

Financing Through an SBA Program



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We're from the government and we're here to help-really, it's true



Scot Hardin, SBA loan officer in Columbus, Ohio, says, "Credit standards have definitely tightened up over what they were in 2007. It puts additional importance on bringing the deal to the bank with information that's easy for the banker to understand and evaluate."

PHOTO COURTESY OF SCOT HARDIN.

Thinking about expanding, but having a tough time raising the necessary capital? Perhaps you've turned down a job that you would've gladly accepted last year. Or, maybe, you're spending too much time this spring shuttling aging and unreliable production equipment back and forth to your local dealer rather than keeping up with your clients' properties.

Is it just you, or does it seem that lately there isn't enough daylight to get everything done now that the phone is starting to ring and the grass is growing like crazy?

You're fortunate. Business is improving, and the solutions to your problems are elementary: hire more workers and buy better equipment. Simple. Or, is it that simple?

This recession was steep and painful. The recovery has been steady, but anything but robust. Landscape companies need to hold onto their cash to get through the peak season. Capital for expansion has curled up and died like crabgrass after autumn's killing frost, and banks are extremely reluctant to lend. Louie the loan-shark might be able to help, but most of us know better than to go hat-in-hand to those payday stores where interest rates average around 300 percent a year.

As implausible to small business people as it might sound, the federal government might be able to help finance your growth. Yes, we've all heard,

and sneered, at the saying, "I'm from the government, and I'm here to help." The truth is that government programs through the Small Business Administration (SBA) may be able help you acquire the equipment you need or expand your business.

The SBA was created in 1953 as an independent agency of the federal government to aid, counsel, assist and protect the interests of small business concerns, to preserve free competitive enterprise, and to maintain and strengthen the overall economy. Initially, the SBA offered direct loans to entrepreneurs after they had been turned down by a private bank for a loan. However, the SBA today acts as a guarantor of the loan for their client, assuming up to 85 percent of the risk.

"Now that SBA provides a guaranty to the lender, or basically an insurance product, the lender makes the first decision if they want to fund that request," says Scot Hardin, SBA loan officer in Columbus, Ohio. "The bank comes to the SBA if they want the SBA's backing. The interest rate is negotiated between the client and the lender. SBA does have certain interest rate maximums, and they vary depending upon which program is used by the lender."

The effects of this recession has made the borrowing process a bit more difficult, but loans are being made and cash is flowing from lenders such as Chase Bank, PNC and U.S. Bank. To apply for a loan, the business owner should meet with their local banker and have copies of the last several years of their tax records and a personal financial statement, along with a copy of their credit bureau report. They should also bring a debt schedule on any outstanding loans indicating original loan amounts, current balances, current status or 30-60-90 days past due, who the lender is, and any collateral pledged for each loan.

"Credit standards have definitely tightened up over what they were in 2007," says Hardin. "It puts additional importance on bringing the deal to the bank with information that's easy for the banker to understand and evaluate. From a processing point, it's slightly more difficult than a traditional bank loan. The bank gathers basically all the same information they would typically gather for any commercial loan, and then if they want SBA's backing they will ask the client for some additional information."

Legislation is pending before Congress that would increase loan guarantee amounts. Karen G. Mills, SBA administrator, recently told members of the House Committee on Small Business that hundreds of lenders have reinstated SBA lending since the financial crisis. Propelling the expansion was Recovery Act provisions that helped reduce or eliminate some fees and temporarily push guarantees on some SBA loans to 90 percent. The Small Business Administration reported more than \$30 billion in lending to 60,000 businesses for its fiscal year that just ended, an all-time record for the 60-year-old agency.

There are three basic loan types available through the SBA in which landscape companies might best secure funding for expansion:

- **The 504 Loan Program:** The SBA 504 Loan program is a powerful economic

development loan program that offers small businesses another avenue for business financing while promoting business growth, and job creation. As of Feb. 15, 2012, the \$50 Billion in 504 loans has created over 2 million jobs. This program is a proven success for the small business, the community and participating lenders.

The 504 Loan Program provides approved small businesses with long-term, fixed-rate financing used to acquire fixed assets for expansion or modernization. The 504 loans are made available through certified development companies (CDCs), nonprofit corporations that promote economic development within their community through 504 Loans. CDCs are certified and regulated by the SBA, and work with SBA and participating lenders (typically banks) to provide financing to small businesses, which, in turn, accomplishes the goal of community economic development.

There are more than 260 CDCs nationwide, each having a defined area of operations covering a specific geographic area. The area of operations for most CDCs is the state in which they are incorporated.

504 Loans are typically structured with the SBA providing 40 percent of the total project costs, a participating lender covering up to 50 percent of the total project costs, and the borrower contributing 10 percent of the project costs. Under certain circumstances, a borrower may be required to contribute up to 20 percent of the total project costs.

- **Microloan Program:** The Microloan Program provides small, short-term loans to small business concerns. The SBA makes funds available to specially designated intermediary lenders, which are nonprofit community-based organizations with experience in lending as well as management and technical assistance. These intermediaries make loans to eligible borrowers. The maximum loan amount is \$50,000, but the average Microloan is about \$13,000. Microloans may be used for working capital, to purchase inventory, or to purchase machinery and equipment.
- **The 7(a) Loan Program:** The 7(a) Loan Program includes financial help for businesses with special requirements. For example, funds are available for loans to businesses that handle exports to foreign countries, businesses that operate in rural areas, and for other very specific purposes.

If you are awarded a 7(a) loan, the loan proceeds may be used to establish a new business or to assist in the acquisition, operation or expansion of an existing business, including: the purchase of land or buildings to cover new construction as well as expansion or conversion of existing facilities; the purchase of equipment, machinery, furniture, fixtures, supplies or materials; long-term working capital, including the payment of accounts payable and/or the purchase of inventory; short-term working capital needs, including seasonal financing, contract performance, construction financing and export production; financing against existing inventory and receivable under special conditions; the refinancing of existing business indebtedness that is not already

structured with reasonable terms and conditions; and to purchase an existing business.

In addition to the loan programs, the SBA offers assistance through Business Development Centers, offering help to start-up businesses in the areas of financing, marketing, production, organization, engineering and technical problems and feasibility studies. The SBA also encourages its members to work through the SCORE Program (Senior Core of Retired Executives,).

SCORE members are trained to serve as counselors, advisers and mentors to aspiring entrepreneurs and business owners. The SBA also sponsors a 16-member veteran outreach program and is linked to nearly 100 Women's Business Centers.

So next time you've fallen behind in your schedule because your equipment is unreliable and in need of replacement, or the next time you have to say "no" to a potential customer that you'd like to have, remember the SBA and the many programs it offers to owners of small businesses. Or, if expansion is in your future, maybe it's time to call your banker and say, "Tell me how to qualify for an SBA loan."

It is just good business to know all of your capitalization options, including those offered through the SBA.

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