their loan portfolios.
- » There is a big pool to swim in. 74% of respondents have not repaid their CEBA loan in full at this time. That is ~650,000 businesses across Canada.
- » Small businesses are receptive to a well-timed, well-messaged refinancing loan offer in order to take advantage of the forgiveness opportunity.
- » Chase the CEBA opportunity, but be sure to manage the risk. A significant portion of applicants will be in the “grey area” in terms of creditworthiness.
- » In preparation for the CEBA tsunami, JUDI can help lenders streamline their small business lending processes.
- » If you’re going to jump on the CEBA opportunity, start preparing now — lenders will want to be ready and in market with an offer and a well-oiled process by the end of Q2 in 2023.

# Methodology

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In partnership with JUDI.AI, Angus Reid Group conducted an online survey in August 2022 among a representative sample of n=328 Canadian small businesses with less than 100 employees that received a CEBA loan. The respondents are members of the Angus Reid Forum. The survey was conducted in English and French. For comparison purposes only, this sample plan would carry a margin of error of +/- 5 percentage points, 19 times out of 20.

## ABOUT THE ANGUS REID GROUP

Angus Reid is Canada's most well-known and respected name in opinion and market research data. Offering a variety of research solutions to businesses, brands, governments, not-for-profit organizations and more, the Angus Reid team connects technologies and people to derive powerful insights that inform your decisions. Data is collected through a suite of tools utilizing the latest technologies. Prime among that is the Angus Reid Forum, an opinion community consisting of engaged residents across the country who answer surveys on topical issues that matter to all Canadians.

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# JUDI.AI

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Having been born and incubated inside a fintech lender, JUDI.AI enables community based financial institutions to provide a fintech-like experience for small business loans. We have developed a targeted solution for this important space, which combines the speed and experience of consumer lending with some of the rigour of commercial lending.

The solution involves a combination of superior digital workflow (for improved borrower and staff experiences) and augmented and accelerated AI-driven decisioning (for better risk management and portfolio performance). JUDI.AI pledges 1% of our equity, revenue, time and product to charities of our customers' choice.

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