

SMALL BUSINESS ADMINISTRATION (SBA)

ECONOMIC OPPORTUNITY LOANS

Authorization

Title IV of the Economic Opportunity Act of 1964, as amended.

Eligibility

Persons whose incomes are below that required to meet basic needs, or those who have been denied the opportunity, because of social or economic disadvantage, to acquire funds to establish, expand, or strengthen a small business, may apply for an economic opportunity loan to establish or expand a day care center. Special emphasis is placed on those concerns located in areas with high proportions of unemployed or low-income individuals. Such loans may be applied for at any SBA field office.

Loans may be made by a bank and guaranteed by SBA. If a guaranteed loan is not available, the agency may participate immediately with a bank. If a bank will not participate on either basis, then a direct loan will be considered. There must be reasonable assurance of repayment of the loan. Every applicant is expected to have some of his own funds or other assets invested in the business.

Funds

Qualified applicants may borrow up to \$25,000 for a maximum of 15 years. The interest rate for direct loans and for the SBA share of participation loans can vary quarterly, based on a formula determined by the Secretary of the Treasury, according to the cost of borrowing from the U.S. Treasury. Guaranteed interest rates are the same as for regular business loans.

Review

Loan officers at SBA field offices process applications and send their recommendations to supervisory loan officers, who make the final decision.

Further details may be obtained from:

Field Offices
Small Business Administration

(See list on page 88.)

SMALL BUSINESS ADMINISTRATION (SBA)

LEASE GUARANTEE PROGRAM

Authorization

Title IV of the Small Business Investment Act of 1958, as amended.

Eligibility

Any small business that can qualify for financial assistance from the Small Business Administration is eligible for lease guarantee insurance--whether a retailer, wholesaler, manufacturer, or service establishment. SBA defines a small business as one that is independently owned and operated, is nondominant in its field of operation, does not have assets exceeding \$7.5 million, does not have net worth of \$2.5 million, and for the preceding 2 years did not have an average net income in excess of \$250,000 after Federal taxes.

The shortest term for this insurance is 5 years; the longest, 20 years. SBA will issue direct lease guarantee insurance policies only on 10 years or longer. Lease guarantees for shorter periods must be SBA-participation policies written by private insurance companies.

Amount of Lease Guarantee Insurance

The maximum amount of contract rent (exclusive of contingent overages) under leases to any small business or its affiliates, for which a direct guarantee is issued by SBA, shall not exceed the lesser of \$15,000 in any month or \$2,500,000 in the aggregate over the term guaranteed.

Funds

Premiums are figured as a percentage of the total aggregate amount of the rent to be guaranteed during the time covered by the guarantee. Premiums are payable in a lump sum, in advance, and are not refundable. The premium percentage is based on a sliding scale from 6.5 percent for 5 years to 2.8 percent for 20 years.

In addition to the single nonrefundable premium payment, the small firm obtaining the lease must also deposit one-fourth of guaranteed annual rental, which will be held in escrow. If there

is no default in rent payments, the escrow deposit will be returned to the small business at the termination of the lease, together with interest at 4 percent a year (not compounded). An alternate to the escrow fund is available where the landlord is agreeable to a 3-month deductible on the lease guarantee insurance policy.

Review

Applications are processed in accordance with a risk-analysis system which SBA has developed. SBA will make a careful evaluation of the desired location, the firm's management ability and financial structure, and other pertinent factors.

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Small Business Administration

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