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Getting The Bucks You Need: An Alternative Solution

Pretend just for a moment, that you are a young attorney preparing to go out on your own. You have signed a lease, hired a secretary and purchased a minimum amount of books and equipment, but you are fearful of not having enough working capital, and banks are reluctant to lend you money. What do you do?

Now, imagine that you are a little further down the road. An old client comes to you with a great idea for a business. You begin drafting Articles of Incorporation and negotiating for a location, but your client is unable to secure the necessary funds. How can you help him?

Since its inception in 1953, the Small Business Administration (S.B.A.) has helped thousands of small firms in similar predicaments. Small manufacturers, wholesalers and retailers, service concerns (e.g. attorneys), and farmers may borrow from the S.B.A. to construct, expand or convert facilities, purchase buildings and equipment, or obtain working capital.

WHAT IS A SMALL BUSINESS??

For business loan purposes, the Small Business Administration (S.B.A.) defines a small business as one that is "... inde-

pendently owned and operated, not dominant in its field and meets employment or sales standards developed by the S.B.A."¹ For most industries these standards are approximately as follows:²

Manufacturing—Less than 1500 employees, depending upon the industry.

Wholesaling—Yearly sales not over \$9.5 to \$22 million.

Services—Annual receipts not exceeding \$2 million to \$8 million, depending upon the industry in which the applicant is primarily engaged.

Retailing—Annual sales not exceeding \$2 million to \$7.5 million, depending upon the industry.

Construction—Annual receipts not exceeding \$9.5 million for the three most recently completed fiscal years.

Agriculture—Annual receipts not exceeding \$1 million.

Hence, the S.B.A. is very flexible in its determination as to which concerns qualify as small businesses. The most significant factor is how your business compares with other businesses providing similar goods or services. For example, if you are a member of a young 2 or 3 partner law firm, your firm would probably be considered a small business; whereas Weinberg and Green, a firm of 65 lawyers, would probably not be considered a small business as it is one of Maryland's largest and most prestigious law firms.

1. 13 C.F.R. §101-1; 15 U.S.C. §632.

2. Standards published by the S.B.A., March, 1978 (OPI-18).

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GENERAL REQUIREMENTS³

To apply for a loan there are certain general credit requirements which a candidate must meet. A loan applicant must be of good character and display the ability to operate his business successfully. The applicant must have enough capital in an existing firm so that, with an S.B.A. loan, he can operate on a sound financial basis. He or she must show that the proposed loan is of such sound value or is secured in such a way as to reasonably assure payment. Furthermore, the applicant must be unable to secure funds from other conventional sources (e.g., a savings bank or savings and loan association.)

If the venture is a new business, the applicant should have sufficient resources to withstand possible losses. If the venture is to promote an existing business, the applicant must show that the past earnings and future prospects of the firm indicate the ability to repay the loan out of profits.

INELIGIBILITY⁴

Since the S.B.A. is a public agency using taxpayers' funds, the agency has an unusual responsibility as a lender. Inasmuch as the government does not want to waste or gamble taxpayers' money, the S.B.A. will not make loans:

If the loan is otherwise available on reasonable terms.

If the loan is to repay a creditor who is inadequately secured.

If the loan allows speculation on any kind of property.

If the applicant is a nonprofit enterprise.

If the applicant is a newspaper, magazine, book publishing or similar enterprise except radio, cable or television broadcasting company.

If any of the gross income of the applicant, or that of any of its principal owners, is derived from gambling activities except income derived from the sale of State Lottery tickets.

If the loan provides funds to an enterprise primarily engaged in lending or vesting.

TERMS OF LOANS⁵

The terms of S.B.A. loans are very flexible. A loan may be for as long as ten years except those portions of loans obtained for the purpose of acquiring real property or constructing facilities which may have a maturity of twenty years. Working capital loans, such as those for which an attorney might apply, are usually limited to six years. Interest rates are usually between 6 and 7½ percent but may change if the S.B.A. is participating on a loan with a bank. Security for a loan may consist of a mortgage on land, buildings, equipment, chattels, or assignment of warehouse receipts. Guarantees, personal endorsements or assignment of current receivables are also acceptable in some instances.

APPLICATION PROCEDURES⁶

The application procedure for obtaining an S.B.A. loan is rather simple. The step by step procedure is as follows:

1. Describe in detail the type of business to be established.
2. Describe your experience and management capabilities.
3. Prepare an estimate of how much you or others have to invest into the business, and how much you will need to borrow.

4. Prepare a detailed projection of earnings for the first year the business will operate.
5. Prepare a current financial statement (balance sheet) listing all personal assets and liabilities.
6. List collateral to be offered as security for the loan, indicating your estimate of the present market value of each item.
7. Take this material with you and see your banker. Ask for a direct bank loan and if declined, ask the bank to make the loan under S.B.A.'s loan guaranty plan or to participate with S.B.A. in a loan. Ask the banker to contact the S.B.A. In most cases S.B.A. will deal directly with the bank.
8. If a guaranty or a participation loan is not available, write to the S.B.A. at:

630 Oxford Building
8600 LaSalle Road
Towson, Maryland 21204⁷

The Small Business Administration may also serve as a source of information. It publishes numerous pamphlets concerning all facets of business management, many of which are free. For more information on how to get the "bucks" you need, write to the above address.

—Richard L. Gershberg

7. For Washington, D.C., the S.B.A. field office address is 1030 15th St., N.W., Suite 250, Washington, D.C. 20417.

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3. 13 C.F.R. §103.13-1 et. seq.; 15 U.S.C. §642.

4. Ineligibility Standards published by the S.B.A., March, 1978 (OPI-18).

5. 15 U.S.C.A. §646 note 4, 8; 15 U.S.C.A. §96 (5).

6. 13 C.F.R. §124.8-2 et seq.; 15 U.S.C.A. §637 (West).