Business Start Loan - Applicant Equity Requirement

It is required that applicants make an equity contribution at the time of applying for the Business Start Loan. Program regulations and procedures have been developed from adoption of the basic concept that an applicant, new business owner, should be putting resources of his/her own at risk. This means resources that at the time of application have a reasonably certain future value to the new business and meet the accounting definition of an asset.

Manitoba Business Start Regulations:

With respect to the applicant's equity contribution, section 5(2.1) of the Manitoba Business Start Program Regulations states:

For the purpose of subsection (2), **"equity contribution"** means equity contributed to a business by the new business operator or operators in either or both of the following forms and in an amount that the lender is satisfied will be sufficient for the working capital requirements of the business:

(a) cash from a source that does not require the pledging or encumbrance of the assets that are used or to be used in the business:

(b) assets that are used or to be used in the business and that

(i) are or will be an integral part of the business;

(ii) are not or will not be pledged or encumbered by the business or operators, and

(iii) are purchased not earlier than six months prior to the application made under subsection 5(1) and the purchase price of which is verified by receipt or other written documentation.

Business Start Program Policy Regarding Equity Contributions:

The following are key points of our departmental policy for the applicant's required equity contribution under the Program:

Cash as Equity Contribution

- An acceptable cash equity is cash other than cash that is the proceeds of a previously acquired loan where business assets were pledged as loan collateral.
- The cash contribution should be available for investment in the business at time of the loan application.
- Cash must be deposited in a bank account with the lender prior to disbursement of loan funds, and would not be expected to be withdrawn in total prior to loan funds being deposited into the same account.

Assets as Equity Contribution

- Unencumbered assets purchased not earlier than six months prior to loan application can qualify as an equity contribution.

- Assets qualifying as all or part of an applicant's equity contribution would include real property, equipment, leasehold improvements, inventory, supplies, prepaid expenses or intangible assets such as a patent, copyright, trademark, franchise fee, business registration or incorporation costs.

- Sunk or expired costs are not considered assets. Examples would include operating costs such as rent, utilities, employee wages, advertising expenditures incurred in periods prior to Business Start Loan application.

- A stock of unused promotional items available for future distribution such as company logo merchandise or brochures describing services would be considered as supplies.

- Assets can be new or previously used items, but they must be or will be an integral part of business operations.

- With respect to these assets, the dollar value of equity contribution would be the amount shown on an invoice for the purchase/acquisition from a vendor who was at arms-length. Where the business asset has been acquired by the applicant from a vender, who is not at arms-length the invoice amount may not be an objective measure of asset value. Greater care must be exercised in considering the value of the equity contribution. Reference to an independent source to ascertain fair market value is recommended.

- In cases where the applicant's equity is entirely in the form of contributed assets, an assessment of the budgeted cash flow included in the business plan must show that the business (after receipt of approved loans) has adequate working capital to operate.

If you have questions or need any clarification, please contact:

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