

SMALL BUSINESS RESOURCE GUIDE

(Start-Up Kit: No Local Information Included)

ASK YOURSELF

IS ENTREPRENEURSHIP FOR YOU?

There is no way to eliminate all the risks associated with starting a small business. However, you can improve your chances of success with good planning and preparation. A good starting place is to evaluate your strengths and weaknesses as the owner and manager of a small business. Carefully consider each of the following questions.

Are you a self-starter? It will be up to you - not someone else telling you - to develop projects, organize your time and follow through on details.

How well do you get along with different personalities? Business owners need to develop working relationships with a variety of people including customers, vendors, staff, bankers and professionals such as lawyers, accountants or consultants. Can you deal with a demanding client, an unreliable vendor or cranky staff person in the best interest of your business?

How good are you at making decisions? Small business owners are required to make decisions constantly, often quickly, under pressure, and independently.

Do you have the physical and emotional stamina to run a business? Business ownership can be challenging, fun and exciting. But it's also a lot of work. Can you face 12-hour work days six or seven days a week?

How well do you plan and organize? Research indicates that many business failures could have been avoided through better planning. Good organization - of financials, inventory, schedules, production - can help avoid many pitfalls.

Is your drive strong enough to maintain your motivation? Running a business can wear you down. Some business owners feel burned out by having to carry all the responsibility on their shoulders. Strong motivation can make the business succeed and will help you survive slowdowns as well as periods of burnout.

How will the business affect your family? The first few years of business start-up can be hard on family life. The strain of an unsupportive spouse may be hard to balance against the demands of starting a business. There also may be financial difficulties until the business becomes profitable, which could take months or years. You may have to adjust to a lower standard of living or put family assets at risk.

ON, THE UPSIDE

It's true, there are a lot of reasons not to start your own business. But for the right person, the advantages of business ownership far outweigh the risks.

- * You get to be your own boss.
 - * Hard work and long hours directly benefit you, rather than increasing profits for someone.
 - * Earning and growth potential are far less limited.
 - * A new venture is exciting.
 - * Running a business will provide endless variety, challenge and opportunities to learn.
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BUSINESS PLAN GETTING STARTED

HOW TO START A SMALL BUSINESS

Starting and managing a business takes motivation, desire and talent. It also takes research and planning.

Like a chess game, success in small business starts with decisive and correct opening moves. And, although initial mistakes are not fatal, it takes skill, discipline and hard work to regain the advantage.

To increase your chance for success, take the time up front to explore and evaluate your business and personal goals. Then use this information to build a comprehensive and well-thought-out business plan that will help you reach these goals.

The process of developing a business plan will help you think through some important issues that you may not have considered yet. Your plan will become a valuable tool as you set out to raise money for your business. It should also provide milestones to gauge your success.

Getting Started

Before starting out, list your reasons for wanting to go into business. Some of the most common reasons for starting a business are:

- * You want to be your own boss.
- * You want financial independence.
- * You want creative freedom.
- * You want to fully use your skills and knowledge.

Next you need to determine what business is "right for you." Ask yourself these questions:

- * What do I like to do with my time?
- * What technical skills have I learned or developed?
- * What do others say I am good at?
- * How much time do I have to run a successful business?
- * Do I have any hobbies or interests that are marketable?

Then you should identify the niche your business will fill. Conduct the necessary research to answer these questions:

- * Is my idea practical and will it fill a need?
- * What is my competition?
- * What is my business advantage over existing firms?
- * Can I deliver a better quality service?
- * Can I create a demand for your business?

The final step before developing your plan is the pre-business checklist. You should answer these questions:

- * What business am I interested in starting?
- * What services or products will I sell? Where will I be located?
- * What skills and experience do I bring to the business?
- * What will be my legal structure? (see overview below)
- * What will I name my business?
- * What equipment or supplies will I need?
- * What insurance coverage will be needed?
- * What financing will I need?
- * What are my resources?
- * How will I compensate myself?

Your answers will help you create focused, well-researched business plan that should serve as a blueprint. It should detail how the business will be operated, managed and capitalized.

Types of Business Organizations

When organizing a new business, one of the most important decisions to be made is choosing the structure of a business. Factors influencing your decision about your business organization include:

- * Legal restrictions
- * Liabilities assumed
- * Type of business operation
- * Earnings distribution
- * Capital needs
- * Number of employees
- * Tax advantages or disadvantages

- * Length of business operation

The advantages and disadvantages of sole proprietorship, partnership and corporation are listed below.

Sole Proprietorship

This is the easiest and least costly way of starting a business. A sole proprietorship can be formed by finding a location and opening the door for business. There are likely to be fees to obtain business name registration, a fictitious name certificate and other necessary licenses. Attorney's fees for starting the business will be less than the other business forms because less preparation of documents is required and the owner has absolute authority over all business decisions.

Partnership

There are several types of partnerships. The two most common types are general and limited partnerships. A general partnership can be formed simply by an oral agreement between two or more persons, but a legal partnership agreement drawn up by an attorney is highly recommended. Legal fees for drawing up a partnership agreement are higher than those for a sole proprietorship, but may be lower than incorporating. A partnership agreement could be helpful in solving any disputes. However, partners are responsible for the other partner's business actions, as well as their own.

A Partnership Agreement should include the following:

- * Type of business.
- * Amount of equity invested by each partner.
- * Division of profit or loss.
- * Partners compensation.
- * Distribution of assets on dissolution.
- * Duration of partnership.
- * Provisions for changes or dissolving the partnership.
- * Dispute settlement clause.
- * Restrictions of authority and expenditures.
- * Settlement in case of death or incapacitation.

Corporation

A business may incorporate without an attorney, but legal advice is highly recommended.

A "C" Corporation is a legal entity made up of persons who have received a charter legally recognizing the corporation as a separate entity having its own rights, privileges and liabilities, apart from those of the individuals forming the corporation. It is the most complex form of business organization and is comprised of three groups of people: shareholders, directors and officers. The corporation can own assets, borrow money and perform business functions without directly involving the owner(s) of the corporation. The corporation, therefore, is subject to more government regulation than proprietorships or partnerships. Corporate earnings are subject to "double taxation" when the corporation is taxed and when passed through as stockholder dividends. However, corporations have the advantage of limited

liability, but not total protection from lawsuits.

Subchapter S Corporation -- A special section of the Internal Revenue Code permits a corporation to be taxed as a partnership or sole proprietorship, with the profits taxed at the individual rather than the corporate rate. To qualify as a Subchapter "S" corporation, a business must meet certain requirements. For more information, contact the IRS and request IRS publication 589.

"LLCs" and "LLPs" -- The Limited Liability Company (LLC) is rapidly becoming a c\very popular business form. An LLC combines selected corporate and partnership characteristics while still maintaining status as a legal entity distinct from its owners. As a separate entity, it can acquire assets, incur liabilities and conduct business. As the name implies, however, it provides limited liability for the owners. LLC owners risk only their investment. Personal assets are not at risk.

The Limited Liability Partnership (LLP) is similar to the LLC with the exception that it is aimed at professional organizations.

Writing a Business Plan

After you've given some careful consideration to the business, you're ready to begin putting ideas on paper. That means preparing a business plan -- a formal document explaining in some detail your plans to develop a financially successful business. If you think the business plan is just a lot of paperwork, think again. It's important for two reasons:

- * Preparing a business plan forces you to think through every aspect of your business. If you need outside capital, the business plan will be one of the first things the lender or investor will want to see.
- * A business plan serves as an assessment tool for the owner. As you work your way through the points of the plan you will have to reaffirm the viability of your ideas. As you grow your business, a plan will help you keep track of the details and make sure the business is progressing as you intended.

OUTLINE

The following outline of a typical business plan can serve as a guide. You can adapt it to your specific business. Breaking down the plan into several components helps make drafting it a more manageable task.

Introduction

- * Give a detailed description of the business and its goals.
- * Discuss the ownership of the business and the legal structure.

- * List the skills and experience you bring to the business.
- * Discuss the advantages you and your business have over your competitors.

Marketing

- * Discuss the products/services offered.
- * Identify the customer demand for your product/service.
- * Identify your market, its size and locations.
- * Explain how your product/service will be advertised and marketed.
- * Explain the pricing strategy.

Financial Management

- * Explain your source and the amount of initial equity capital.
- * Develop a monthly operating budget for the first year.
- * Develop an expected return on investment and monthly cash flow for the first year.
- * Provide projected income statements and balance sheets for a two-year period.
- * Discuss your break-even point.
- * Explain your personal balance sheet and method of compensation.
- * Discuss who will maintain your accounting records and how they will be kept.
- * Provide "what if" statements that address alternative approaches to any problem that may develop.

Operations

- * Explain how the business will be managed on a day-to-day basis.
- * Discuss hiring and personnel procedures.
- * Discuss insurance, lease or rent agreements, and issues pertinent to your business.
- * Account for the equipment necessary to produce your products or services.
- * Account for production and delivery of products and services.

Concluding Statement

Summarize your business goals and objectives and express your commitment to the success of your business.

Once you have completed your business plan, review it with a friend or business associate or a Service Corps of Retired Executives (SCORE) or Small Business Development Center (SBDC) counselor. (See SCORE and SBDC listings in this guide).

When you feel comfortable with the content and structure make an appointment to review and discuss it with your lender. The business plan is flexible document that should change as your business grows.

TO LEASE OR NOT TO LEASE: THINGS TO KNOW

GET THE ANSWERS

Here are some questions to ask before signing a lease:

1. Does the lease specifically state the square footage of the premises? The total rentable square footage of the building?
2. Is the tenant's share of expenses based on total square footage of the building or the square footage leased by the landlord? Your share may be lower if it's based on the total square footage.
3. Do the base year expenses reflect full occupancy or are they adjusted to full occupancy (i.e., base year real estate taxes on an unfinished building are lower than in subsequent years)?
4. Must the landlord provide a detailed list of expenses, prepared by a CPA, to support increases?
5. Does the lease clearly give the tenant the right to audit the landlord's books or records?
6. If use of the building is interrupted, does the lease define the remedies available to the tenant, such as rent abatement or lease cancellation?
7. If the landlord does not meet repair responsibilities, can the tenant make the repairs, after notice to the landlord, and deduct the cost from the rent?
8. Is the landlord required to obtain nondisturbance agreements from current and future lenders?
9. Does the lease clearly define how disputes will be decided?

(Source: 327 Questions to Ask Before You Sign a Lease, by B. Alan Whitson (B. Alan Whitson Co., (800) 452-4480.)

LEARN THE LINGO

Lease terms you should know:

- * Lessor: Landlord
- * Lessee: Tenant
- * Right of First Refusal: before vacant space is rented to someone else, landlord must offer it to the current tenant with the same terms that will be offered to the public.
- * Gross Lease: tenant pays flat monthly amount; landlord pays all operating costs, including property taxes, insurance and utilities.
- * Triple Net Lease: tenant pays base rent, taxes, insurance, repairs and maintenance.

- * Percentage Lease: base rent, operating expenses, common area maintenance, plus percentage of tenant's gross income (most common for retailers in shopping malls).
 - * Sublet: tenant rents all or part of space to another business; tenant is still responsible for paying all costs to landlord.
 - * Assign Lease: tenant turns lease over to another business, which assumes payments and obligations under the lease.
 - * Anchor Tenant: major store or supermarket that attracts customers to a shopping center.
 - * Exclusivity Provision: shopping center can't lease to another who provides the same product or service that existing tenant does.
 - * CAM: common area maintenance charges including property taxes, security, parking lot lighting and maintenance; may not apply to anchor tenants in retail leases.
 - * Nondisturbance Clause: tenant cannot be forced to move or sign a new lease if building or shopping center is sold or undergoes foreclosure.
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FINDING THE MONEY YOU NEED

FINANCING YOUR BUSINESS START-UP

One key to a successful business start-up and expansion is your ability to obtain and secure appropriate financing. Raising capital is the most basic of all business activities. But, as many new entrepreneurs quickly discover, raising capital may not be easy; in fact, it can be a complex and frustrating process. However, if you are informed and have planned effectively, raising money for your business will not be a painful experience.

This information summary focuses on ways a small business can raise money and explains how to prepare a loan proposal.

Finding the Money You Need

There are several sources to consider when looking for financing. It is important to explore all of your options before making a decision.

- * Personal savings: The primary source of capital for most new businesses comes from savings and other forms of personal resources. While credit cards are often used to finance business needs, there may be better options available, even for very small loans.

- * Friends and relatives: Many entrepreneurs look to private sources such as friends and family when starting out in a business venture. Often, money is loaned interest free or at a low interest rate, which can be beneficial when getting started.
- * Banks and credit unions: The most common source of funding, banks and credit unions, will provide a loan if you can show that your business proposal is sound.
- * Venture capital firms: These firms help expanding companies grow in exchange for equity or partial ownership.

Borrowing Money

It is often said that small business people have a difficult time borrowing money. This is not necessarily true.

Banks make money by lending money. However, the inexperience of many small business owners in financial matters often prompts banks to deny loan requests.

Requesting a loan when you are not properly prepared sends a signal to your lender. That message is: High Risk!

To be successful in obtaining a loan, you must be prepared and organized. You must know exactly how much money you need, why you need it, and how you will pay it back. You must be able to convince your lender that you are a good credit risk.

SBA Loan Maturities

SBA loan programs are generally intended to encourage longer term small business financing, but actual loan maturities are based on the ability to repay, the purpose of the loan proceeds, and the useful life of the assets financed. However, maximum loan maturities have been established: 25 for real estate; up to 10 years for equipment (depending on the useful life of the equipment); and generally up to seven years for working capital. Short-term loans are also available through the SBA to help small businesses meet their short term and cyclical working capital needs.

Types of Business Loans

Terms of loans may vary from lender to lender, but there are two basic types of loans: short-term and long-term.

Generally, a short-term loan has a maturity of up to one year. These include working-capital loans, accounts-receivable loans and lines of credit.

Long-term loans have maturities greater than one year but usually less than seven years. Real estate and equipment loans may have maturities of up to 25 years. Long-term loans are used for major business expenses such as purchasing real estate and facilities, construction, durable equipment, furniture and fixtures, vehicles, etc.

How to Write a Loan Proposal

Approval of your loan request depends on how well you present yourself, your business, and your financial needs to a lender. Remember, lenders want to make loans, but they must make loans they know will be repaid. The best way to improve your chances of obtaining a loan is to prepare a written proposal.

A good loan proposal will contain the following key elements:

General Information

- * Business name, names of principals, Social Security number for each principal, and the business address.
- * Purpose of the loan - exactly what the loan will be used for and why it is needed.
- * Amount required - the exact amount you need to achieve your purpose.

Business Description

- * History and nature of the business - details of what kind of business it is, its age, number of employees and current business assets.
- * Ownership structure - details on your company's legal structure.

Management Profile

- * Develop a short statement on each principal in your business; provide background, education, experience, skills and accomplishments.

Market Information

- * Clearly define your company's products as well as your markets.
- * Identify your competition and explain how your business competes in the marketplace.
- * Profile your customers and explain how your business can satisfy their needs.

Financial Information

- * Financial statements - balance sheets and income statements for the past three years. If you are

starting out, provide a projected balance sheet and income statement.

- * Personal financial statements on yourself and other principal owners of the business.
- * Collateral you would be willing to pledge as security for the loan.

How Your Loan Request Will Be Reviewed

When reviewing a loan request, the lender is primarily concerned about repayment. To help determine this ability, many loan officers will order a copy of your business credit report from a credit-reporting agency. Therefore, you should work with these agencies to help them present an accurate picture of your business. Using the credit report and the information you have provided, the lending officer will consider the following issues:

- * Have you invested savings or personal equity in your business totaling at least 25 percent to 50 percent of the loan you are requesting? (Remember, a lender or investor will not finance 100 percent of your business.)
- * Do you have a sound record of credit-worthiness as indicated by your credit report, work history and letters of recommendation? This is very important.
- * Do you have sufficient experience and training to operate a successful business?
- * Have you prepared a loan proposal and business plan that demonstrate your understanding of and commitment to the success of the business?
- * Does the business have sufficient cash flow to make the monthly payments?

SBA Financial Programs

The major concern for today's small business owners is access to capital and credit. The SBA's loan guarantee programs provide a key source of financing for viable small businesses that have real potential, but cannot qualify for loans from traditional sources. SBA guarantees, provided through private lenders and nonprofit lending institutions give small business owners access to the same kinds of reasonably price, long-term financing available to large businesses by virtue of their size and economic clout.

Financing programs provided by SBA vary according to a borrower's financial need. SBA loans are made by private lenders and are guaranteed up to 80 percent. There are three principal players in an SBA-guaranteed loan -- the small business borrower, the private lender and the SBA. First the private lender determines whether a borrower's application is acceptable. If it is, the lender forwards the application and its credit analysis to the SBA. After SBA review and approval, the lender makes the loan and disburses the funds to the borrower to make payments to the lender. The following outlines major programs offered by the SBA.

THE 7(A) LOAN GUARANTY PROGRAM

The 7(a) Loan Guaranty Program is the SBA's primary loan program. The SBA reduces risk to lenders by guaranteeing major portions of loans made to small businesses. This enables the lenders to provide financing to small businesses when funding is otherwise unavailable on reasonable terms.

The eligibility requirements and credit criteria of the program are very broad in order to accommodate a wide range of financing needs.

When a small business applies to a lending institution for a loan, the lender reviews the application and decides if it merits a loan on its own or if it requires additional support in the form of an SBA guaranty. SBA backing on the loan is then requested by the lender. In guaranteeing the loan, the SBA assures the lender that, in the event the borrower does not repay the loan, the government will reimburse the lending institution for a portion of its loss. By providing this guaranty, the SBA is able to help tens of thousands of small businesses every year get financing they would not otherwise obtain.

To qualify for an SBA guaranty, a small business must meet the 7(a) criteria, and the lender must certify that it could not provide funding on reasonable terms except with an SBA guaranty. The SBA can then guarantee as much as 80 percent on loans of up to \$100,000 and 75 percent on loans of more than \$100,000. In most cases, the maximum guaranty is \$750,000 (75 percent of \$1 million). Exceptions are the International Trade, DELTA and 504 loan programs, which have higher loan limits.

- * **How it Works** - You submit a loan application to a lender for initial review. If the lender approves the loan subject to an SBA guaranty, a copy of the application and a credit analysis are forwarded by the lender to the nearest SBA office. After SBA approval, the lending institution closes the loan and disburses the funds. You make monthly loan payments directly to the lender. As with any loan, you are responsible for repaying the full amount of the loan.

There are no balloon payments, prepayment penalties, application fees or points permitted with 7(a) loans. Repayment plans may be tailored to each business.

- * **Use of Proceeds** - You can use a 7(a) loan to: expand or renovate facilities; purchase machinery, equipment, fixtures and leasehold improvements; finance receivables and augment working capital; refinance existing debt with compelling reason; finance seasonal lines of credit; construct commercial buildings; and/or purchase land or buildings.
- * **Terms, Interest Rates and Fees** - The length of time for repayment depends on the use of the proceeds and the ability of your business to repay: usually five to 10 years for working capital, and up to 25 years for fixed assets such as the purchase or major renovation of real estate or purchase of equipment (not to exceed the useful life of the equipment).

Both fixed and variable interest rates are available. Rates are pegged at no more than 2.25 percent over the lowest prime rate* for loans with maturities of less than seven years and up to 2.75 percent for seven years or longer. For loans under \$50,000, rates may be slightly higher.

The SBA charges the lender a nominal fee to provide a guaranty, and the lender may pass this charge

on to you. The fee is based on the maturity of the loan and the dollar amount that the SBA guarantees. On any loan with a maturity of one year or less, the fee is just 0.25 percent of the guaranteed portion of the loan.

On loans with maturities of more than one year where the portion that the SBA guarantees is \$80,000 or less, the guaranty fee is 2 percent of the guaranteed portion. On loans with maturities of more than one year, where the SBA's portion exceeds \$80,000, the guaranty fee is figured on an incremental scale, beginning at 3 percent.

* All references to the prime rate refer to the lowest prime rate as published in the "Wall Street Journal" on the day the application is received by the SBA.

* Collateral - You must pledge sufficient assets, to the extent that they are reasonably available, to adequately secure the loan. Personal guaranties are required from all the principal owners of the business. Liens on personal assets of the principals may be required. However, in most cases a loan will not be declined where insufficient collateral is the only unfavorable factor.

* Eligibility - Your business generally must be operated for profit and fall within the size standards set by the SBA. The SBA determines if the business qualifies as a small business based on the average number of employees during the preceding 12 months or on sales averaged over the previous three years. Loans cannot be made to businesses engaged in speculation or investment.

* Maximum Size Standards

- Manufacturing - from 500 to 1,500 employees
- Wholesaling - 100 employees Services - from \$2.5 million to \$21.5 million in annual receipts
- Retailing - from \$5 million to \$21 million
- General construction - from \$13.5 million to \$17 million
- Special trade construction - average annual receipts not to exceed \$7 million
- Agriculture - from \$0.5 million to \$9 million

* What You Need to Take to the Lender

Documentation requirements may vary; contact your lender for the information you must supply. Common requirements include the following:

- 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 resume(s)

 - * What the SBA Looks for:
 - 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 new businesses, this includes the resources to meet start-up expenses and the initial operating phase)
 - Feasible business plan
 - Adequate equity or investment in the business
 - Sufficient collateral
 - Ability to repay the loan on time from the projected operating cash flow
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SPECIAL LOAN GUARANTY PROGRAMS UNDER THE 7(A) PROGRAM

There are a number of special loan guaranty programs under the 7(a) program that address specific needs of start-up or established businesses. They are governed, for the most part, by the same rules, regulations, fees, interest rates, etc., as the regular 7(a) loan guaranty. Your lender can advise you of any variations.

Low Documentation Loan (LowDoc)

LowDoc is one of SBA's most popular programs. Once you have met your lender's requirements for credit, LowDoc offers a simple, one-page SBA application form and rapid turnaround on approvals for loans up to \$150,000 (for loans over \$50,000, you must also provide a copy of U.S. Income Tax Schedule C or the front page of the corporate or partnership returns for the past three years). The SBA will guarantee up to 80 percent of the loan amount. Completed applications are processed quickly by the SBA, usually within two or three business days. Proceeds may not be used to repay certain types of existing debt. Business start-ups, as well as businesses with average annual sales for the past three years not exceeding \$5 million and with 100 or fewer employees, including affiliates, are eligible.

SBAExpress

SBAExpress is available for loans up to \$150,000. The program authorizes SBA preferred lenders to use mostly their own forms, analyses and procedures to process, service and liquidate SBA guaranteed loans. The SBA guarantees up to 50 percent of an SBAExpress loan. Loans under \$25,000 do not require collateral. Like most 7(a) loans, maturities are usually five to seven years for working capital and up to 25 years for real estate or equipment. Revolving lines of credit are allowed for a maximum of five years. Call the SBA District Office for the names of approved banks.

CAPLines

This specialized umbrella loan program is designed to help small businesses meet their short-term and cyclical working capital needs. The CAPLines can be used to finance seasonal working capital needs; finance the direct costs of performing certain construction, service and supply contracts, finance the direct cost associated with commercial and residential construction performed on a speculative basis (without a firm commitment for purchase); finance operating capital by obtaining advances against existing inventory and accounts receivable; and consolidate short term debt. SBA provides a 75 percent guarantee. There are five distinct programs under the CAPLine umbrella:

- * The **Contract Loan Program** is used to finance material and labor needs for a specific contract or contracts. If used for one contract, it is generally not revolving; if used for more than one contract at a time, it can be revolving. The loan maturity is used based on the length of the contract, but no more than five years.
 - * The **Seasonal Line of Credit** Program finances the short-term seasonal increases of accounts receivable and inventory. The business must have a definite established seasonal pattern and thus must have been in business for a period of 12 months in order to establish that pattern. The loan does not revolve during the season but may be used over again after a "clean-up" period of 30 days. These also may have a maturity of up to five years. The business may not have another seasonal line of credit outstanding but may have other lines for nonseasonal working capital needs.
 - * The **Builders Line Program** provides financing for small general contractors involved in residential or commercial construction or building rehabilitation for resale. Loan maturity is generally three years but can be extended up to five years if necessary. Proceeds are used solely for direct expenses of acquisition, immediate construction, and/or significant rehabilitation of the residential or commercial structures. The purchase of the land can be included if it does not exceed 20 percent of the loan proceeds. Up to five percent of the proceeds can be used for physical improvements that benefit the property.
 - * The **Small Asset-Based Line** can be used for revolving lines up to \$200,000 to purchase inventory, pay direct labor, or finance accounts receivable and is advanced against existing inventory and accounts receivable. Repayment comes from the collection of accounts receivable, and this line of credit must revolve. They do require periodic servicing and monitoring of the collateral for which service the lender can charge up to two percent annually to the borrower. These lines are generally used by businesses who provide credit to their customers.
 - * The **Standard Asset-Based Line** is similar to the Small Asset-Based Line, but for loan amounts over \$200,000. It does require stricter servicing and monitoring, and the lender may pass the costs along to the borrower.
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The Export Working Capital Loan

The Export Working Capital Program is a line of credit for financing foreign accounts receivable. It is a transaction-based program and can be revolving or nonrevolving. The SBA provides a 90 percent guarantee to the lender. The business must have been in operation for at least 12 months prior to the application, and the proceeds can be used to finance materials and labor needed to manufacture or purchase goods and services for sale in foreign markets, including such items as consulting services, overseas travel to establish a market, and participation at trade shows.

Funds cannot be used to refinance existing debt or purchase fixed assets. The maturity is generally 12 months or less but can be renewed up to a total of 36 months.

U.S. Export Assistance Center (USEAC)

The United States Export Assistance Center (USEAC) provides assistance and information on a wide variety of export programs including the SBA's Export Working Capital Program (EWCP). In addition, the Center promotes and markets the Agency's International Trade Loan Programs. The USEAC provides a mix of marketing assistance available through the Department of Commerce, the state SBDC network and the financing assistance available from participating agencies including the SBA and the Export-Import Bank.

Under EWCP, the SBA guarantees up to 90 percent of the loan, up to \$750,000. Loan maturities may be for up to three years with annual renewals. Loans can be for single or multiple export sales and can be extended for preshipment working capital and postshipment exposure coverage or a combination of the two. Proceeds can only be used to finance export transactions. The SBA can guarantee up to \$1.25 million on an International Trade Loan (ITL) for a combination of fixed-asset financing and working capital. The working capital portion cannot exceed \$750,000.

International Trade Loan

This program provides short-term and long-term financing to small businesses that are engaged in international trade, preparing to engage in international trade, or adversely affected by competition from imports. The SBA can guarantee up to \$1.25 million for a combination of fixed-asset financing and permanent working capital.

Defense Loan and Technical Assistance (DELTA)

DELTA is a joint effort of the SBA and the Department of the Defense to provide financial and technical assistance to defense-dependent small firms affected by defense reductions. The goal is to help affected small firms diversify into the commercial market while remaining a part of the defense industrial base. Reductions affecting business may be the result of any number of actions, such as cuts in defense spending, termination of defense contracts or the closure or realignment of military installations.

SBA may guarantee 75 percent of a loan up to \$1.25 million under the 7(a) program, or \$1 million under the 504 program. Technical assistance, including help in preparation of a business plan and loan application package, is available through Small Business Development Centers.

SBA 504 LOAN PROGRAM

504 is the SBA's economic development instrument that supports American small business growth and helps communities through business expansion and job creation. The SBA 504 loan program provides long-term, fixed-rate, subordinate mortgage financing for acquisition and/or renovation of capital assets including land, buildings and equipment. Virtually all types of for-profit small businesses are eligible for this program.

The SBA 504 loan is distinguished from other SBA loan programs in these ways:

- * Lower down payment; allows a business to conserve valuable operating capital by injecting just 10% of total project cost.
- * Fixed interest rate; borrower knows cost of occupancy for the next 20 years.
- * Rate is usually below market rate.
- * All project costs can be financed, including acquisition (land and building, land and construction of building, renovations, machinery and equipment) and soft costs such as title insurance, legal, appraisal, environmental and bridge loan fees. Closing costs may be financed.
- * Collateral is typically assets financed; allows other assets to be free of liens and available to secure other needed financing.
- * Long-term: real estate loans are 20-year term, heavy equipment 10- or 20-year terms and are self-amortizing.
- * 504 program encourages banks and other lenders to make loans in first position on reasonable terms, helps them retain growing customers, and provides CRA credit.
- * 504 program benefits the borrower's community through job creation and retention.

Businesses that receive 504 loans are:

- * Small - net worth under \$6 million, net profit after taxes under \$2 million, or meet other SBA size standards.
- * Organized as for-profit.

* Any type of business - retail, service, wholesale or manufacturing.

The SBA's 504 lending intermediaries, Certified Development Companies (CDCs) serve your community to finance business expansion needs through 504. Its professional staff works directly with you to tailor a financing package that meets program guidelines and the credit capacity of your business. The 504 Loan Program is the first national financing program specifically designed for expanding small business whose investment will create jobs. For a list of Certified Development Companies serving your area, contact the SBA District Office.

The Certified and Preferred Lenders Program

The most active and expert lenders qualify for the SBA's Certified and Preferred Lenders Program. Participants are delegated partial or full authority to approve loans, which results in faster service. Certified lenders are those that have been heavily involved in regular SBA loan-guaranty processing and have met certain other criteria. They receive a partial delegation of authority and are given a three-day turnaround on their applications (they may also use regular processing).

Certified lenders account for 10 percent of all SBA business loan guaranties. Preferred lenders are chosen from among the SBA's best lenders and enjoy full delegation of lending authority. This authority must be renewed at least every two years, and the lender's portfolio is examined by the SBA periodically. Preferred loans account for 18 percent of SBA loans. For list of certified/preferred lenders in your area contact the SBA District Office.

The 7(M) Microloan Program

These loans are provided directly by a network of intermediaries approved by the SBA for the purpose of making microloans (from \$100 up to \$25,000) to small businesses for the purchase of machinery, equipment, furniture, fixtures, inventory and also for working capital. These intermediaries also provide technical and management assistance to the owners. Most small businesses who are unable to obtain funding through conventional sources or the other SBA guaranteed loan programs should contact the microloan lenders in their area. For a list of Microlenders in your area contact the SBA District Office.

THE SMALL BUSINESS INVESTMENT COMPANY PROGRAM (SBIC)

There are a variety of alternatives to bank financing for small businesses, especially business start-ups. The Small Business Investment Company Program is the gap between the availability of venture capital and the needs of small businesses that are either starting or growing. Licensed and regulated by the SBA, SBICs are privately owned and managed investment firms that make capital available to small businesses through investments or loans. They use their own funds plus funds obtained at favorable rates with SBA guaranties and/or by selling their preferred stock to the SBA. SBICs are for-profit

firms whose incentive is to share in the success of a small business. In addition to equity capital and long-term loans, SBICs provide debt-equity investments and management assistance. The SBIC program provides funding to all types of manufacturing and service industries. Some investment companies specialize in certain fields, while others seek out small businesses with new products or services because of the strong growth potential. Most, however, consider a wide variety of investment opportunities.

For Small Business Investment Companies serving your area contact the SBA District Office.

ACE-Net

The Angel Capital Electronic Network (ACE-Net) is a nationwide Internet-based listing service that provides information to angel investors on small, dynamic, growing businesses seeking \$250,000 to \$5 million in equity financing. ACE-Net, sponsored by the Office of Advocacy of the U.S. Small Business Administration, was announced by the President of the United States in October 1996. It is a major effort by the Office of Advocacy to start systematizing, on a nationwide basis, and expanding information available to investors on firms seeking equity financing. Once fully operational, ACE-Net will be run as a private, independent, not-for-profit organization.

ACE-Net is not a matching service and does not serve as an investment adviser or broker-dealer. In addition, no securities trading takes place on ACE-Net.

Applications and more detailed information are available at the ACE-Net Internet site, which can be accessed directly at: <http://ace-net.sr.unh.edu> or <http://www.sba.gov/ADVO/>

COMMUNITY ADJUSTMENT & INVESTMENT PROGRAM

The Community Adjustment & Investment Program (CAIP) was created to help communities that suffered job losses due to changing trade patterns following the North American Free Trade Agreement (NAFTA). The North American Development Bank has partnered with the SBA and the U.S. Department of Agriculture to make credit available to businesses in eligible communities to create or retain jobs. Business applicants must be able to demonstrate that the loan or loan guaranty will be used to create or preserve at least one job for every \$35,000 in loans over a 24-month period.

For a list of communities identified as being impacted by NAFTA and eligible for the CAIP program contact your SBA District Office.

REGULATIONS

GOVERNMENT REGULATIONS AND YOUR BUSINESS

It may be inconceivable to you that your home-based consulting service or handknit sweater business would have to comply with any of the numerous local, state and federal regulations, but in all likelihood it will. Avoid the temptation to ignore regulatory details. Doing so may avert some red tape in the short term, but could be an obstacle as your business grows. Taking the time to research the applicable regulations is as important as knowing your market.

Below is a checklist of the most common requirements that affect small businesses, but it is by no means exhaustive. Bear in mind that regulations vary by industry. If you're in the food service business, for example, you will have to deal with the health department. If you use chemical solvents, you will have environmental compliance to meet. Carefully investigate the regulations that affect your industry. Being out of compliance could leave you unprotected legally, lead to expensive penalties, and jeopardize your business.

BUSINESS LICENSES

There are many types of licenses. You need one to operate legally almost everywhere. If the business is located within an incorporated city limits, a license must be obtained from the city; if outside the city limits, then from the county. For more information contact the county or city office in your area.

CERTIFICATE OF OCCUPANCY

If you are planning on occupying a new or used building for a new business, you may have to apply for a Certificate of Occupancy from a city or county zoning department. For more information contact the county or city office in your area.

BUSINESS ORGANIZATION

There are many forms of legal structure you may choose for your business. The most common structures are Sole Proprietorships, General and Limited Partnerships, C and S Corporations and Limited Liability Companies. Each legal structure offers organizational options which are appropriate for different personal situations and which affect tax and liability issues. We suggest you research each legal structure thoroughly and consult a tax accountant and/or attorney prior to making your decision.

FICTITIOUS BUSINESS NAME

Businesses that use a name other than the owner's must register the fictitious name with the county as required by the Trade Name Registration Act. This does not apply to corporations doing business under their corporate name or to those practicing any profession under a partnership name. For more information contact your city hall.

PROTECTING YOUR IDEA

If applicable to your business, you may want to apply for trademarks, patents and your copyrights. Information regarding these applications is listed below:

Trademarks

Trademarks are names or symbols used in any commerce that is subject to regulation by state government or the U.S. Congress.

State Registration of a Trademark:

Trademarks and service marks may be registered in a state for a term of ten years. For more information about Applications for Registration of Trademark or Service Mark in your state contact your state government.

Federal Registration of Trademark and Patent

To register a trademark contact:

U.S. Department of Commerce
Trademark Office
2021 Jefferson Davis Highway
Arlington, Virginia 22202
(703) 305-8341 or (800) 786-9199

To register a patent, contact:

Asst. Commissioner for Trademarks, Patent Applications
Washington, D.C. 20231
(800) 786-9199

Caution: Federally registered trademarks may conflict with and supersede state registered business and product names. Businesses are encouraged to check for conflicts with federal trademarks.

Patents

Contact:

Superintendent of Documents
P.O. Box 371954
Pittsburgh, Pennsylvania 15250-7954
(412) 512-1800

New and useful inventions can be protected by a U.S. patent. Professional assistance from a patent attorney is strongly urged because patent procedures are detailed and technical. A patent search is performed to see if a patent currently exists on the same or nearly the same device and, if not, to make proper application with the Patent Office.

Note: Only attorneys and agents registered with the U.S. Patent Office may represent inventors in related matters. The office has geographical and alphabetical listings of the more than 11,000 registered agents. Only these agents may perform patent searches in the patent office. Inventors or their attorneys can make arrangements with one of those agents. U.S. patents are issued by the Assistant Commissioner of Patents, Washington, D.C.

Additional information is provided in the publication, "General Information Concerning Patents" and other publications distributed through the U.S. Patent and Trademark Office.

Copyrights

Contact:

U.S. Copyright Office
U.S. Library of Congress
James Madison Memorial Building
Washington, D.C. 20559
(202) 707-9100 - Order Line
(202) 707-3000 - Information Line

Copyrights protect the thoughts and ideas of authors, composers and artists. A copyright prevents illegal copying of written matter, works of art or computer programs. In order to ensure copyright protection, the copyright owner should always include notices on all copies of the work.

TAX INFORMATION

Business owners are required by law to withhold the following from the wages paid to employees: federal income taxes, state income taxes and FICA (Social Security) Insurance.

Income taxes will also be levied by the federal and most state governments on earnings of any business. Therefore, each business must file an income tax return with both agencies. Businesses may be required to file estimated tax returns and pay estimated taxes on a quarterly basis.

For federal tax information, contact:

U.S. Internal Revenue Service
1-800-829-1040

For state tax information, contact your state Department of Revenue.

The Internal Revenue Service (IRS) has a number of publications that are available upon request to small businesses. One of the most helpful is "Your Business Tax Kit," which includes data and forms for a Federal Employer Identification Number and a tax guide for small businesses that can be ordered by calling Forms and Publications at (800) 829-3676 or through a visit to your local IRS office.

Federal Self-Employment Tax

Everyone must pay Social Security Tax. If you are self-employed, your Social Security contribution is made through the self-employment tax. You will need to calculate how best to report earnings and pay your business taxes.

Contact the IRS at (800) 829-1040 or visit the local IRS office for more information. The IRS may seem like a complicated maze, but there are publications, counselors and workshops available to help you sort it out.

Sales Tax Number

Your state may have a sales and use tax which applies to the retail purchase, retail site, rental, storage, use or consumption of tangible personal property and certain services. In other words, sales tax must be collected on just about every tangible item sold.

A sales tax number is required for each business before opening. The number, plus instructions for collection, reporting and remitting the money to the state on a monthly basis, can be obtained from your State Department of Revenue.

BUSINESS INSURANCE

Like home insurance, business insurance protects the contents of your business against fire, theft and other losses. Many small businesses must protect themselves from lawsuits and other situations for which they might be deemed liable. All businesses should research the advisability of appropriate liability insurance. Contact your insurance agent or broker.

Types of Insurance to Consider:

- * Liability -- Businesses may incur various forms of liability in conducting their normal activities. One of the most common types of liability is product liability, which may be incurred when a customer suffers harm from using the business' product. There are many other types of liability, which are frequently related to specific industries. Liability law is constantly changing. An analyses of your liability insurance needs is vital in determining an adequate and appropriate

level of protection for your business.

- * Property -- There are many different types of property insurance and levels of coverage available. It is important to determine the property you need to ensure for the continuation of your business and the level of insurance you need to replace or rebuild. You must also understand the terms of the insurance, including any limitations or waivers of coverage.
- * Business Interruption -- While property insurance may pay enough to replace damaged or destroyed equipment or buildings, how will you pay costs such as taxes, utilities and other continuing expenses during the period between when the damage occurs and when the property is replaced? Business interruption (or "business income") insurance can provide sufficient funds to pay your fixed expenses during a period of time when your business is not operational.
- * "Key Man" -- If you (and/or any other individual) are so critical to the operation of your business that it cannot continue in the event of your illness or death, you should consider "key man" insurance. This type of insurance is frequently required by banks or government loan programs. It can also be used to provide continuity in operations during a period of ownership transition caused by the death or incapacitation of an owner or other "key" employee.
- * Automobile -- It is obvious that a vehicle owned by your business should be insured for both liability and replacement purposes. What is less obvious is that you may need special insurance (called "non-owned automobile coverage") if you use your personal vehicle on company business. This policy covers the business' liability for any damage which may result from such usage.
- * Officer and Director -- Under the circumstances, officers and directors of a corporation may become personally liable for their actions on behalf of the company. This type of policy covers this liability.
- * Home Office -- If you are establishing an office in your home, it is a good idea to contact your homeowners' insurance company to update your policy to include coverage for office equipment. This coverage is not automatically included in a standard homeowner's policy.

OTHER CONSIDERATIONS... .

All businesses with employees are required to comply with state and federal regulations regarding the protection of employees. For information on state labor laws, work force availability, prevailing wages, unemployment insurance, unionization, benefits packages and employment services contact your state government.

Federal information may be obtained by contacting the:

U.S. Department of Labor

Unemployment Insurance Tax

Businesses are required by the state to pay unemployment insurance tax if the company has one or more employees for 20 weeks in a calendar year, or it has paid gross wages of \$1,500 or more in a calendar year. The taxes are payable at a rate of 2.7 percent on the first \$8,500 in annual wages of an employee.

Unemployment insurance must be reported and returns made to the state.

Immigration Act

The Federal Immigration Reform and Control Act of 1986 requires all employers to verify the employment eligibility of new employees. The law obligates an employer to process Employment Eligibility Verification Form I-9. The INS Office of Business Liaison offers a selection of information bulletins and live assistance for this process through the Employer Hotline. In addition, INS forms and the Employer Handbook can be obtained by calling the Forms Hotline.

For Forms: (800) 870-3676
Employer Hotline: (800) 357-2099

Health and Safety

The Federal Occupational Safety and Health Administration (OSHA) outlines specific health and safety standards employers must provide for the protection of employees. Many states have similar standards. For information contact your state Department of Labor.

Workers' Compensation

If a business employs three or more people, workers' compensation insurance must be carried to provide protection to those injured in on-the-job accidents. The State Board of Workers' Compensation aids people who need claim assistance. Contact your state Department of Labor for information.

Minimum Wage

Virtually all business entities are subject to the federal minimum wage, overtime and child labor laws.

Information on these laws and other federal laws, may be obtained from:

U.S. Department of Labor
Wage and Hour Division

Bar Coding

The Uniform Code Council, Inc., (not a government agency) assigns a manufacturer's ID code for the purposes of bar coding. Many stores require bar coding on the packaged products they sell. For additional information contact: Uniform Code Council Inc., P.O. Box 1244, Dayton, Ohio 45401, (513) 435-3870.

SBA PROGRAMS AND OTHER ASSISTANCE

BUILDING MANAGEMENT SKILLS WITH INFORMATION

Throughout its 47-year history, SBA has complimented its financial assistance programs with publications aimed at helping small business owners gain the skills required to start, manage and grow a small enterprise.

The more than 40 publications listed in its *Resource Directory for Small Business Management* include titles related to Financial Management, Management and Planning, Marketing, Products/Ideas/Inventions, Personnel Management, and Emerging Business.

The publications are now available on SBA's website at www.sba.gov/library/pubs.html.

Minority Enterprise Development Program

Section 8(a) Program

The Minority Enterprise Development Program, commonly referred to as the 8(a) Program, has been revamped into a business development program that provide entrepreneurs and contractors assistance in understanding, preparation, negotiation and assistance in competing for federal government contract awards. The 8(a) program is still available and growing in the assistance it delivers to small businesses owned by socially and economically disadvantaged persons.

The 8(a) Program is available to American citizens who can demonstrate a potential for success and that the business is owned at 51 percent by eligible persons. Current law creates a presumption that certain groups including African Americans, Asian Americans, Hispanic Americans, Native Americans,

as well as several other groups, are socially and economically disadvantaged.

On June 30, 1998, the eligibility criteria was expanded to include language that now affords eligibility to non-minority and disabled individuals who can demonstrate by a "preponderance of evidence" that they have been subjected to racial or ethnic prejudice or cultural bias because of their membership in a particular group. The purpose of expanding the 8(a) business development program was to, in effect, broaden and create a more equitable distribution of 8(a) benefits, improve 8(a) program participant success rates after graduation from the program, establish a 8(a) Mentor/Protege program, foster joint ventures and revise the small business affiliation rules on bidding on government contracts.

Also, the changes further assist in developing a new Small Disadvantaged Business Program (SDB). The purpose of the SDB Program is to handle activities associated with certifying firms as SDBs and to process protests challenging the disadvantaged status of a firm claiming to be an SDB. In addition, 8(a) business development personnel can assist you through a listing of small business representatives in both the public and private sectors, as well as direct you to specific world wide web sites that provide small business procurement and purchasing-related business assistance.

Contact the your SBA District Office to receive more detailed information or to obtain an 8(a) application. Also, don't forget to visit the procurement section of SBA's website, www.sba.gov.

SBA Pre-Qualification (Pre-Qual)

SBA Pre-Qualification Pilot Loan (Pre-Qual) Program was developed in 1994 to provide substantive support and assistance in the small business loan application process to those segments of the small business community that traditionally may have been underserved by the lending community.

It was expanded in 1998 to include women, veteran and minority-owned businesses, as well as exporters, rural markets and certain designated geographical areas and industries.

The Pre-Qual concept revolves around intermediaries who help market the SBA's loan programs and assist prospective borrowers in assembling a viable loan application package.

To be eligible, a prospective business must be 51 percent or more owned by veterans, women and/or minorities. Export-eligible loans are those made with the intention of significantly expanding existing export markets or developing new export markets. With respect to rural markets, and other specially designated geographical areas or industries, contact your local SBA office for specific requirements.

The maximum loan amount under this program is \$250,000. If a borrower currently has an SBA loan and the combined loans required as a result of this program are more than \$250,000, the request is to be processed through the regular guaranty program.

The Pre-Qualification Loan Program is a 7(a) loan program. Therefore all other terms, conditions and requirements of the 7(a) program apply as prescribed by SBA's policies and regulations

For more information contact your SBA District Office.

Government Contracting Assistance

The federal government is the largest buyer in the world and small businesses are often at a disadvantage when trying to win federal contracts, but the U.S. Small Business Administration (SBA) can help overcome the barriers. Working closely with federal agencies and the nation's leading large contractors, the SBA works to ensure that small businesses obtain a fair share of government contracts and subcontracts. The SBA has a number of programs to help small firms do business with the federal government:

- * Through the Prime Contracts Program the SBA helps to increase the small business share of government contracts. It also advocates for the breakout of items purchased through full and open competition. SBA procurement center representatives (PCRs) work to expand contracting opportunities for small businesses. PCRs review contracting actions at major federal procurement centers, review the subcontracting plans, recommend contracting sources and provide counseling.

There are two types of PCRs: traditional and breakout. Traditional PCRs work to increase the number of procurements set aside for small businesses. Breakout PCRs work to remove components or spare parts from sole-source procurements to procurements through open competition, which generates savings for the federal government.

Visit the SBA's Office of Government Contracting Home Page at <http://www.sba.gov/gc> for a listing of PCRs and buying installations nationwide.

- * The Subcontracting Assistance Program promotes the full utilization of small businesses by the nation's major prime contractors. The Agency's Commercial Marketing Representatives (CMRs) concentrate on large businesses that have one or more federal contracts in excess of \$500,000.

The CMR will review these large companies' subcontracting plans in order to identify small business sources to satisfy specific needs of the prime contractor.

- * The Certificate of Competency Program (COC) helps small businesses secure Federal contacts by providing an appeal process to low-bidder firms denied government contracts for a perceived lack of ability or financial resources to perform the work. A small firm may apply to the SBA for a Certificate of Competency (CoC) when they are low bidder on such a contract but are considered by the contracting agency to be unable to complete the work. The CoC is a document indicating that the firm with the low bid has the plant or financial capacity to complete the contract. A plant survey and financial analysis of the firm is performed by SBA personnel. Within 15 workdays of receipt of the referral, the firm and contracting officer are notified of SBA's decision regarding the CoC. Issuance of the CoC to the successful low bidder usually results in savings to the government over the next low bid.
- * The Size Determination Program ensures that only small firms receive contracts and other

benefits set aside exclusively for small business. When a firm's claim that it is small is challenged, the SBA size specialists determine if the firm does, in fact, meet established SBA size standards. Size determinations may also be made when requested in connection with other federal contracting programs.

The Surety Bond Guarantee Program

The Surety Bond Guarantee (SBG) Program provides small and minority contractors with contracting opportunities for which they could not otherwise compete. By law, prime contractors to the federal government must post surety bonds on federal construction projects valued at \$100,000 or more. Many state, county, municipal and private sector contracts also require bonding, but small and minority businesses may not be able to obtain bonds through regular commercial channels. Through this program, the U.S. Small Business Administration (SBA) can guarantee bid, performance and payment bonds for contracts up to \$1.25 million for eligible small contractors.

A surety bond is a three-way agreement between the surety company, the contractor and the project. It binds the contractor to comply with the terms of a contract. If the contractor is unable to do so, the surety assumes the responsibility and ensures that the project is completed. The SBA guarantees surety companies against a percentage of losses sustained as a result of a contractor's default on a guaranteed bid, payment or performance bond.

There are four major types of surety bonds:

- * Bid - guarantees the bidder will enter into a contract and furnish the required payment and performance bonds.
- * Payment - guarantees payment from the contractor to parties who furnish labor, materials, equipment and supplies.
- * Performance - guarantees the contractor will fulfill the contract in accordance with its terms.
- * Ancillary - bonds which are incidental and essential to the performance of the contract

The SBG Program consists of the Prior Approval Program and the Preferred Surety Bond Program. Under the Prior Approval Program, the guarantee may range from 80 to 90 percent of the losses sustained under a guaranteed bond, and the surety must obtain SBA approval for each bond. Under the Preferred Surety Bond Program, selected sureties receive a 70 percent bond guarantee and are authorized to issue, service and monitor bonds without the SBA's approval.

- * Eligibility - Contractors - In addition to meeting the surety's bonding qualifications, a contractor must meet the SBA's size eligibility standards for a small business. Businesses in the construction and service industries can qualify if their average annual receipts for the last three years, including those of any affiliates, do not exceed \$5 million. Your SBA district office can answer any questions regarding eligibility.

Bonds - The SBA can guarantee bonds for contracts up to \$1.25 million. A contract bond (bid, performance or payment) is generally eligible for an SBA guarantee if the bond is:

- listed in the Contract Bonds section of the Surety Association of America's "Manual of Rules, Procedures and Classifications";
- required by the contract or invitation to bid and;
- executed by a surety company that is acceptable to the U.S. Treasury (Circular 57) and qualified by the SBA.

Ancillary bonds may also be eligible. For more information, contact your SBA district office.

- * Submitting an Application - The contractor chooses a participating surety company and applies for a specific bond through a bonding agent who represents that surety. The application provides the background, credit and financial information required by the surety company and the SBA. Contact your SBA district office for a list of local surety agents who can provide the forms required by the SBA.

Once the surety company receives its completed forms and sufficient underwriting information from the applicant, it processes and underwrites the application and decides whether to:

- execute the bond without the SBA's guarantee,
- execute it only with the SBA's guarantee, or
- decline the bond even with the SBA's guarantee.

If surety in the Prior Approval Program determines that the SBA must guarantee the bond, it submits an underwriting review, guarantee agreement, supporting documents, and the contractor's application forms to the SBA. If the application is for a final bond, the contractor's guarantee-fee check is also attached.

A surety in the Preferred Surety Bond Program may issue the bond without the SBA's approval. The surety must then report the bond to the SBA and forward the contractor's fee payment within the required time.

- * Application Review - In the Prior Approval Program, the SBA reviews the information, documentation and underwriting rationale of the surety company to determine if the application is eligible for the program. If it is, and the information submitted by the surety company appears favorable, the SBA guarantees the bond (the SBA may also request additional information).
- * Fees - The SBA charges fees to both the contractor and the surety company; rates are published periodically in the Federal Register. The SBA does not charge the contractor a fee for an application or a bid-bond guarantee.

When the bond is issued, the contractor pays the surety company's bond premium. This charge cannot

exceed the level approved by the state in which the bond is issued.

For more information on the Surety Bond Guarantee Program, you may contact your SBA District Office.

PRO-Net

PRO-Net is an electronic gateway of procurement information - for and about small businesses. It is a search engine for contracting officers, a marketing tool for small firms and a "link" to procurement opportunities and important information. It is designed to be a "virtual" one-stop procurement shop.

A search engine, PRO-Net is an Internet-based database of information on more than 171,000 small, disadvantaged, 8(a) and women-owned businesses. It is free to federal and state government agencies as well as prime and other contractors seeking small business contractors, subcontractors and/or partnership opportunities. PRO-Net is open to all small firms seeking federal, state and private contracts.

Businesses profiled on the PRO-Net system can be searched by SIC codes; key words; location; quality certifications; business type; ownership, race and gender; Electronic Data Interchange (EDI) capability, etc.

A marketing tool, business profiles in the PRO-Net system include data from SBA's files and other available data bases, plus additional business and marketing information on individual firms. Businesses on the system will be responsible for updating their profiles and keeping information current.

Profiles are structured like executive business summaries, with specific data search fields that are user-friendly and designed to meet the needs of contracting officers and other potential users.

Profiles provide vendors an opportunity to put a controlled "marketing spin" on their businesses. Companies with home pages can link their web site to their PRO-Net profile, creating a very powerful marketing tool.

As an electronic gateway, PRO-Net provides access and is linked to the Commerce Business Daily (CBD), agency home pages and other sources of procurement opportunities.

PRO-Net is available at the SBA web site, <http://www.sba.gov>, and is linked to key sources of information, assistance and training. To go directly to PRO-Net. <http://pro-net.sba.gov>.

The PRO-Net project is a cooperative effort among SBA's offices of Government Contracting, Minority Enterprise Development, Advocacy, Women's Business Ownership, Field Operations, Marketing & Customer Service, the Chief Information Officer, and the National Women's Business Council.

The Small Business Innovation Research Program (SBIR)

The mission of the Office of Technology is to strengthen and expand the competitiveness of U.S. small high technology research and development businesses in the federal marketplace. The SBIR also provides assistance in achieving commercialization of the results of both the federal research and development programs mandated by the Small Business Innovation Development Act of 1982 and the Small Business Research and Development Enhancement Act of 1992.

The mission of the Office is carried out through legislated programs including:

- * The Small Business Innovation Research Program
- * The Small Business Technology Transfer Pilot Program
- * The R, R & D Goaling Program
- * Advocacy of Federal technology assistance

The Office of Technology, formerly the Office of Innovation, Research and Technology, is organized into two components: the Research Acquisition Policy Division and the Innovation and Technology Division.

The Office of Technology promotes federal small business high-technology programs to improve the competitive capabilities of small research and development businesses with particular emphasis on emerging and underserved small firms. It encourages state-of-the-market technology training, technology information exchange and outreach on federal technology programs. It also encourages private and public resource support for the commercialization of federal R & D efforts. It promotes outreach activities to introduce women and minority-owned small business concerns to the advantages of competing for federal R & D projects. For more information contact the: Office of Technology,. U.S. Small Business Administration, 409 Third St. SW, Washington D.C. 20516.

Disaster Assistance

The SBA's Disaster Assistance Loan Program is the primary federally funded, disaster assistance loan program for funding long-range recovery for private sector, nonagricultural disaster victims. Assistance is available to businesses of all sizes and to individuals. Eligibility is based on an individual's financial criteria. Interest rates fluctuate according to statutory formulas. A low interest rate (not to exceed four percent) is available to applicants without credit available elsewhere. A higher rate (not to exceed eight percent) is available for those with credit available elsewhere. The program provides disaster loans when a declaration is made by the President or the SBA Administrator. There are three disaster loan programs:

- * **Physical Disaster Business Loans** - Loans are available to qualified applicant businesses of

any size for uninsured losses up to \$1.5 million to repair or replace business property to predisaster conditions. Loans may be used to replace or repair real estate, equipment, fixtures and inventory and leasehold improvements.

- * **Economic Injury Disaster Loans (EIDLs)** - Loans of up to \$1.5 million are available for small businesses that sustain economic injury as a direct result of a disaster. These working capital loans are made to businesses, without credit available elsewhere, to help pay ordinary and necessary operating expenses that would have been payable barring the disaster.

Note: The maximum loan amount is \$1.5 million for EIDL and physical disaster business loans combined, unless the business meets the federal criteria for a major source of employment. The \$1.5 million limit can be waived for businesses employing 250 or more people in an affected area.

- * **Loans for Homes and Personal Property** - Real Property: This is the major long-term recovery program for individual disaster losses. Loans are available to qualified homeowners for uninsured losses up to \$200,000 to repair or restore a primary residence to predisaster condition.

Personal Property: Loans are available to qualified homeowner and renter applicants for uninsured losses up to \$40,000 to repair or replace personal property, such as clothing, furniture, cars and so forth. Loans are not intended to replace extraordinarily expensive or irreplaceable items, such as antiques, pleasure crafts, recreational vehicles or fur coats.

SBA PROGRAMS & SERVICES FOR WOMEN-OWNED BUSINESSES

VISIT THE ONLINE WOMEN'S BUSINESS CENTER

This interactive business skills training web site is dedicated to helping entrepreneurial women reach their goals and aspirations for personal and professional development. Our goal is to provide them with the information and expertise they need to plan their economic independence through owning a business of their own.

The Online Women's Business Center is the realization of a vision created by SBA's Office of Women's Business Ownership and shared by SBA Women's Business Centers across America. These partners saw the value and the possibilities of bringing together the public and private sectors to further the empowerment of women everywhere. Our online forums, message boards, resource database and informative articles are tools we offer free of charge-providing women the information they need to succeed in business.

We regularly invite business experts to participate in online forums and check out the what's new page for the latest information.

A QUICK TOUR OF THE ONLINE WOMEN'S BUSINESS CENTER

While you are online be sure to visit the extensive library of business information topics. The site has more than 1,000 articles to guide you down the road to success.

The Information Exchange is the place to go seek help and offer advice with other business owners and small business experts.

The Marketing Mall provides training and information on a wide variety of marketing, public relations and advertising topics.

The Finance Center features articles on bookkeeping, access to capital, obtaining tax information and other useful topics.

In the Management Institute, we have compiled articles ranging from professional development and human resources to building a board of directors and the principles of effective leadership.

The Technology Tower gives you the information you need to understand how technology impacts your business. Articles on the latest technology help you lead your company and utilize all of the technological tools.

LOCAL SOURCES OF ASSISTANCE

THE BUSINESS INFORMATION CENTER (BIC)

The Business Information Center (BIC) provides assistance to current and future entrepreneurs with issues ranging from business planning and financing to marketing and management. The BIC is cosponsored by local agencies and businesses. The center offers a reference library with books, videos and computer access, seminars and workshops and counseling. There is no charge for using any of these services offered and you may visit as often you like. For more information, contact your SBA District Office.

ONE STOP CAPITAL SHOP

The area One-Stop Capital Shop is located at [INSERT APPROPRIATE INFORMATION]. Its mission is to help small businesses grow and prosper by giving them free access to necessary information, technical assistance and administrative resources. The center is staffed by experienced small business professionals from the [NAME OF AREA] Empowerment Zone Corporation and the SBA. In addition, the center is affiliated with dozens of other government, public and private organizations, business education and service providers.

SERVICE CORPS OF RETIRED EXECUTIVES (SCORE)

SCORE, the Service Corps of Retired Executives, is a 13,000-member volunteer association sponsored by the U.S. Small Business Administration. Since 1964, the association has matched

volunteer business-management counselors with clients in need of expert advice. SCORE has experts in virtually every area of business management and maintains a national skills roster to help identify the best counselor for a particular client. Volunteer counselors share their management and technical expertise with both present and prospective small business owners.

SCORE volunteers are members of 388 locally organized chapters offering assistance in almost 800 locations throughout the United States, Puerto Rico, the U.S. Virgin Islands and Guam.

Every effort is made to match a client's needs with a counselor who is experienced in a comparable line of business. All individual and team SCORE counseling is free; there may be a nominal fee for training workshops and seminars.

Through in-depth counseling and training, SCORE volunteers help prospective and established small business owners and managers identify problems, determine the causes and find solutions.

SCORE chapters offer low-cost prebusiness workshops that address topics like assessing entrepreneurial potential, developing a start-up checklist, selecting a legal entity, creating a business plan and securing funding. SCORE counselors also help successful firms review their distribution channels, survey expansion, modify products and meet other business challenges. Other workshops offer experienced business owners information on a myriad of subjects, including starting a home-based business, purchasing a franchise, defining a marketing and advertising strategy, implementing a waste-reduction plan, setting merchandise prices and beginning an exporting venture.

Any small business can obtain help from SCORE. The approach is confidential and personal. You don't need to be applying for or to have an SBA loan to participate in the program. In fact, an idea is all that is necessary for consultation and counseling.

SCORE'S PRESENCE ON THE INTERNET

SCORE can also be found on the Internet at www.score.org. SCORE's presence on the Internet makes it possible to reach more small business clients than ever with mentoring, counseling and training service.

Business owners are now turning to the technology of the web to fulfill their needs for information and advice. SCORE is primed to meet their requests for help by offering e-mail counseling, maps to local SCORE chapters, hotlinks to other business resources on the Internet and more at the click of a mouse.

SCORE's e-mail counseling is provided by the Cyberchapter, which now includes more than 700 online members. You can choose from almost 600 unique skills to find the cybercounselor who best suits your individual needs. Long on to SCORE's Internet site to take advantage of the many services SCORE has to offer your business.

SMALL BUSINESS DEVELOPMENT CENTERS (SBDCS)

The SBDC network is recognized as one of the finest business outreach programs of its kind in the nation.

The SBA provides 50 percent or less of the operating funds for each state SBDC. General business education, such as management development, technical information and marketing assistance form the bulk of SBDC services. These business education services are offered via one-on-one counseling as well as regularly scheduled training seminars.

The mission of the SBDC network is made up of the following elements:

- To support entrepreneurship and business expansion through educational opportunities that cover human resources, management, technology, capital formation and infrastructure needs of the business community.
- To address regional economic development needs for information by providing applied economic development research to communities and regions.
- To assist in the expansion of international trade primarily by educating new exporters who need assistance in all elements of exporting.
- To deliver in-house managerial and employee training targeted especially to businesses which have difficulty obtaining affordable training.
- To facilitate the creation of economic development leadership groups that focus on the creation, retention and expansion of business.
- To provide special attention to the needs of minority entrepreneurs by identifying procurement opportunities, locating sources of capital and supporting outreach efforts of historically black colleges and universities.
- To assist existing businesses in taking advantage of state and local incentives for job creation, employee training and other expansion efforts.

THE FINANCIAL SIX C'S

CHARACTER: the degree to which a borrower feels a moral obligation to pay his/her debts, measured by the credit and payment history.

CAPACITY TO PAY: a subjective determination made by a lender based upon an analysis of the borrower's financial statements and other information.

CAPITAL: the amount of capital in a business is equal to the total of capital from debt and equity. Lenders prefer low debt-to-asset and debt-to-worth ratios and high current ratios. These indicate financial stability.

COLLATERAL: an asset owned by the borrower, but promised to a lender against non-payment of the loan. The amount of collateral varies from lender to lender. The closer the collateral value is to the loan amount, the more comfortable the lender will be that the loan will be repaid.

CONDITIONS: general economic, geographic and industry,

CONFIDENCE: A successful borrower instills confidence in the lender by addressing all the lender's concerns on the other Five C's. Their loan application sends the message that the company is professional, with an honest reputation, a good credit history, reasonable financial statements, good capitalization and adequate collateral.

GLOSSARY OF TERMS:

ANGEL: Individual private investors who provide start-up funding for entrepreneurial companies.

ASSET-BASED FINANCING: Using the assets of a company (accounts receivable, inventory) as collateral for working capital loans.

CAPITAL EXPENDITURE: The outlay of money to accrue or improve capital assets (such as buildings and machinery) which are not bought or sold in the normal course of business.

EQUITY FINANCING: Raising money by selling interest in a business to a third party. The advantage: unlike a loan, equity financing does not have to be repaid. The disadvantage: the entrepreneur gives up part of the company and, usually, part of the control.

FACTORING: Selling the accounts receivable or invoices at a discount to the factor, who then advances the business approximately 70 to 80 percent of the face value. Once the invoice is paid, the business owner receives the balance of the invoice amount less the factor's discount.

LINES OF CREDIT: A pre-set credit limit, usually at a bank, that businesses can access as necessary to maintain positive cash flow. When funds become available, the borrowed amount is repaid.

MICROLOAN: A loan guaranteed by the U.S. Small Business Administration for \$100 to \$25,000.

PRIVATE LENDER: An institution or individual who provides debt financing.

REVOLVING LINE OF CREDIT: A fixed line of credit a business can draw upon as necessary. As the funds are used the available credit is decreased. As the loan is repaid, the line is replenished.

SHORT-TERM FINANCING: Loans typically repaid within three years. Types include: working capital loans, factoring, seasonal lines of credit, etc.

VENTURE CAPITAL: Funds invested in private companies in return for equity in the form of

preferred stock, a share in the profits, royalties or capital appreciation of common stock.

FREQUENTLY ASKED QUESTIONS

Does the SBA have business grants?

No. the SBA does not provide grants for the purpose of business start-up or expansion. SBA does offer several loan programs which are described in this document.

How do I know if I qualify as a small business so I can receive SBA assistance?

Approximately 95% of all businesses are eligible for SBA assistance. Size standards vary widely depending upon the industry; however, as a general rule, your business is within SBA size limits if it is in manufacturing or wholesaling with fewer than 100 employees or in retailing or service with annual sales under \$5,000,000 To find out more about size standards, call the SBA Office of Size Standards at (202) 205-6618.

Are there any restrictions on the type of business that can receive an SBA loan?

Read the information in this document about SBA loans before approaching a lender. Bring the necessary documents and be prepared to answer questions about your company. A well-planned and organized presentation will be an important factor in the review of your request.

Do I have to be declined by a bank?

No, you do not have to be turned down by a lender to qualify for a loan guaranteed by the SBA.

What is the interest rate?

Interest rates on SBA guaranty loans are negotiated between the lender and borrower. Rates are variable and may not exceed 2.75 percent over the New York prime rate. Slightly higher interest rates may be charged on loans under \$50,000

What are the loan limits?

The SBA does not set loan minimums. Many lenders may prefer to process loans for under \$100,000 under SBA's LowDoc program. The maximum amount the SBA can guaranty is generally \$750,000.

How much money do I need to have in order to qualify for an SBA loan?

A borrower's capital contribution generally must be one-fifth to one-third of the total project cost.

How long will it take to get my loan?

A credit decision on a complete loan package is usually made within ten working days after it is received by the SBA, not including bank processing time. This assumes that the borrower and lender have provided all the information necessary to process the loan.

Where can I get the loan application?

SBA loan forms are available from a participating lender, who will also be able to provide information about both the bank and SBA documentation required.