

# Room to Grow

Money from traditional lending sources is harder to come by today for some small businesses, including independent garden centers. But increased funding and reduced fees for loans backed by the U.S. Small Business Administration could bring that money more within reach.

By Mark E. Battersby

Early this spring, the White House announced a \$15-billion, multipronged plan to help ease the credit crunch affecting so many lawn and garden retailers.

One program earmarks extra funding for loans and technical assistance by the U.S. Small Business Administration's (SBA) "microloan" lenders.

In addition to extra funding for microloans, new ARC Stabilization Loans offer 100 percent guaranteed deferred payment of loans up to \$35,000 to help viable small businesses facing immediate economic hardship make payments on existing loans.

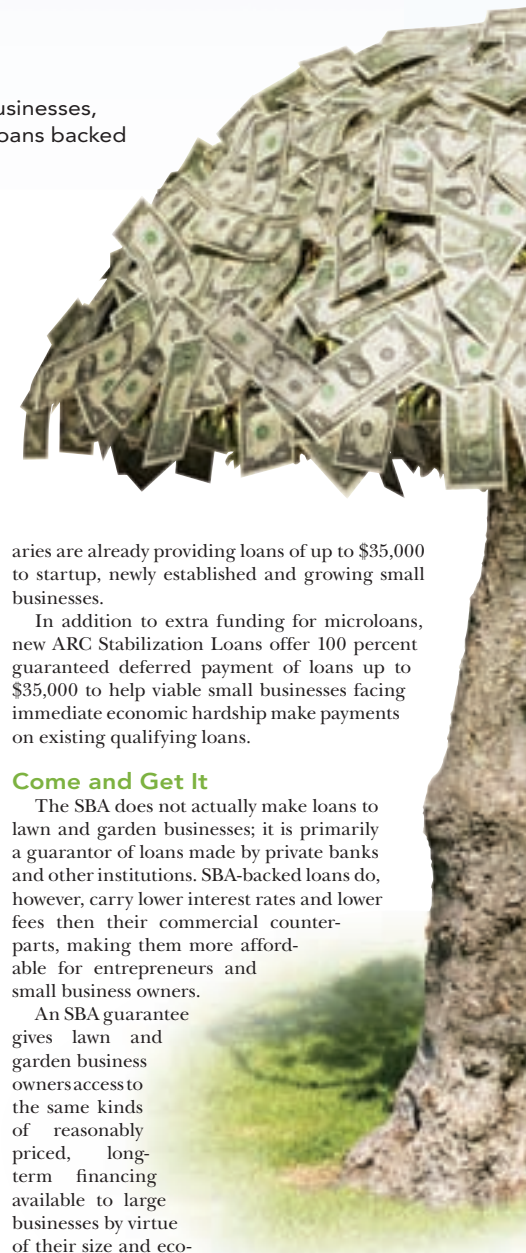
The recently announced plan will also reduce small-business lending fees and increases the amount the SBA will guarantee on some small business loans. And the program doesn't stop there.

## The Recovery Program

The U.S. Treasury Department will boost bank liquidity by purchasing small business loans in the secondary markets. The \$15 billion from the U.S. Treasury will be used primarily to buy loans and free up lending by community banks, credit unions and other small business lenders. With these financial institutions accounting for 40 percent of all SBA-backed lending, the SBA's announcement provides assurances to secondary markets that the government stands ready to purchase 7(a) and 504 first-lien securities.

Because banks depend on the secondary markets for liquidity, a local community bank may now be more willing to lend to a lawn and garden business because it will have the confidence that the U.S. Treasury will be a ready buyer of the loan in the secondary markets.

The SBA is immediately raising guarantee levels on some of its loans and temporarily eliminating certain loan fees. Microloan intermedi-



aries are already providing loans of up to \$35,000 to startup, newly established and growing small businesses.

In addition to extra funding for microloans, new ARC Stabilization Loans offer 100 percent guaranteed deferred payment of loans up to \$35,000 to help viable small businesses facing immediate economic hardship make payments on existing qualifying loans.

## Come and Get It

The SBA does not actually make loans to lawn and garden businesses; it is primarily a guarantor of loans made by private banks and other institutions. SBA-backed loans do, however, carry lower interest rates and lower fees than their commercial counterparts, making them more affordable for entrepreneurs and small business owners.

An SBA guarantee gives lawn and garden business owners access to the same kinds of reasonably priced, long-term financing available to large businesses by virtue of their size and eco-

## Who uses SBA loan guarantees?

In 2008, of the \$18 billion in SBA-backed loans, 35 percent went to startup businesses, nearly 32 percent went to minority-owned businesses and nearly 23 percent went to women-owned businesses. The most frequently financed industries in 2008 were services, retail trade, accommodation/food service, construction firms and manufacturing.



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conomic clout. Borrowers apply for loans through lending institutions such as banks, credit unions or small business lending companies.

But remember, only lenders approved to participate in SBA lending programs can help with SBA-guaranteed loans. It is the private lender who determines whether a borrower's application is acceptable. If it is, the lender forwards the application and its credit analysis to the SBA.

The SBA estimates that more than 25 million businesses nationally qualify as "small" under its guidelines — that is, about 90 percent of all businesses. That encompasses everything except gambling-related businesses, nonprofits, businesses that restrict patronage and some franchises that are on the SBA's "watch list."

### The Basic 7(a) Loan Guaranty Program

The SBA's 7(a) program is the agency's primary business loan program. Designed to help small businesses obtain financing when they might not otherwise be eligible through normal lending channels, the 7(a) program is the most flexible.

Financing under this program can be guaranteed for a variety of general business purposes, including working capital, machinery and equipment, furniture and fixtures, land and buildings (including purchase, new construction and renovation), leasehold improvements and debt refinancing. Working through commercial lending institutions, loans are up to 10 years for working capital, and up to 25 years for fixed-asset funding is available.

The temporary elimination of fees for 7(a) loans

can mean substantial savings. Typically, those fees have ranged from 2 percent to 3.75 percent. On a \$300,000 loan with a 75 percent guarantee, for example, the fee would normally be 3 percent. With the temporary elimination of fees, the lawn and garden business borrower would save \$6,750 ( $\$300,000 \times 75 \text{ percent} \times 3 \text{ percent}$ ). With the new 90 percent guarantee, savings would be \$8,100 ( $\$300,000 \times 90 \text{ percent} \times 3 \text{ percent}$ ).

### Certified Development Company 504 Loans

Designed as a long-term financing tool for economic development within a community, the SBA's 504 program helps lawn and garden businesses requiring "brick-and-mortar" financing. The 504 program provides long-term, fixed-rate financing to help small businesses acquire real estate, machinery and equipment for expansion or modernization.

This program cannot, however, be used for working capital or inventory, consolidating or repaying debt or refinancing, nor can a business engaged in speculation or investments in rental real estate qualify for it.

Under the 504 loan program, small means small if the lawn and garden operation does not have a tangible net worth in excess of \$7.5 million and does not have an average net income in excess of \$2.5 million after taxes for the preceding two years.

Central to the 504 loan program are entities known as certified development companies, nonprofit corporations set up to contribute to the economic development of their communities. The 270 CDCs nationwide work with SBA and private-sector lenders to provide financing to small businesses. ♦

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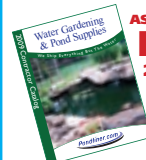
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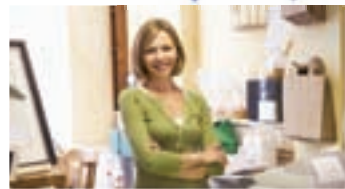
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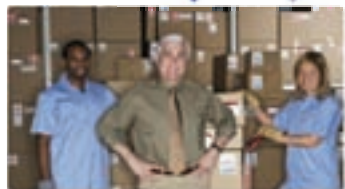
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The U.S. Small Business Administration ([www.sba.gov](http://www.sba.gov)) is an excellent resource for small businesses. It also has a host of resource partners ([www.sba.gov/localresources](http://www.sba.gov/localresources)), including many participating lenders willing to assist lawn and garden retailers reap the rewards of the both this newly expanded SBA programs and its other programs.



For a section 504 loan, the 1.5 percent application fee frequently charged to a lawn and garden retailer or business applying to the certified development company for a loan, has been eliminated. For a typical \$600,000 section 504 loan, fees saved would equal almost \$9,000. What's more, the SBA would temporarily eliminate the fee it charges the first mortgage lender, a fee equal to ½ percent of the first mortgage in a section 504 loan transaction.

### Microloans: the 7(m) Program

The SBA's microloan program provides short-term loans of up to \$35,000 to be used by small businesses for working capital or purchases of inventory, supplies, furniture, fixtures, machinery and/or equipment. The SBA makes funds available to nonprofit community-based lenders (intermediaries), which in turn make loans of up to \$35,000 to eligible borrowers. The average loan is around \$13,000. Unfortunately, the proceeds from microloans cannot be used to pay existing debts or purchase real estate.

The SBA makes or guarantees a loan to an intermediary, who in turn, makes the microloan to the applicant. Each intermediary lender has its own lending and credit requirements, of course, and will generally ask for the personal guarantee of the business owner and require some type of collateral. Each intermediary is also required to provide business-based training and technical assistance to microborrowers.

### How Much, How Fast?

The maximum amount for a 7(a) loan is \$2 million. For 504 loans, structures and amounts vary because lenders and borrowers each determine how much equity they are putting into the loan. However, for the SBA portion of the loan, the maximum amount is either \$2 million or \$4 million, depending on the purpose of the loan. For most, the SBA's maximum guarantee for any borrower remains at \$1.5 million (75 percent of a \$2 million loan).

A lawn and garden retailer in need of working capital or funds to make payroll or buy inventory can immediately apply to a local SBA-participating lender. Once the SBA receives a complete application package from the lender, they typically respond to the lender within a few business days.

### Why Not?

Considering how tough it is for lawn and garden businesses to find affordable financing, you would think those who oversee government-subsidized funding would be overwhelmed. Surprisingly, while many lawn and garden businesses find themselves caught in the middle of the credit crunch and economic downturn, few have been turning to the country's so-called "lender of last resort," the U.S. Small Business Administration.

Today, a lawn and garden business owner can immediately benefit from a 90 percent loan guarantee, see reduced fees for 7(a) loans and notice that fees have been eliminated for many SBA guaranteed loans. Microloan intermediaries around the country are already providing loans of up to \$35,000 to startup, newly established and growing businesses. ☺

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