

# A Smorgasbord of Loan Guaranties for Small Business

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Practice Area: Banking and Commercial Finance

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Small business owners in Wisconsin have access to a variety of loan guaranty and assistance programs for both working-capital needs and fixed-asset expenditures.

These loan programs, with "red tape" generally kept to a minimum, are accessible through banks or other business lenders and can be combined with conventional business loans to provide an attractive financing package.

This article is a summary – by no means exhaustive – of several loan guaranty and assistance programs that the small business owner may wish to consider.

## **SBA Guaranty Programs**

**7(a) Program.** In this widely used Small Business Administration program, the loan is made by a bank on terms approved by the SBA. Eligible borrowers are determined according to SBA "size standards," applicable to specific industries.

The SBA guarantees up to 75 percent of the loan amount, not to exceed \$750,000. Loan proceeds can be used for the purchase of equipment, inventory, land and buildings – but not for investment in real estate. The SBA term loan typically accompanies a conventional line of credit for working-capital purposes.

**CAP Line Program.** Eligible CAP Line borrowers and maximum amounts for this program are the same as those for the 7(a) program. Loan proceeds can be used for seasonal working-capital needs, including accounts receivable and inventory.

**Low-Doc Program.** This program is attractive because of its simplified application process and quick turn-around time. As the program's name suggests, documentation is kept to a minimum.

Eligible Low-Doc borrowers are start-up businesses with annual sales of less than \$5 million for the past three years and fewer than 100 employees. This program offers an 80-percent guaranty of the loan amount, not to exceed \$100,000. Loan proceeds can be used for the same purposes as the 7(a) program.

## **WHEDA Programs**

**Guaranty Programs.** The Wisconsin Housing and Economic Development Authority offers several loan guaranty programs for specific industries and projects: agribusiness, tourism, government contracting, and pollution control.

In the interest of job creation, WHEDA also targets businesses located in or moving into areas that have been designated as economically distressed. Guaranteed loans can be used for equipment, inventory or improvements.

WHEDA can guarantee up to 90 percent of the loan amount; the maximum amount guaranteed ranges from \$45,000 to \$675,000, depending on the particular program.

**Linked-Deposit Program.** In the Linked-Deposit Program, WHEDA purchases a certificate of deposit at the lending institution, allowing the lender to charge a reduced interest rate (prime minus one percent) for 24 months. This program is available to new and existing businesses that are owned and controlled by women and members of minority groups. Loan proceeds must be used to purchase equipment, land and buildings.

### **MEDC Programs**

**504 Debenture Programs.** This SBA program is administered by the Milwaukee Economic Development Corporation in Milwaukee, Ozaukee, Washington and Waukesha counties. It is also administered by other development companies throughout the United States.

Eligible borrowers have a business net worth of less than \$6 million and average after-tax profit of less than \$2 million. The 504 Debenture Program offers long-term fixed-rate loans for up to 40 percent of a fixed asset project, with a maximum of \$750,000.

Eligible projects must result in the creation or retention of jobs. Loan proceeds may be used to acquire and improve real estate and purchase equipment.

**Minority, Women-Owned, and Disadvantaged Program.** Eligible borrowers are businesses in the City of Milwaukee owned by minorities, women, and individuals designated by the SBA as "economically disadvantaged." The program requires the borrower to secure a loan commitment from a bank and is intended to supplement the amount that can be borrowed from a bank.

The program provides up to 40 percent of total project costs, not to exceed \$100,000. Funds can be used to purchase assets or for working capital. Advantages include low, fixed-interest rates, with no prepayment premium, and long-term financing.

**Capital Access Program.** Capital Access Program loans, well-suited for start-up companies and available through 20 different participating lenders, are available to most types of businesses located in Milwaukee, Ozaukee, Washington and Waukesha counties.

No guaranty is involved in this program; instead, the bank, the borrower, and the MEDC make a deposit in the total amount of six to fourteen percent of the loan amount. The deposit is held by the bank as a reserve against losses on any of its CAP loans. Through the CAP program, a bank can take a greater risk on a small business loan. In addition, the process is simple. No secondary approvals are required by MEDC.

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