SBA Programs to Provide Working Capital

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Some options to consider when local (private) financing is not available

Landscape and lawn care business owners who survived 2012's summer drought and heat may be suffering cash flow problems. If money and cash flow are uneven, the Small Business Administration (SBA) may have a program to augment working capital and help finance seasonal operating expenses to even out monthly receivables and payments.

Utilizing tools that finance managers and bankers understand, the SBA has developed methods that lawn care entrepreneurs can employ. They should investigate the newly constructed loan programs. The SBA CAPLines program is designed for small businesses to meet their short-term and cyclical working capital needs and can be used to consolidate short-term debt; provide operating capital; finance costs of performing certain construction, service and supply contracts; and finance the cost associated with commercial construction.

The SBA provides up to an 85 percent loan guarantee to the lender (bank or credit union) on business loans under $150,000 and 75 percent on loans over that amount. Working under the parameters of the SBA's 7a Program, there are four distinct loan plans.

1. The Seasonal Line of Credit Program supports buildup of inventory, accounts receivable or labor and materials above normal usage for seasonal inventory. The company must have been in business for a period of 12 months and have an established seasonal pattern. The loan may be used over again, after a "cleanup" period of 30 days, to finance activity for a new season. These loans may have a maturity of up to five years, the caveat being that the business may not have another seasonal line of credit outstanding, but may have other lines for nonseasonal working capital needs.

2. The Working Capital Line acts as a revolving line of credit (up to $5 million) and provides short-term working capital. These credit lines are generally used by businesses that provide credit to their customers. Disbursements are generally based on the size of a borrower's accounts receivable and/or inventory. Repayment comes from the collection of accounts receivables. The specific structure is negotiated with the lender. There may be extra servicing and monitoring of the collateral for which the lender can charge, up to 2 percent annually.

3. The Builders Line is designed for small general contractors or builders that are constructing or renovating commercial or residential buildings; the program can finance direct labor and material costs. The building project itself serves as the collateral. Loans can be revolving or non-revolving.

4. The Contract Line finances the direct labor and material cost associated with performing assignable contract(s); it too, can be revolving or non-revolving.

The interest rates on these types of loans are a bit confusing. Lenders set the interest rates; the SBA sets ceilings they cannot exceed. Will Bowdish, lender relations specialist, SBA, explains it this way: "Let's say that borrowing $45,000 would get the company through the winter and allow the purchase of materials that are needed for spring cleanup. On a six-month note, interest could be calculated this way: 3.25 percent prime base rate + 3.25 percent spread = 6.5 percent. Now, assuming an SBA guaranty of 85 percent, the guaranty fee would be $95.63 ($45,000 x 85 percent x .25 percent)."

He continues: "An $80,000 loan with an 85 percent SBA Guaranty and 24-month, or longer, payback could have a maximum interest rate of 5.50 percent (3.25 percent + 2.25 percent), plus a one time guaranty fee of $1,360 ($80,000 x 85 percent x 2 percent)."

Most lenders use Wall Street Journal prime as their base rate, as of this writing 3.25 percent. For longer-term loans the guaranty fee is based on the amount of the loan and calculated on the guaranteed amount of the loan. For loan amounts less than $150,000 it is 2 percent of the amount guaranteed; for $150,000 to $700,000 it is 3 percent; and for $700,000 to $5 million it is 3.5 percent plus .25 percent on any guaranteed amount above $1 million.

Lawn care companies would qualify under the parameters of these specialized programs, says Scot Hardin, SBA loan officer. However, there are a few limits. "Season CAPLine is for the seasonal bump in working capital needs, and there must be a rest period between cycles. The business must have been in business at least one year in order to establish their monthly history and their short-term increased working capital bump," he adds.

Hardin cautions against thinking that this program is a panacea for financing all debt. "For instance, you couldn't finance equipment through this product," he explains.

To apply for either loan, the lender will consider what resources will be needed to accomplish the desired purpose, including the associated costs, the applicants contribution, use of loan proceeds, collateral and, most importantly, an explanation of how the business will be able to repay the loan in a timely manner. The lender may also ask for personal collateral, in addition to business assets, for associates having at least 20 percent interest in the company.

“The hard part for any business is finding a lender who knows their business (lawn care, landscape, etc.), and after considering all the borrower’s other loans, historical profitability of the business and available collateral will agree to make a short-term loan to the client. There were 72 seasonal CAPLine loans done this fiscal year nationally,” notes Hardin.

Again, the interest rate on this type of loan can be high, and these programs should only be considered when local (private) financing is not available. But after this disastrous year, when there are few options remaining and banks are not lending, this may be a source of capital that will help you get over the “bump” and give you a little breathing room when financing materials for the upcoming seasons.

Contact your local SBA office for more information.

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