

HOW TO OBTAIN SBA FINANCING FOR MACHINE TOOL PURCHASES AND OTHER PURPOSES

SUMMARY

Over the past several years, the process of obtaining a Small Business Administration (SBA) loan has changed. Streamlining has become a major priority in order for the SBA to expand its efforts on behalf of the nation's small businesses. SBA's role in delivering guaranteed financial assistance has been greatly reduced, while the private lending institution's role has been maximized. The following article outlines some of the SBA requirements and the steps to be followed in seeking SBA financing.

QUALIFICATIONS

Your business must be a small business to obtain a loan guaranteed by the Small Business Administration (SBA). Actual size determination for any company can be obtained from the SBA regional offices. General size guidelines for a manufacturing business require that the number of employees not exceed 500. It is estimated that 94% of all businesses in the United States could qualify for SBA loans under present guidelines.

LOAN PURPOSES

The SBA has traditionally offered guarantees on term loans - ordinarily ranging from five to ten years for working capital and up to twenty-five years for fixed assets. Proceeds from this 7 (a) Loan Guaranty Program may be used to:

- Expand or modernize facilities.
- Purchase machinery, equipment, fixtures, and leasehold improvements;
- Finance increased receivables and augment working capital;
- Refinance existing debt (for compelling credit reason of benefit to the borrower);
- Provide seasonal lines of credit;
- Construct new commercial building; and/or
- Purchase land or buildings.

The loan terms are flexible in comparison to conventional financing and may include interest-only periods or flexible amortization schedules.

More recently, the SBA has begun to provide guarantees for short-term working capital revolving lines of credit under its CAPLines program. Two of the short-term working capital loans of possible interest to contract metalworking firms are the Contract Line, which finances secured by accounts receivable and/or inventory.

Other specialized SBA loan guarantees apply to international trade by small firms. In addition, SBA has developed a specialized guarantee program for defense-dependent companies adversely affected by defense cuts.

GUARANTEE

The SBA will guarantee up to 80% of the lending institution's loan, with lesser guarantees determined by the SBA based upon the loan amount and request.

A loan guarantee fee is paid by the bank to the SBA. Ranging from 0.25 percent (for loans of less than one year) to 3.875 percent (for guarantees between \$250,000 and the maximum amount of \$750,000 covering a period longer than one year), the fee is ordinarily passed on to the borrower.

CREDIT REQUIREMENTS

To obtain a loan guarantee, the applicant must satisfy SBA's general credit requirements. You must also show the ability to repay the loan from either historic positive earnings or strong expectations of future earnings. The applicant must have enough capital to contribute a portion of the proposed expenditures and continue to operate on a sound financial basis. In addition, adequate collateral and personal guarantees must be provided for the loan. Like most lenders, the

SBA is concerned about the environmental aspects (waste disposal, underground storage tanks, etc.) of any property to be pledged as loan collateral.

The SBA has published the following factors to be considered in approval of a loan guarantee:

- Good character;
- Management expertise and commitment necessary for success;
- Sufficient funds, including the SBA-guaranteed loan, to operate the business on a sound financial basis (for a new business, this includes the resources to withstand start-up expenses and the initial operating phase);
- Feasible business plan;
- Adequate equity or investment in the business;
- Sufficient collateral and;
- Ability to repay the loan on time from the projected operating cash flow.

APPLICATION

To apply for an SBA loan, contact your bank or call your regional SBA office to obtain a listing of participating lending institutions.

The SBA has designated certain banks as Certified Lenders and others as Preferred Lenders. Certified Lenders receive a partial delegation of authority, and their loan guarantee applications are given a three-day turnaround by the local SBA office, assuming documentation is complete. Preferred Lenders are empowered to make their own decisions regard-

ing SBA guarantees, enabling them to expedite processing. Preferred loans are eligible for a maximum guarantee of 70 percent.

The SBA offices may be able to offer initial advice, but the application for loan must be submitted to a participating lending institution. A checklist of documents to be provided by the applicant is displayed below.

DOCUMENTATION

According to the SBA, "documentation requirements may vary; contact your lender for the information you must supply." Common requirements include:

- Purpose of the loan
- History of the business
- Financial statements for three years (existing businesses)
- Schedule of term debts (existing businesses)
- Aging of accounts receivable and payable (existing businesses)
- Projected opening day balance sheet (new businesses)
- Lease details
- Amount of investment in the business by the owner(s)
- Projections of income, expenses and cash flow
- Signed personal financial statements
- Personal resumes'

AK	Anchorage	ID	Boise	NE	Omaha	SC	Columbia
AL	Birmingham	IL	Chicago	NH	Concord	SD	Sioux Falls
AR	Little Rock		Springfield	NJ	Newark	TN	Nashville
AZ	Phoenix	IN	Indianapolis	NM	Albuquerque	TX	Corpus Christi
	Tucson	KS	Wichita	NV	Las Vegas		El Paso
CA	Fresno	KY	Louisville	NY	Buffalo		Fort Worth
	Glendale	LA	New Orleans		Elmira		Harlingen
	Sacramento	MA	Boston		Melville		Houston
	San Diego		Springfield		New York City		Lubbock
	San Francisco	MD	Baltimore		Rochester		San Antonio
	Santa Ana	ME	Augusta		Syracuse	UT	Salt Lake City
	Ventura	MI	Detroit	OH	Cincinnati	VA	Richmond
CO	Denver		Marquette		Cleveland	VT	Monpelier
CT	Hartford	MN	Minneapolis		Columbus	WA	Seattle
DC	Washington, DC	MO	Kansas City	OK	Oklahoma City		Spokane
DE	Wilmington		St. Louis	OR	Portland	WI	Madison
FL	Coral Gables		Springfield	PA	Harrisburg		Milwaukee
	Jacksonville	MS	Gulfport		King of Prussia	WV	Charleston
GA	Atlanta		Jackson		Pittsburgh		Clarksburg
HI	Honolulu	MT	Helena		Wilkes-Barre	WY	Casper
IA	Cedar Rapids	NC	Charlotte	PR	Hato Rey		
	Des Moines	ND	Fargo	RI	Providence		

This BMA was prepared by Barry E. Miller, Financial Management Consultant, Reading, PA. The Barry E. Miller Company prepares the Operating Costs and Executive Compensation Report and the Wage and Fringe Benefit Report for NTMA. Mr. Miller serves as a consultant to NTMA members and has appeared as an expert witness on behalf of member companies.