

LAW AND PUBLIC POLICY CLINIC
Cleveland-Marshall College of Law

**FINANCIAL ASSISTANCE
TO SMALL BUSINESSES AS AN ELEMENT IN A
RACE-NEUTRAL SMALL BUSINESS
ASSISTANCE PROGRAM**

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INTRODUCTION

An example of a race-neutral measure geared towards assisting disadvantaged individuals and businesses is to provide financial assistance based on certain business status. Since minorities and women owned businesses might qualify under such programs, local government is able to assist these businesses even without reference to race or gender as a factor or criteria in their eligibility for the programs.

Financial assistance provided to small businesses in an effort to aid in their development and expansion has been widely accepted and utilized throughout the country, on the federal, state, and local level. Furthermore, these types of programs have been very effective in assisting disadvantaged business entities. The following information will set forth a detailed analysis of the purposes and effectiveness of these financial assistance programs, a detailed analysis of how local entities can serve as a liaison between the federal program that is currently providing financial assistance nationwide, and what types of businesses qualify for these programs. This may serve as a guide for local governments who may be interested in implementing a financial assistance program or facilitating the use of currently existing financial assistance programs, in an effort to aid their area small businesses.

PURPOSES OF FINANCIAL ASSISTANCE PROGRAMS TO NEW, SMALL OR DISADVANTAGED BUSINESSES

The basic purpose of financial assistance to small businesses – e.g., increasing the accessibility of small businesses to loans, grants, small business investment companies, tax credits, and other financial incentives -- is to increase economic opportunities for newly emerging businesses, businesses in the inner cities and rural areas, and women and minority owned firms, as well as to assist in the expansion or maintenance of these small businesses.

The purposes and the goals of the federal, state and local level programs are generally geared towards the same thing. The difference, however, is that their geographic focus and immediate interests are slightly different.

□ **Federal Purposes:**

On the federal level, programs are geared towards increasing financial assistance to small businesses *nationwide*. Among the goals of the federal financial assistance program are:

- To increase access to federal financial programs not otherwise accessible to small businesses.
- To increase economic opportunities for emerging or expanding businesses.
- Promoting the Small Business Administration.

Small Business Administration

The Small Business Administration “SBA” is an independent federal government agency established in 1953 to aid, counsel, and assist small businesses through the aid of financial assistance.¹

In a November 5, 1998 Press Release, SBA introduced a newly signed agreement between itself and the National Association of Government Guaranteed Lenders, “NAGGL.”² NAGGL is a group of over 680 lenders affiliated with the SBA.³

The newly signed agreement was aimed at helping increase the economic opportunities of small businesses in their newly emerging business.⁴ The agreement was termed an “historic step in expanding economic opportunities, providing more Americans with access to the winner’s circle in the economy... and opening doors for the new businesses, building communities, one at a time.”⁵

¹ U.S. Small Business Administration, Cleveland District Office Annual Reference 1997-98, pg.4

² SBA News Release, Release Number 98-96 Internet Address: www.sba.gov/news/, Nov. 5, 1998
(see appendix 1)

³ Id.

⁴ Id.

⁵ Id.

□ **Local Purposes:**

The county and municipal programs that offer financial assistance to small businesses have a more centralized concern in creating economic development of small businesses and their communities. Some of the purposes of the local programs are:

- To create and retain jobs.
- To increase lending to underserved communities.
- Promote increased utilization of the SBA.

EXISTING FEDERAL FINANCIAL ASSISTANCE PROGRAMS

Although the focus of our clients is local, the Federal program through the SBA serves as a great tool for financial assistance nationwide and locally. SBA has a multitude of services available to municipalities in aiding their small businesses with financial assistance.

□ **Facts about SBA:**

The SBA is the nation's largest financial backer to small businesses.⁶ In 1995, the SBA guaranteed over 60,000 loans totaling \$9.9 billion to small businesses.⁷ The agency has a portfolio of over 7000 private sector lenders as partners in providing capital to small businesses,⁸ with over \$27 billion in loans to over 185,000 small business that otherwise would likely not have had access to these sources of capital.⁹

The SBA has ten regional offices and 68 district offices, with at least one in each state.¹⁰ Ohio has three district offices, one in Cincinnati, Columbus, and Cleveland.¹¹ The Cleveland District office services Lorain County.¹²

⁶ "How to Raise Money for a Small Business" SBA Website: www.sba.gov/sbainfo/fa/finall.text

⁷ Id.

⁸ Id.

⁹ Id.

¹⁰ U.S. Small Business Administration- Cleveland District Office: Annual Reference for 1997-998 pg. 4

¹¹ Id.

¹² Id.

The local SBA offices serve as direct links to counties and municipalities interested in providing financial assistance to small businesses. In utilizing these offices, the counties and cities become a facilitator between the SBA and the small businesses, linking the businesses to resources to which they normally would not have access.

□ **Cleveland District SBA Office**

SBA Loans to Lorain County for the Fiscal Year of 1997:

Lorain County does utilize the Cleveland District office in aiding its small businesses. The highlighted portion of Table I indicates the total population and the minority population of each county, compared to the number and dollar amount of contracts that was awarded from the Cleveland District SBA office to each, and the amount of jobs created. It is interesting to note that other counties are benefiting at a substantially differentiating amount than Lorain County.¹³ When comparing viewing this data in comparison with other counties being serviced from the Cleveland office, other counties may have had more aggressive efforts in serving as a facilitator between their small businesses and the SBA.

These comparisons are being offered to demonstrate how effective aggressive facilitation of the local SBA office resources can be for counties and their small businesses.

□ **Types of Federal Financial Assistance/Loan Programs Available:**

The following Table indicates several federal SBA programs available to small businesses.¹⁴ The chart indicates the actual purposes of the programs, the eligibility requirements for small businesses, and an overall review of what the program entails. Additional programs are available other than the ones listed in the Table.¹⁵

¹³ Id. at pg. 7

¹⁴ Id. at pg. 11

¹⁵ Id. at pg. 11

Lending Programs	Who Can Apply?	Purpose	Features/Restrictions
7(a) Regular Business Loans	-Qualifying SBA small businesses -Can't get assistance w/o government help -Operated for Profit	-Expansion, Start-up costs, and some debt payments	-No Loans for speculation or real estate and -Owner have ¼ to ½ of up front money
LOWDOC Loans	-Businesses with less than \$5m. in Sales or less than 100 employees -No conventional assistance -Operated for Profit	-Same as 7(a) loans	-Look to character, credit, and experience
Development Company Loans (504)	-Qualifying SBA Small business -No conventional assistance -Operated for Profit ->\$6m. in worth ->\$2m. in income	-growth and -create/retain jobs	-create/retain one job w/ every \$35k received -no working capital or debt repayment
FA\$TRAK	-Same as 7(a) loan	-Same as 7(a)	-Pilot program, only 18 lenders in U.S.

EXISTING LOCAL FINANCIAL ASSISTANCE PROGRAMS

AN ALTERNATIVE TO UTILIZING SBA RESOURCES

Lorain County may already have financial assistance programs available to its small businesses. However, the following information should serve as a guide to help implement programs that have not been implemented, to amend or revise currently programs, or how to aggressively utilize the programs that are currently in existence in Lorain County.

□ **EXAMPLES OF EXISTING COUNTY PROGRAMS:**

➤ **Spokane County, Washington¹⁶**

“Small Business Loan Program”

- Offering loans for up to \$100,000.00 for the creation and/or expansion of small businesses in that county.
- The program was started in 1991, and to date has estimated over \$3 billion in loaned out thus far.
- Maximum amount of loans: \$100,000.00
- Minimum amount of loans: \$5,000.00
- Contact Person:
Tony Rund phone 509-458-8555

➤ **Snohomish County, Washington¹⁷**

“Private Independent Council- Micro Loan Fund”

- This program offers loans for emerging small businesses, within this county and in the pre-banking stages, in order to buy equipment, or to provide them with investment or working capital.
- Maximum amount of loans: \$25,000.00
- Minimum amount of loans: \$500.00
- Contact Person:
Lynette Chen-Wagner email: snopic@x.netcom.com

¹⁶ Washington website: www.//198.239.32.70/brd/search.htm

¹⁷ Id.

➤ **Adams County, Washington**¹⁸

“Rural Loans Program

- This program offers funding to small businesses to provide jobs throughout the expansion or start up of the new business, with the emphasis on creating jobs for low-moderate income employees.
- Contact Person:
Forrest Miller email: ruralloans@plix.com

**GENERAL ELIGIBILITY REQUIREMENTS
FOR THE PROGRAMS**

The programs have varying eligibility requirements depending on what type of financial assistance they are offering. The federal and local level requirements are somewhat similar as the local programs mirror the SBA requirements in many ways. Listed below are several of the general requirements seen in many programs, that may serve as a guideline to what type of businesses are eligible for the assistance. Again, this is a race-neutral measure in providing assistance to the disadvantaged businesses. Small businesses owned by minorities and women often fall under these requirements and are afforded the accessibility to them.

□ **Eligibility Requirements:**

➤ **“Small Business Definition”:**

Many of the programs require the businesses to fall under a small business definition. However, a potential issue regarding a small business status has to deal with when a business no longer qualifies because of its expansion.

The SBA definition of small business is widely used.¹⁹

¹⁸ Id.

¹⁹ “Doing Business with the Department of Treasury Part 1”); Website: www.ustreas.gov/sba/html

- The SBA 's definition comes from the "size standards" found in Title 13 of the Code of Federal Regulations (CFR), Part 121.²⁰ Guidelines regarding the varying categories of business enterprises provide for the size determination based on the particular industry.
- Ordinarily "size is determined by the amount of annual receipts or by the number of employees"²¹ of the small business.

Other programs define small business as "one independently owned and operated and not dominant in its bidding field."²²

- Small business *within a specified Trade Area* in which the assistance is being offered to promote or assist.
- Small business *within the county* that's offering the assistance
- Small business is in its "Pre-Banking Stages" where it appears that reasonable financing through traditional lenders is unavailable,
- Enrollment in a local Small Business Development Center in order to be sure that the business is utilizing resources that are available to them.

²⁰ Id.

²¹ Id.

²² Id.

OTHER FINANCIAL ASSISTANCE PROGRAMS

INSURANCE AND BONDING

□ **Insurance Assistance:**

Along with financial assistance, Insurance is an important business issue that needs to be addressed when starting or expanding a business. Generally, States require that businesses have various types of commercial insurance and limited liability insurance on property, which includes: structures, personal property, inventory, and business interruption. With this requirement there is a need for a source for business owners to get information regarding insurance.

To meet these needs the State of California requires the commissioner of insurance to publish a pamphlet which provides information to small business owners and others on the key features of, and suggested ways, of purchasing commercial property insurance.²³ A program similar to this in Lorain County or the City of Elyria would help to achieve the goal of providing information in order to acquire business insurance.

□ **Bonding Assistance:**

SBA Program:

“By law, prime contractors to the federal government must post surety bonds on federal construction projects valued at \$100,000 or more. Many States, counties, municipalities, and private-sector projects and subcontracts also require surety bonds”.²⁴ The SBA does have a program that will guarantee bid, performance and payment bonds for contracts up to \$1.25 million for eligible small businesses that cannot obtain surety bonds through regular commercial channels.²⁵ The SBA’s

²³ CA Codes Insurance Code Section 10108-10108.1

²⁴ “Programs and Services” SBA Pamphlet 1997.

²⁵ Id. at pg. 8

guaranty goes to the surety company, and contractors must apply through a surety bonding agent.²⁶

CONCLUSION

In conclusion, the basis of this project is to offer a race-neutral alternative to providing disadvantaged businesses with the access and assistance they need in order to effectively compete within today's market. Emphasis should be made that there are options in providing this type of assistance to small businesses for counties and municipalities in aiding small businesses to secure financial assistance.

□ ***Option #1:***

Facilitate the Use of Currently Existing Programs through Utilization of local SBA offices. Furthermore, this could be a means to provide mentoring, education and training to small businesses by familiarizing them with the loan process and the different networking channels that are available.

Becoming an aggressive facilitator between the local SBA offices of the federal programs and the small municipal and county businesses, would have an impact on the amount of loan and accessibility to other programs.

□ ***Option #2:***

Develop/Refine/Aggressively Implement any currently existing County Programs. Some examples of Loan financial assistance programs are:

- Direct Loan Programs
- Guaranteed Loan Programs
- Grants
- Insurance and Bonding Programs.

²⁶ Id

What is really important throughout this project, is not which option a county chooses in providing assistance to their small businesses, whether it is to facilitate the use of the currently existing programs or to develop/refine/utilize a program of its own. The critical element in choosing a program or a strategy is that the efforts and goals behind the county or municipal plans should be geared towards and based on the same purposes in which these currently existing federal and local programs are geared

To create retain, and expand small business, by providing increased access t financial opportunities for these businesses that otherwise would not have been available to them. Furthermore, to provide “more Americans with access to the winner’s circle of the economy, by opening doors for new businesses and building communities one at a time.”²⁷

²⁷ *Supra*: SBA News Release, Nov. 5, 1998