

The Small Business Administration

Created by Congress in 1953, the U.S. Small Business Administration (SBA) is one of the main sources of small business assistance and funding in existence. Today, SBA's offices in every state, the District of Columbia, the Virgin Islands, and Puerto Rico offer finance guarantees (in the form of loan guarantees rather than direct loans or grants), training, and advocacy for small firms. In addition, the SBA works with thousands of lending, educational, and training institutions nationwide. The U.S. Small Business Administration recently refocused its efforts to provide customer-oriented, full-service programs and accurate, timely information to the entrepreneurial community.

SBA programs and services include business counseling and training; lending programs; and special focus programs for international trade assistance, women business owners, and Native American Business Owners. Each of the programs is discussed where appropriate in the following sections of this chapter.

Working With a Local Small Business Administration

Small Business Development Center

Most SBA staff are not experienced with working with people who have disabilities and their resources may not be accessible to people with special needs. Publications may not be brailled, computers may not have large print readers or talking software and there may not be interpreters/communication support for persons who are deaf or hard of hearing. Therefore, it is important that you visit your local SBA Small Business Development Center (SBDC), acquaint yourself with the facility and resources, and meet the staff. Assess their accessibility or lack of it and determine the supports a consumer would need to use its services. A consumer might need you to accompany him or her on one or more visits to the SBA.

Sources of Business Development Assistance

A consumer should always make an appointment before going to a business counselor and allot one to two hours for the initial visit. Before the appointment the consumer and/or counselor should check to see if the building is physically accessible, whether a sign language interpreter is needed, and whether a note-taker or tape recorder is necessary. A business development consultant may require that the consumer fill out statistical information on an intake form and that he or she also be prepared to take notes during the visit. The consumer should gather brochures, business plan outlines, or any other information the consultant may have available.

Business Information Centers (BICs) - As the SBA's technology toolbox, the business information center contains business development reference materials manuals, computers and business development software, access to telecommunications, and counselors to help small businesses get started and grow. BIC counseling and training are provided by SCORE (the Service Corps of Retired Executives). There are nearly 40 BICs nationally.

One-Stop Capital Shops (OSCSs) - The One-Stop Capital Shop is the SBA's contribution

to the Empowerment Zones/Enterprise Communities Program (EZ/EC), a federal interagency initiative that provides a variety of resources to designated socially and economically distressed communities. OSCSs offer centralized access to a full range of SBA financial and technical assistance, other federal agencies, state and local governments, and the private sector. Within the OSCSs, Business Information Centers offer the latest high-tech hardware, software, interactive videos, telecommunications, and other tools to help the small business owner plan, develop spreadsheets, and access market research databases. Counselors train people on starting, running, and/or growing a small business.

Service Corps of Retired Executives (SCORE) - This free SBA program matches almost 13,000 volunteers with small businesses needing advice. The volunteers' collective experience spans the full range of American enterprise; they share their management and technical expertise with present and prospective small business owners and managers. There are 388 chapters and 800 other locations.

Small Business Development Centers (SBDCs) - The SBA administers SBDCs to help current and prospective owners develop and manage their small businesses. SBDCs are a cooperative effort of the SBA, private sector, educational community, and state and local governments. There are over 950 SBDCs located primarily at colleges and universities in all 50 states.

Tribal Business Information Centers (TBICs) - Twenty TBICs serve Native American reservation communities in the states of Montana, North Dakota, South Dakota, Oregon and the Navajo Nation. TBICs are SBA resource partners, offering computers, one-on-one business counseling services, and business management workshops to small business owners.

The Women's Demonstration Program - This SBA program trains and counsels women in all aspects of owning or managing a business, including financial, management, marketing, technical assistance, and procurement. There are 60 women's business centers nationally.

Women's Network for Entrepreneurial Training (WNET) - This SBA program is available through SCORE and SBDCs. It is a year-long, one-on-one program where established women business owners serve as mentors to proteges who are ready to expand their businesses. There also is a WNET Roundtable that mentors and supports women business owners in a group setting.

Funding Sources for Business Start-up or for Expanding or Operating an Existing Business

Commercial Lending Institutions (banks and credit unions) - These loans generally are hard to get. A potential business owner is expected to contribute a minimum of 10% towards the business before the bank considers a loan. A bank also requires collateral (e.g., real

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estate, vehicle) or co-signer for the loan.

Many commercial lending institutions offer the following SBA guaranteed loans. However, one author (Zuckerman, L. 1990) states that most banks will not make an SBA guaranteed loan for less than \$100,000.

Program: 7(a) Loan Guaranty - Through 7(a) the SBA guarantees loans to small businesses unable to obtain financing at reasonable terms through normal lending channels. The program promotes small business formation and growth with loans for many business purposes, such as real estate, expansion, equipment, working capital or inventory. Terms are:

- SBA guarantees 75% of the loan amount up to \$750,000
- SBA guarantees 80% for loans of \$100,000 or less
- The maximum interest rate is 2.75% over the prime lending rate
- Loan periods are up to 10 years for working capital and up to 25 years for fixed assets

The 7(a) Program offers the following loans:

- ê **Low Documentation Loan (LowDoc)** - This program reduces paperwork for loans of \$100,000 or less. In order for the lender to request a LowDoc guaranty, the applicant must submit a one-page application and meet all of the lender's requirements. Approval relies on the strength of the applicant's character and credit history.
- ê **CAPLines** - CAPLines finances a small businesses' short-term, cyclical working-capital needs. CAPLines funds five types of short-term working capital loans: the Seasonal, Contract, Builder's, Standard Asset-Based, and Small Asset-Based. Under CAPLines, the SBA generally can guarantee up to \$750,000.
- ê **SBAExpress** - Makes it easier and faster for lenders to provide small business loans of \$150,000 or less, allows lenders to use their own forms and processes to approve loans guaranteed by the U.S. Small Business Administration, provides a rapid response from the SBA--within 36 hours of receiving your complete application, lets lenders take advantage of electronic loan processing, and helps lenders provide smaller revolving. Lenders participating in SBAExpress can use their own forms and processes to approve loans in amounts up to \$150,000, and provide minimal paperwork to the SBA to obtain a 50 percent guaranty on the loan, and may approve unsecured lines of credit up to \$25,000. The maximum loan amount for SBAExpress is \$150,000.
- ê **Minority and Women's Prequalification Loan** - This program allows the SBA to pre-qualify a guaranty for loan applications of \$250,000 or less before the applicant goes to a bank. The program evaluates an applicant's key financial ratios, business history, loan request terms, character, credit, experience, and reliability rather than assets. Designated intermediaries work with the business owner to review and strengthen the

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loan application. SBA offers this program through a number of its district offices nationwide – contact your nearest SBA district office to find out if it is available in your area.

- ê **Certified Development Companies** - A Certified Development Company is a nonprofit corporation contributing to its community's or region's economic development. Nationwide, approximately 290 CDCs work with the SBA and private-sector lenders to finance expansion or modernization of small businesses. Each CDC covers a specific area, providing long-term, fixed-rate financing to small businesses for real estate, machinery, and equipment. At least 10% of the loan amount is provided by the borrower, 50% by an unguaranteed bank loan, and the remainder by an SBA-guaranteed debenture (a maximum of \$1 million).
- ê **Disabled Assistance Loans** - There is no funding for this SBA program. However, people with disabilities may qualify for other SBA programs.

Equity Financing - This is where business funds are provided in return for part ownership. Ownership might be:

- # A general partnership where the individual participates in management, decisions, and profit;
- # A limited partnership where there is no say in the management or decision making and liability is limited to the investment;
- # Stock ownership in a corporation where the investor purchases shares of the company.

Family and Friends - Family and friends are the most frequently-used source of business financing. Often family and friends are co-signers for bank loans.

Grant Money - Currently there is no stable and consistent resource for grant monies for people with disabilities who want to start businesses.

Loan Pools or Peer Lending - Peer lending loans are made based on an individual's integrity and character – not on assets or collateral. Each of the 4 to 7 people in the "borrowing group" is a business owner. Each must prove to the group that he or she can repay his or her own loan, and all loans must be current before anyone can borrow more. The group provides monitoring, networking, and support.

For example, Women's Economic Growth (WEG) in Weed, California, was formed in 1988 to improve the economic self-sufficiency of women in Siskiyou County, California. BankAmerica Community Economic Development Initiative funds support WEG's peer lending program. WEG offers training and technical assistance (in lending and borrowing), peer support, and step-up loans (\$1,000 maximum for the first loan, \$2,000 maximum for the

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second loan, etc., based on the group's repayment history and overall performance). WEG prepares borrowers to move on to other public and private lenders. Peer lending groups complete a six-week certification process so they may act as their own loan committees. Each group resolves its members' business problems and deals with delinquencies. This labor-intensive approach reduces the risks for both WEG and the borrower.

Microloan Organizations - These nonprofit agencies usually make loans that are less than \$10,000 to targeted populations. However, some agencies provide larger loans – up to \$25,000. These organizations include:

- **SBA's Microloan Program** - This SBA program is offered through many microloan organizations. Please see the discussion under "Small Business Development Center."
- **Minority and Women's Prequalification Loan** - This SBA program is offered through many microloan organizations. Please see the discussion under "Commercial Lending Institutions."

Nontraditional Lenders - These include sources such as The Money Store, AT&T Financial Corp, credit cards, etc.

Owner's equity - This is the owner's investment in the business.

Partnership - The business owner partners with one or more others to provide financial support for the business and/or allow each to share complementary strengths. For example, a talented electrician with limited telephone, ordering, organizational, scheduling, customer service, office, and bookkeeping skills might partner with someone skilled in those areas.

Purchase Order Loan - This short-term loan provides working capital to a business. The lender loans money for eligible costs against a signed purchase order.

Small Business Development Centers (SBDCs) - Administered by the SBA, SBDCs help current and prospective small business owners develop and manage their businesses. The SBA, private sector, educational community, and state and local governments cooperate to offer SBDC services. There are over 950 SBDCs located primarily at colleges and universities in all 50 states. Some SBDCs are participating in a pilot Microloan Program that provides short-term, small business loans of up to \$25,000 for machinery and equipment, furniture and fixtures, inventory, supplies, and working capital. The money can not be used to pay existing debts.

Small Business Innovation Research Program (SBIR) - This SBA program allows qualified small businesses to propose innovations that meet the Federal Government's specific research and development needs. Applicants compete for awards to study the feasibility and scientific and technical merit of an idea. These "Phase I" awards are awarded for up to 6 months. Competitive "Phase II" awards expand on the Phase I results and are granted for

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periods of up to 2 years. “Phase III” awards commercialize the Phase II results with private sector or non-SBIR federal money.

Small Business Investment Company Program (SBIC) - Privately-owned SBIC’s invest in, or loan capital to, small businesses. These for-profit programs invest their own money, plus that from SBA guaranties and/or from sales to the SBA of preferred stock. Although many SBICs invest in a wide variety of businesses, some specialize in certain fields or businesses with new products or services that have strong growth potential.

Social Security Administration (SSA) - In 1994, the social Security Administration developed Social Security Work Incentive Programs to (1) increase employment of current and future SSA disability beneficiaries, (2) increase self-sufficiency, and (3) reduce dependency on SSA benefits. While most of these work incentives are used when a person with a disability works for someone else, two programs — the Impairment Related Work Expense program (IRWE) and the Plan for Achieving Self-Support (PASS) program can be used for people who want to start their own businesses. Of the two programs PASS plans are used most often for self-employment. For those who qualify, the PASS plan provides an additional source of business funding that is not accessible to people without disabilities.

- **Impairment Related Work Expenses (IRWE)** - An IRWE enables recipients of SSI benefits to recover some of the costs of work-related expenses incurred as a result of the disability.
- **Plan for Achieving Self-Support (PASS)** - Under this Social Security Work Incentive Program a person may set aside income and/or resources over a specific period of time to fund necessary goods and services to establish a business or to become a partner in an existing business. PASS funding may be used in conjunction with conventional loans and other business finance sources. The Social Security Administration reviews written PASS and business plans before authorizing a PASS.

Venture Capital - Venture capitalists invest in businesses whose owners are “experts in their fields.” The businesses must have proven markets and high profit margins and growth rates.

Veterans Administration - The Veterans Administration offers vocational rehabilitation services for veterans whose disability is service connected. Veterans with serious employment handicaps may receive self-employment assistance. Veterans who qualify for assistance, typically people with the most severe disabilities, are considered to require self-employment to achieve a positive rehabilitation outcome. These veterans may receive comprehensive training; minimum stocks of inventory or supplies; essential equipment; technical assistance through the period of start up, and incidental services such as business license fees.

Vocational Rehabilitation - Depending on an individual’s needs VR agencies may use

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Section 110 funds to assist with opening a business. Amounts vary depending on the type of business. Another use of VR funds distributed in this manner is that they can be used to leverage funds from other sources such as a microloan program.

For more information contact the SBA, 403 3rd Street SW, Washington, DC 20416; 800-U-ASK-SBA (800-827-5722).

From: Arnold, N., Seekins, T., Montana Woman's Capital Fund, Shelley, R., Hammis, D., Anderson, C., & Brown, R. (2001). *Self-Employment – Steps for Vocational Rehabilitation Counselors: Helping a Consumer Start a Business*. Missoula, MT: Research and Training Center on Rural Rehabilitation Services, Rural Institute on Disabilities, The University of Montana.

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