



Using Government Financing Programs



Look for financing from
government programs



Learning Objectives

- At the end of this module, you will be able to:
 - Identify what government financing programs are available.
 - Understand the various program qualifications, and to determine if your company may benefit through certain programs.



About FDIC Small Business Resource Effort

- The Federal Deposit Insurance Corporation (FDIC) recognizes the important contributions made by small, veteran, and minority and women-owned businesses to our economy. For that reason, we strive to provide small businesses with opportunities to contract with the FDIC. In furtherance of this goal, the FDIC has initiated the FDIC Small Business Resource Effort to assist the small vendors that provide products, services, and solutions to the FDIC.
- The objective of the Small Business Resource Effort is to provide information and the tools small vendors need to become better positioned to compete for contracts and subcontracts at the FDIC. To achieve this objective, the Small Business Resource Effort references outside resources critical for qualified vendors, leverages technology to provide education according to perceived needs, and offers connectivity through resourcing, accessibility, counseling, coaching, and guidance where applicable.
- This product was developed by the FDIC Office of Minority and Women Inclusion (OMWI). OMWI has responsibility for oversight of the Small Business Resource Effort.



Executive Summary

- Every company needs financing to grow.
- Federal, state, and local governments offer many different kinds of funding for small businesses.



A Sampling of Government Loan Program Sources

- Each of these sources offer various loan programs for small businesses:
 - Small Business Administration (SBA)
 - U.S. Department of Agriculture (USDA)
 - Economic Development Administration
 - U.S. Department of Housing and Urban Development (HUD)
 - Community Development Loan Funds (CDLF)
 - U.S. Farm Service Agency (FSA)
 - Local governments



Small Business Administration (SBA)

- SBA has many programs and can aid small business owners by facilitating a loan with a third-party lender, guarantee a bond, or help you find potential venture capital.
- SBA typically *does not* make direct loans to small businesses.
- SBA sets guidelines for loans, which are then made available by its partners – lenders, community development organizations, and micro lending institutions.
- SBA guarantees that these loans will be repaid, thus eliminating some of the risk to the lending partner.
- When a business partner applies for an SBA-guaranteed loan, it is applying for a commercial loan structured according to SBA requirements with an SBA guaranty.
- SBA guaranteed loans may not be made available to a small business if the borrower has access to other financing or reasonable terms.



SBA – 7(a) Loan Program

- 7(a) Loans
 - Primary loan program offered by SBA.
 - Loan comes from lender.
 - Lenders offer a guaranty up to 50% of the loan by SBA.
 - Available to start-ups and existing for-profit businesses.
 - Loan can be used for working capital, machinery and equipment, furniture and fixtures, land and buildings, tenant improvements under lease agreements, and, under special conditions, refinancing prior debt.
 - Must have business plan.



SBA – 7(a) Express Loans

- Express Programs
 - SBAExpress:
 - Accelerated application review completed within 36 hours.
 - SBA offers lenders 50% guaranty on up to \$250,000.
 - Community Express:
 - Financial and technical assistance for Historically Underutilized Business Zones (HUBZones) and distressed communities through the Community Reinvestment Act (CRA).
 - Eligibility loans of \$25,000 or less are available to encourage start-ups regardless of where small businesses are located.
 - Patriot Express: Loans for small businesses that are 51% or more owned/controlled by veterans or members of the military community.



SBA – 7(a) Export Loans *(Slide 1 of 2)*

■ Export Loan Programs

– Export Express:

- Available to help small businesses develop or expand their export markets.
- Expedited eligibility review with response in less than 24 hours.
- Loan comes from lender and SBA offers guaranty of 90% on up to \$250,000 under Recovery Act. Ends when available funds are depleted.
- Typically, SBA offers lenders 85% guaranty for loan amounts up to \$150,000 and 75% on loan amounts between \$150,000 and \$250,000.

– Export Working Capital Program (EWCP):

- Available to small companies who can generate export sales and need additional working capital to support these sales.
- SBA provides lender a guaranty of up to 90% on export loans.
- Funds can be used to cover 100% of supplier costs for export transaction.
- Funds can also be used to even out cash flow when exporters have negotiated longer sales terms and cannot carry the resulting receivables with their own working capital.
- Short-term loan for a single contract or in the form of a line of credit that supports ongoing export sales for a period of 12 months.



SBA – 7(a) Export Loans *(Slide 2 of 2)*

- International Trade Loan Program:
 - Loans to businesses to plan or continue exporting or that have been affected by competition from imports.
 - Loan must put borrower in better position to compete.
 - Offers borrowers a maximum SBA-guaranteed portion of \$1.75 million.
 - SBA guaranty of \$1.5 million on \$2 million loan.
 - Funds may be used for the acquisition, construction, renovation, modernization, improvement or expansion of long-term fixed assets, or the refinancing of an existing loan used for these same purposes.



SBA – 7(a) Rural Lender Advantage Loans

- Small/Rural Lender Advantage (S/RLA):
 - Simplifies small community/rural-based lender's application process and procedures.
 - Part of a broader SBA initiative to promote the economic development of local communities, particularly those facing the challenges of population loss, economic dislocation, and high unemployment.



SBA – 7(a) Special Purpose Loans

(Slide 1 of 3)

- Community Adjustment and Investment Program (CAIP):
 - To be eligible, a small business must reside in a county negatively affected by the North American Free Trade Agreement (NAFTA) based on job losses and the unemployment rate of the county.
 - One job must be created for every \$70,000 SBA guaranty. For 504 loans, one job must be created for every \$65,000 SBA guaranty.



SBA – 7(a) Special Purpose Loans

(Slide 2 of 3)

- CAPLines:
 - **Seasonal Line.** Finances the seasonal increases of accounts receivable and inventory (or in some cases associated increased labor costs); it can be revolving or non-revolving.
 - **Contract Line.** Finances the direct labor and material cost associated with performing assignable contract(s); it can be revolving or non-revolving.
 - **Builders Line.** Finances general contractor or builder constructing or renovating commercial or residential buildings, it can finance direct labor and material costs. Building serves as the collateral; it can be revolving or non-revolving.
 - **Standard Asset-Based Line.** An asset-based revolving line of credit for businesses unable to meet credit standards associated with long-term credit.
 - **Small Asset-Based Line.** An asset-based revolving line of credit of up to \$200,000.



SBA – 7(a) Special Purpose Loans

(Slide 3 of 3)

- Employee Trusts:
 - Financial assistance for Employee Stock Ownership Plans (ESOP).
 - Trust must be part of a plan sponsored by the employer company and qualified under regulations set by either the Internal Revenue Service Code (ESOP) or the Department of Labor (the Employee Retirement Income Security Act (ERISA)).
 - Applicants covered by the ERISA regulations must also secure an exemption from the Department of Labor regulations prohibiting certain loan transactions.
- Pollution Control:
 - Specifically designated for planning, designing, or installing of a pollution control facility to prevent, reduce, abate, or control any form of pollution, including recycling.
 - Same guidelines for the 7(a) Loan Program with the exception that use of the proceeds must be for fixed assets only.



SBA Loans *(Slide 1 of 2)*

- Certified Development Company (CDC) 504 Loan Program:
 - Funds delivered by other organizations, e.g., banks.
 - 50% of the funding provided by the bank.
 - 30%-40% from SBA through a special federal bond program that offers lower/fixed rates and longer terms.
 - 10%-20% of the funds are required from the owner of the business.
 - “Brick and mortar” funding typically for real estate or equipment.
- Disaster Loans:
 - Lender is SBA.
 - Unsecured, long-term (30-40 year), low interest (4%), fixed rate loans.
 - Must be in qualified disaster area and able to show proof business was tragically affected.



SBA Loans *(Slide 2 of 2)*

- Micro-Loan:
 - Funded by SBA, but delivered by other organizations.
 - Limited to \$35,000.
 - Used to make up the difference between lender and owner financing to equal total amount needed. Known as gap financing.
 - Required application documents include business plan, financial projections, and personal financial information.
 - Must have a letter of decline from local bank.



SBA – Bonding Program

- Surety Bond Guarantee (SBG) Program:
 - SBA’s Surety Bond Guarantee Program (SBG) helps small business contractors who cannot obtain surety bonds through regular commercial channels.
 - Agreement between three parties: Surety (someone who agrees to be responsible for the debt or obligation of another), a contractor, and a project owner.
 - Available to small or minority businesses that cannot obtain bonds through commercial channels.
 - Binds the contractor to comply with the terms and conditions of a contract.
 - Surety assumes responsibility of contractor if contractor is unable to complete contract.
 - SBA does not issue these bonds, but guarantees and manages them.
 - Reimbursement of premiums and fees for transportation projects are available through the Department of Transportation through the Disadvantaged Business Enterprise American Recovery and Reinvestment Act Bonding Assistance Reimbursable Fee Program.



SBA – Venture Capital

- Venture Capital:
 - SBA provides venture capital through the Small Business Investment Company (SBIC) Program.
 - Program is public-private investment partnership created to help fill the gap between the availability of growth capital and the needs of small businesses.
 - SBA does not invest directly in small businesses, relying instead on the expertise of qualified private investment funds. The SBA licenses these funds as SBIC's and supplements the capital they raise from private investors with access to low-cost, government-guaranteed debt.
 - Available to high-growth companies that cannot obtain financing through traditional channels, e.g., banks.
 - Cash provided in exchange for company shares (ownership) and active role in company management (board participation).
 - Typically higher risks in exchange for potential of higher returns.
 - Equity lenders may sell their shares to a third party.
 - Equity lender must be “bought out” to end financing relationship.



U.S. Department of Agriculture (USDA)

- Available for rural development.
- Most common is the Business & Industry Loan Guarantee (B&I loans).
- Covers up to 90% of a loan when a business defaults.
- Resource for small business loans greater than \$2,000,000.



Economic Development Administration

- Lending agency is the National Association of Regional Councils.
- Uses revolving loan funds, meaning that the agencies expect to be paid back.
- Future funding is unknown from this program.
- Low-interest loans that fund less than 50% of a project.
- Lower collateral requirements.
- Funding typically for economic development financing.



U.S. Department of Housing and Urban Development (HUD)

- HUD administers the Section 108 Guaranteed Loan program as a source of financing allotted for the economic development, housing rehabilitation, public facilities rehab, construction or installation for the benefit of low-to-moderate income persons, or to aid in the prevention of slums.
- Section 108 Guaranteed Loan
 - Funded by Community Development Block Grants (CDBG), which are granted to the city, county, or other locality, and then loaned to the entrepreneur at a low-interest rate.
 - Loaned to public entity as an investment in large projects that benefit the community.
 - Examples exist where funds are loaned without payback requirements.
 - Contact your local HUD office for assistance in applying for a Section 108 Guaranteed Loan.



U.S. Department of the Treasury

- Established by the Small Business Jobs Act of 2010, the Small Business Lending Fund (SBLF) is a dedicated fund designed to provide capital to qualified community banks and community development loan funds (CDLFs) in order to encourage small business lending. The purpose of the SBLF is to encourage Main Street banks and small businesses to work together, help create jobs, and promote economic growth in communities across the nation.
- CDLFs:
 - Direct loans to the business from the Regional Council using CDBG funds.
 - Lengthy application and qualification process that takes several months.



U.S. Farm Service Agency (FSA)

- FSA is an agency of the U.S. Department of Agriculture (USDA) and administers and manages the Farm Loan Programs and other farm commodity, credit, conservation, disaster, and loan programs through a network of federal, state, and county offices.
- Loans are available to farmers or ranchers unable to obtain credit elsewhere to start, purchase, sustain, or expand a family farm.
- Unlike loans from a commercial lender, FSA loans are temporary in nature, with the goal of helping the business/farm owner to graduate to commercial credit.



FSA Loan Programs

- **Guaranteed Loan Program:**
 - Guaranteed loans are made and serviced by commercial lenders, such as banks, the Farm Credit System, or credit unions.
 - FSA guarantees the lender's loan against loss up to 95 %. FSA has the responsibility of approving all eligible loan guarantees and providing oversight of the lender's activities.
- **Direct Loan Program:**
 - Direct loans are made and serviced by FSA using government money.
 - FSA has the responsibility of providing credit counseling and supervision to its direct borrowers by helping applicants evaluate the adequacy of their real estate and facilities, machinery and equipment, financial and production management, and goals.



Local Government

- Many local governments offer financing programs to help small businesses start and grow their operations.
- Funding may be available for private sector efforts for specific projects including:
 - Reduction of greenhouse gas emissions.
 - Energy efficiency improvements (EEI).
 - Distributed generation renewable energy sources (DGRES).



Key Takeaways from This Module

- Many government financing programs are available to you.
- Each program has specific requirements, such as:
 - Amount of financing requested.
 - Industry.
 - Size and type of company (small or minority).
- Decide which programs you may qualify for and conduct further research.



Sources and Citations

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