MANUFACTURING INNOVATIONS
A Manufacturing Extension Partnership National Event 2011

QUICK REFERENCE GUIDE TO GROWTH FINANCING

Fifth Edition

seizing tomorrow's opportunities today

http://www.mep.nist.gov

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Manufacturing.gov, Manufacturer's Toolbox:
http://www.manufacturing.gov/keyissues/tools.asp?dName=toolbox

INTRODUCTION

Welcome to the fifth edition of the *Quick Reference Guide to Growth Financing*. This guide is designed to serve as a starting point for small manufacturers companies seeking basic information on how to gain access to the capital and financing essential to support their growth and innovation plans. MEP developed this guide to provide insight into examples of the types public sector programs and market strategies that address small manufacturers capital needs which often differ from the capital needs of other types of small business due to the manufacturing sector's use of capital intense fixed assets (e.g. machinery or equipment) and high cash conversion cycles that depend on flexible and short term sources of capital.

Included in this guide is information on a variety of government loan programs, tax incentives, debt and investment options, and other capital enhancement and access strategies. Contacts are provided throughout the guide for access to programs and organizations that can provide additional information, advice, and support.

The *Quick Reference Guide to Growth Financing* will be revised and updated as needed. Future editions may include new sections that discuss other capital access strategies and related topics as well as brief case examples.

INTERNAL CASH MANAGEMENT PRACTICES

Identifying funds that already exist in a company is usually a more cost effective way of tackling cash flow issues before seeking a loan.

The first step in any finance and investment strategy should be to analyze a company's internal cash management practices. This includes exploring relationships with vendors, suppliers, and customers in context of what the company wishes to accomplish and determining how existing assets can be leveraged to support the company's capacity and capital growth goals. Better efficiencies in the management of internal cash can result in a reduced need for additional outside financing. Moreover, better cash flow will improve a company's chances at obtaining funding and at more desirable rates. Finally, having cash management as a guiding strategy will allow a company to have more choices in identifying external sources of financing that reflect the company's values, management style, and objectives. Areas that may offer opportunities to improve company cash flow and add to the supply of working capital include:

<u>Accounting Management Practices:</u> In order for a company to analyze its internal cash management practices, it needs to first verify that it is using accounting management practices that accurately measure and project the amounts of cash and cash equivalents entering and leaving the company. The practice of creating credible cash flow statements is critical to understanding how much cash is generated by the company's core products and services, and how much is being consumed in supporting core operations. Cash flow statements complement but are distinct from income statement and balance sheets in that they do not include the amount of future incoming and outgoing cash that has been recorded on credit. A company can use the cash flow statements to confirm that there is enough money on hand to buy new inventory, internally finance new investments in equipment and labor, and channel any excess into the asset column of its balance sheet. Preparing accurate cash flow statements also allow a company to project future cash flow which is essential for accurate budgeting. All potential lenders require these cash projections before approving loans to ensure that cash is adequate to cover future loan expenses. Moreover, these cash projections conveyed in the statements can be used to help a company decide whether to seek outside funding, even when this decision may seem obvious based on the company's current market activities.

<u>Vendor and Supplier Financing (Trade Credits)</u>: One way of realizing working capital is through supplier financing. Typically, suppliers and vendors provide goods with the understanding that payment is due within 30 days. Vendors and suppliers frequently offer "prompt-pay" discounts (i.e. 2/10, net 30 discounts) for early payment and penalize slow paying companies with interest charges. For example, a 2/10, net 30 discount equates to more than a 36% return on the early payment when 2% for 20 days is annualized (compounded at 2/98 x 360/20 = 36.7%). If a company is fortunate to have such an offer, it generally pays to take it. However, other considerations could include: a) verification of suitability of the inventory—it should have been thoroughly checked for quality and quantity, and; b) availability of cash. To determine whether there is adequate cash to take the discount, companies should look at their cash cycle--the timing of monthly flows in and out of the business. Unless a company has enough cash to cover

the accelerated disbursements in advance, it may need to borrow the funds to take advantage of the discount. In a low interest rate environment, it may make sense to borrow the funds to take the discount. To make an informed decision, companies should perform a cost-benefit analysis that compares the savings that can be realized from taking the discount to the cost of borrowing the funds. If internal company cash is available, the analysis should compare the savings realized by the discount to the opportunity cost of not having the use of that cash for 20 days. Should it not make sense to take a prompt payment discount, companies should then explore whether suppliers and vendors may be able to extend payment terms in lieu of a discount. Vendors may be willing to extend payment terms or may enable a company to pay for specific items only as they are sold, with the supplier retaining ownership of goods until payment is received.

<u>Customer Financing</u>: In some cases, companies may have the option of negotiating a full or partial advancement from customers to help finance any preparation costs associated with taking on their business. Stepped or partial payments, which are payable at a defined stage of progress, are sometime possible in project oriented industries. Another option for some companies is to consider a deposit for all work to finance production costs associated with orders and to reduce the need for lines of credit. A deposit collected by the company for work that involves special orders or services can also serve to prove that the customer is committed to the order and help avoid situations where the company needs to absorb costs resulting from customer late or non-payment. For companies that are regarded as “job shops” it is also not unusual for the customers to prepay for materials. In general, striving to establish any new policies fairly and openly can reduce the risk of alienating good customers when exploring customer financing opportunities.

<u>Inventory Financing:</u> Inventory financing is a bank line of credit secured by a company's inventory as collateral for the loan. For companies that maintain high levels of inventory to conduct ongoing business, this type of financing can free up cash tied up in inventory to purchase supplies for the next production cycle. While lending institutions are not interested in gaining ownership of inventory and are more interested in assurances that the loan will be repaid, companies should expect very conservative valuations of inventory. Historically, average lender discounting has only allowed lending of up to 60 - 80 percent of the value of ready-to-go retail inventory and only 30 percent of inventory consisting of component parts and other unfinished materials (during the economic downturn in 2009, the automotive sector in particular experienced severe inventory valuations) . Lenders may impose additional conditions on collateral. For example, if an item ages or fails to move after a prescribed length of time, it may become ineligible as collateral, and the lender may require the borrower to pay down its financing by the amount of lost collateral. One issue that often arises for companies that require customers to prepay for materials (e.g. “job shop” type of companies) are the liens on goods that are created when a customer requires a UCC financing statement. This lien will create a conflict with the lender’s inventory lien and the company will need to coordinate lien releases. Circumstances where a product becomes part of a customer’s product—such as structural steel going into a building—will also require a company to coordinate lien releases to ensure the product going into a customer’s product is unencumbered by any lenders lien.

<u>Factoring Accounts Receivable</u>: Factoring is the sale of accounts receivable to generate a more predictable and streamlined cash flow. The main advantage of factoring is that the company selling its accounts receivables receives a onetime acceleration of cash flow that can allow the company to focus on the next sale while the factoring company waits and assumes risks for payment. Because factoring does not create debt, it is often referred to as “off-balance-sheet financing.” Factors will acquire valid accounts receivable in many industry sectors, including manufacturing. There are two methods of factoring: recourse and non-recourse. Under recourse factoring, the company selling its accounts receivables to a factor retains credit management responsibility for its customers, and thus retains the responsibility for bad debts. Non-recourse factoring is where the factor screens a company’s customers for creditworthiness and thereby assumes the entire credit risk for the receivables purchased. Under non-recourse factoring, the factor will also pay the full amount of invoice to the company if a receivable becomes bad. Recourse factoring is typically the lowest cost option for companies selling their accounts receivables (AR’s) since they, and not the factor, bear the risk of uncollectable receivables. To begin using a factor, companies will typically instruct their customers to start mailing their invoice payments to a lockbox maintained by the factor. The factor will then send, or wire, the company 80 percent of the value of the invoice with the balance, less a professional fee, paid at collection. The professional fees taken by factors vary widely, but are commonly 2-3% of the face value of the invoice (depending on the creditworthiness of the customer and invoice values). If the aging on an accounts receivable exceeds an "agreed to" date (typically 60 days from invoice date), factors will typically require a company to reimburse the factor the amount that was advanced against the receivable. Reimbursements are done either by deducting

the value of the invoice from the company's next advance or replacing the invoice with another collectable invoice. In cases where a company's customer declares bankruptcy, factors will sometimes absorb the credit related loss if it occurs within 60 days from the invoice date.

The main disadvantage of factoring is that it can sometimes be more expensive than other forms of finance. The 2-3 percent professional fees taken by the factor can equate to a high rate of interest (e.g. 36 percent and above annualized.) Some factors also attach hefty fees to the lockbox. For that reason, accounts receivable borrowing from banks is generally perceived as being less complicated or expensive under normal circumstances. However, during times of tight credit or when companies are experiencing degraded collateral values for assets like receivables, factoring may offer a viable alternative for some companies. Companies may find factoring a more attractive option if they believe that their receivables used as collateral on a loan may be discounted by the lender, leading to a bank call on the loan to reduce the amount outstanding. Companies considering factoring as an option will likely compensate for any required factoring fees by incorporating the cost into product pricing and invoicing or earning it back from suppliers.

Most any company that provides goods or services to another business or the government can use factoring and can find a factoring company that is familiar with their specific niche, e.g. international sales, government procurement. (For goods that are exported, see the separate section on export factoring that appears later in this guide on page 19).

<u>Export Credit Insurance as a Financing Tool:</u> Export credit insurance , like that offered by the Ex-Im Bank, not only helps U.S. exporters extend to foreign buyers competitive payment terms by protecting receivables against non- payment risk, but can also be used by the exporter as a financing tool. The export credit insurance enhances the quality of an exporter's balance sheet by transforming export-related accounts receivable into receivables insured by the U.S. government. This can enhance the company's borrowing capacity and cash flow situation by reducing the company's required level of bad debt reserves and by providing a lender with a more secure collateral base for loans (e.g. a company can assign the export receivables insurance policy proceeds to the lender). Also, with export credit insurance in place, a company can also sell the receivables to a bank or other financial institution and quickly get cash for immediate needs rather than waiting for a foreign buyer to pay. Export Credit insurance policies are offered by the Ex-Im Bank as well as many private commercial risk insurance companies. Policies may be purchased directly from the EXIM Bank or a list of active insurance brokers registered with the Ex-Im Bank is available at: http://www.exim.gov/products/insurance/index.cfm

<u>Renting or Leasing vs. Buying</u>: Leasing equipment can be a better option for companies that have limited capital or need equipment that must be upgraded every few years. Leasing has the advantages of freeing up equity capital for investment in other areas of greater return for a company and freeing up additional borrowing power. In contrast, buying equipment can be a better option for an established business with cash or for acquiring equipment that has a long usable life (e.g. 25 years). Although buying equipment may necessitate a large initial capital investment, companies can usually reap significant tax benefits through the depreciation deductions that come with ownership. However, lease payments when properly structured can also offer significant tax advantages. For those items that a company intends to upgrade on a regular basis, like IT, office equipment, and certain production equipment, leasing may have the advantage of being able to deduct in a tax year a greater amount than depreciation due to the statutory asset lives of the assets. Since every company's situation is unique, any decision to buy or lease should be made on a company-by-company basis, factoring in the company's cash reserves, the equipment's usable life, and the tax advantages and strategies. To make an informed decision about which option is more advantageous, a company (and its accountants) should first perform a cash flow analysis and comparison of what the payments and tax savings would be under a purchase or a lease of the equipment.

General Advantages of Leasing	General Disadvantages of Leasing
• Lower up-front down payment costs.	• Higher overall cost over the life of an asset.
• Easier credit terms than purchase.	• No asset value as collateral against loans.
• Flexibility in addressing obsolescence.	• Lost depreciation deduction.
• Equipment available for short-term needs.	• Some leases have use limitations (e.g. machine hours).
• "Operating leases" stay off the balance sheet.	• Some leases are characterized as "capital leases" reflecting liability on the balance sheet.

The Equipment Leasing and Finance Association (ELFA), which is the trade association representing U.S. financial services companies and equipment manufacturers, has developed a *Welcome to Equipment Finance 101 that is publically available online at* http://www.elfaonline.org/pub/abtind/Fin101/. The online guide was designed to enhance companies' knowledge about financing equipment and capital goods and provides common terminology, definitions, as well as information on the various equipment finance options available to businesses.

DEBT FINANCING

Differences between Debt and Equity

Typically, financing is divided into fundamental types: debt financing and equity financing. When a provider of capital lends money to a user of capital, it is a debt transaction. When the provider owns a portion of the user of capital, it is an equity transaction. Key features of both are:

Debt	Equity
Must be repaid or refinanced.	Can usually be kept permanently.
Requires regular interest payments; company must generate cash flow.	No payment requirements. May provide dividends, but only out of retained earnings.
Collateral assets must usually be available.	No collateral required.
Debt providers are conservative. They cannot share any upside or profits, and wish to eliminate all possible loss or risks.	Equity investors are aggressive. They can accept downside risk because they fully share in upside as well.
Interest payments are tax deductible.	Dividend payments are not tax deductible.
Debt covenants may impose some restrictions on some decisions made by existing management.	Shared equity *may* lead to shared control and management over the day-to-day operations of the company.
Debt allows leverage of equity.	Equity holders share the company profits.
May impose restrictions on the compensation of owners and officers as terms of loan.	Investors are consulted or can determine compensation of owners and officers.
Restrictions on the sale of assets that have been used as collateral for a loan, or taking on of additional debt to finance the purchase of assets.	Investors share in ownership of all assets.
Regular timely reporting of financial results to lenders.	Investors usually have access to financial results at any time.
Restrictions on transfer of ownership.	As either majority or minority owners, investors participate in all ownership issues.

Growing companies usually require both debt and equity at some point of their development. Both forms of financing provide complementary opportunities for funding growth and companies should look to maintain a commercially acceptable debt to equity ratio. Lenders and investors look closely at the ratio of debt-to-equity in assessing whether a company is being operated in a sensible credit worthy manner. While the ratio of debt to equity varies considerably between industries, financial institutions generally consider an acceptable debt-to-equity ratio to be between 1:2 to 1:1, depending on the equity (whether it's long term or more liquid equity). In evaluating a loan application, lenders will also examine the ratio of a borrower's current assets to current liabilities and usually look favorably on a ratio of 2:1 or more.

Debt Financing

Debt financing can be either short term or long-term. In either case common lending principles apply. Lenders typically consider the risk of lending to borrowers on the basis of:

- Credit history
- Cash flow history and projections
- Collateral available to secure a loan
- Character of the borrower
- Loan documentation: financial statements, tax returns, and a business plan

Long-term	Short-term
Purchase, improve, or expand fixed assets such as a company's facilities and major equipment.	Raising cash for working capital, inventory needs, or for accounts payable.
Requires the borrower to secure the loan by providing collateral and thereby reducing the lender's risk to non-payment of the loan.	Commonly secured by collateral, but may be available unsecured if the lender is willing to rely on the creditworthiness and reputation of the borrower to repay the loan.

Sources of Debt Financing

There are a variety of sources for debt financing; commercial banks, commercial finance companies, community lenders, and through U.S. Small Business Administration (SBA) sponsored programs. State and local governments have also developed programs, like revolving loan funds (RLFs), to encourage the growth of small companies. Commercial banks have traditionally been the primary source of loans to small companies. Banks have provided the majority of short-term loans.

The SBA Guaranteed Lending Program was established to encourage banks and financial institutions to make loans to small companies by reducing the lenders risk and leveraging funds available. Banks that participate in SBA's certified and preferred lenders programs also offer fast turn-arounds on loan applications.

Other sources of funding to fuel growth are the commercial finance companies that provide business loans rather than consumer loans. The primary use of commercial finance companies is to borrow money for the purchase of inventory, equipment, or other revenue producing assets. These types of lenders can be a useful resource, particularly if a company has adequate collateral available to support a loan. Commercial finance companies also do a great deal of accounts receivable and inventory financing.

CASE STUDY Small Business Loan Allows Manufacturer to Double Capacity, increase Sales

Upgrading capital equipment and technology is often a necessary step for companies that seek to expand their markets, enhance productivity and quality, and remaining competitive. But, in many cases, the first step is finding a way to finance such a purchase. For AvinED® Technical Furnishings of Springdale, Pennsylvania, manufacturing capacity became a limiting factor in its ability to take advantage of new market opportunities for its line of specialized multimedia lecterns and technology furniture for the educational, military and corporate markets. AvinED turned to Catalyst Connection, a local non-profit and affiliate of the Manufacturing Extension Partnership (MEP) for information on possible financing opportunities. Catalyst Connection, which provides the latest industry best practices translated to meet the needs of the small and medium-sized companies, was able to secure for AvinED a $79,000 low-interest loan from its own Manufacturing Technology Loan Fund (MTF). In combination with AvinED's own equity and additional financing from PNC Bank, the MTF loan made it possible for AvinED to purchase and install a new state of the art CNC machining center, new dust collection system, new computers, and a new server. The new equipment doubled AvinED's manufacturing capacity, increased efficiency and productivity, while enabling the company to capitalize on new business opportunities. Catalyst Connection which was familiar with AvinED's operations, products, needs and strengths was able to assist in the loan application process, clarify terms and conditions, and review allowable uses of loan funds. See the results at www.avined.com

Commercial Finance Companies: Advantages and Disadvantages

Advantages	Disadvantages
Less conservative than a traditional bank in making small business loans; willing to make riskier loans (commercial finance companies are subject to less regulation and can assume more risk).	Because the loan may be riskier, commercial finance companies usually charge higher rates of interest than banks. Commercial finance companies may also have significant prepayment penalties to deter a borrower from refinancing with a conventional bank if the borrower improves his or her creditworthiness.
A good source to investigate for asset-backed loans, especially for already highly leveraged companies that may find it difficult to obtain additional debt from a traditional bank.	Typically they will make only highly collateralized loans. Moreover, the security for the loan is closely scrutinized for value and liquidity. Assets must be readily accessible and marketable. Typical collateral includes equipment, inventory, or accounts receivable.
Short-term loans (less than one-year) are offered as well as longer-term loans.	Less-standard loan terms allow for flexibility, but also require careful review of the terms of the loan, including interest computation and payment method, prepayment rights, and default terms.

FEDERAL LOAN PROGRAMS FOR SMALL BUSINESSES

Note on SBA Financing Programs: The SBA offers a variety of financing options through a loan guaranty program with commercial banks and lending institutions. The SBA does NOT provide direct loans or grants to start or grow a business. However, the SBA guaranty programs, by sharing the risk with the lender, do reduce the probability of a loss to the lender and thereby make it easier for the lender to extend credit. For small businesses that are unable to borrow on reasonable terms through conventional lenders, the SBA guaranty program can make the difference in successfully securing a loan.

Prospective borrowers begin by visiting a local financial institution. The lender reviews the company's business plan; company financial records, or projections if the company is just beginning operations, and; specific plans for the use of the borrowed funds. Participating lenders have all the necessary information about the SBA's loan guaranty programs and the required SBA application forms. The prospective borrower does not need to contact SBA. If the lender determines that the business meets SBA and the lending institution's eligibility and credit requirements, the lender can then suggest which of the SBA guaranty programs would best suit that loan.

U.S. Small Business Administration (SBA) 7(a) Loan Program

This is the SBA's primary loan program where the SBA guarantees major portions of loans made to small businesses by private lenders.

Eligibility: For-profit businesses with: good character, fair credit record; sufficient management expertise; a feasible business plan; adequate equity in the business – typically a minimum of 20%; sufficient collateral; and adequate cash flow to repay debt from historical or projected cash flow.

Use of Funds: Business acquisition or start-up, purchase or remodeling of real estate, leasehold improvements, equipment purchases, long and short-term working capital, inventory, and the refinancing of existing business indebtedness that is not already structured with reasonable terms and conditions.

Financing: Private lenders provide the loan. Typically, the Small Business Administration (SBA) will guarantee up to 75% of loans (or up to 85% for loans less than $150,000).

Terms and Conditions	
Loan Size	Maximum loan amount is $5 million. SBA's maximum guarantee is $3,750,000 or 75% of loan amount.
Term	Twenty-five years for real estate and equipment. Generally, up to ten years for working capital.
Interest Rate	Lenders set rates which may be variable within the following limits: Loans of $50,000: Prime or Libor + 300bps, plus 2.25% if the maturity is less than 7 years, and Prime or Libor + 300bps plus 2.75% if the maturity is 7 years or more.[1] Loans of $25,000 -$50.000: Prime or Libor + 300bps, plus 3.25% if the maturity is less than 7 ears, and Prime or Libor + 300bps, plus 3.75% if the maturity is 7 years or more. Loans of $25,000 or less: Prime Plus 4.25% if the maturity is less than 7 years, and Prime Plus 4.75%, if the maturity is 7 years or more. NOTE: There is a prepayment penalty owed to SBA for loans with a maturity of 15 years or longer.
Loan Fee	2.0% of guaranteed portion up to $150,000. 3.0% of guaranteed portion up to $700,000. 3.5% of guaranteed portion up to $1,000,000. For loans greater than $1,000,000, an additional 0.25% guaranty fee will be charged for the portion greater than $1,000,000.
Collateral	Assets purchased with loan proceeds. SBA and lender may require additional personal and business assets as collateral.
Other Conditions	For real estate loans, borrower must occupy 51% of an existing building and must occupy 60% of new construction.
Additional Info	Contact your current lender or www.sba.gov; http://www.sba.gov/services/financialassistance/7alenderprograms/index.html , or http://www.naggl.org/AM/template.cfm

U.S. Small Business Administration 504 Loan Program

The 504 Loan Program provides growing businesses with long-term fixed-asset financing with a minimum equity injection from the company being financed.

Use of Funds: Land acquisition, building construction, purchase of existing buildings, site improvements, renovation, restoration, and purchase of major equipment. Recent changes now allow limited refinancing of qualified existing debt (i.e. 50% of the amount of the expansion). The 504 program cannot be used to fund working capital or inventory or to refinance or consolidate existing debt.

Financing: 1) a loan from a bank with a first lien typically covering 50% of project cost; 2) a loan from a SBA Certified Development Company (CDC) secured with a second lien (backed by a 100% SBA guaranteed debenture) covering a maximum of 40% of project cost, and; 3) a contribution of at least 10% from the company being financed.

Terms and Conditions	
Project Size	There is no maximum project size.
SBA Loan Size	The SBA 504 maximum loan size is $5 million for most projects and $5.5 for small manufacturers.
Term	Bank Loan: Minimum of 10-year term may have a longer amortization period; SBA Loan: 10 or 20 years.
Collateral	Deed of Trust on land and building acquired; liens on machinery, equipment, and fixtures acquired; lease assignments; personal guarantees. Bank loan has a first position on all collateral. SBA loan has a second position on all collateral.
Interest Rate	Bank Portion: Market rate, may have a prepayment penalty on the first 10 years; SBA Portion: Based on 5-

[1] London Interbank Offered Rate (LIBOR) is the interest rate that banks charge each other for one-month, three-month, six-month and one-year loans. It is used as the benchmark for banks rates all over the world and is roughly comparable to the U.S. Federal funds rate. Basis Points (BPS) are units equal to 1/100th of 1% and are used to calculate interest rates.

	year and 10-year Treasury rate and has a prepayment penalty.
Loan Fees	Bank Portion: Normal fees; SBA Portion: 2.5 to 3% - normally financed.
Other Conditions	Must create or retain one job per $100,000 financed for manufacturers. Must be in business a minimum of one year; real estate must be owner occupied by at least 51% of an existing building or 60% of new construction.
Additional Info	Contact your current lender or www.sba.gov, http://www.sba.gov/services/financialassistance/sbaloantopics/cdc504/index.html

U.S. Small Business Administration (SBA) Express Loan Program

Gives select lenders the authority to expedite applications for the SBA's most common loan type-the 7(a) loan. Qualifying businesses may enjoy a turn-around-time from SBA of no more than 36 hours, making this a quick loan processing service that can provide borrowers with up to $350,000 for a term loan or a revolving line of credit.

Use of Funds: May be used as term loan or as a revolving line of credit; some limitations on real estate and construction.

Financing: Private lender provides the loan. SBA guarantees up to 50% of the loan, as opposed to the more common 75%.

Terms and Conditions	
Loan Size	Up to $350,000.
Term	Term loan same as on SBA 7(a) loan; no more than 7 years on a revolving line of credit.
Loan Fees	Same as on SBA 7(a) loan.
Collateral	Lenders are not required to take collateral for loans up to $25,000. Lenders may use their existing collateral policy for loans over $25,000 up to $350,000.
Interest Rate	Lenders and borrowers can negotiate the interest rate. Rates are tied to the Prime Rate or the SBA Libor Base Rate and may be fixed or floating, but may not exceed SBA maximums: Lenders may charge up to 6.5% over Prime Rate for loans of $50,000 or less, and up to 4.5% over Prime Rate for loans over $50,000.
Additional Info	Contact current lender or http://www.sba.gov/services/financialassistance/7alenderprograms/sbaexpress/index.html

U.S. Small Business Administration (SBA) CAPLines Loan Program

CAPLines is the umbrella program under which the SBA helps small businesses meets their short-term and cyclical working-capital needs. A CAPLines loan can be for any dollar amount (except for the Small Asset-Based Line described below).

1. Seasonal Line: These are advances against anticipated inventory and accounts receivable help during peak seasons when businesses experience seasonal sales fluctuations. Can be revolving or non-revolving.

2. Contract Line: Finances the direct labor and material cost associated with performing assignable contract(s). Can be revolving or non-revolving.

3. Standard Asset-Based Line: This is an asset-based revolving line of credit for businesses unable to meet credit standards associated with long-term credit. It provides financing for cyclical growth, recurring and/or short-term needs. Repayment comes from converting short-term assets into cash, which is remitted to the lender. Businesses continually draw from this line of credit, based on existing assets and repay as their cash cycle dictates. Lenders may charge additional fees based on the level of loan servicing.

4. Small Asset-Based Line: Provides a line of credit of up to $200,000 and operates like a standard asset-based line with some of the strict servicing requirements waived if the business can consistently show repayment ability from cash flow for the full amount.

Use of Funds: The proceeds of the loans can be used for most business purposes, including: working capital, machinery and/or equipment, inventory, business property acquisition, construction, renovation or leasehold improvement.

Terms and Conditions	
Term	Maturities up to five years and can be used as needed throughout the term of the loan to purchase assets provided assets can be converted into cash at maturity.
Interest Rate	Negotiated with the lender, and can be up to 2.25% over the Prime or Libor Base Rate.
Loan Fees	The guaranty fee is the same as for any standard 7(a) loan. On most CAPLines, the annual fee is restricted to 2% based on the outstanding balance.
SBA Loan Size	The Agency can guaranty up to 85% of loans of $150,000 and less, and up to 75% of loans above $150,000 (generally up to a maximum guaranty amount of $3,750,000).
Collateral	Holders of at least 20% ownership in the business are generally required to guarantee the loan. The nature and value of collateral factors into the credit decision.
Additional Info	www.sba.gov; or http://www.sba.gov/services/financialassistance/SpecialPurposeLoans/caplines/index.html

SBA Pollution Control Loans

This special loan program provides loan guarantees to eligible small businesses for pollution control; proceeds are to be used to prevent, reduce, abate, or control any form of pollution, including recycling.

Use of Funds: The program is designed to provide financing to eligible small businesses for the planning, design, or installation of a pollution control facility.

Financing: Private lenders provide the loan. SBA guarantees up to 75%.of the loan. This program follows the 7(a) guidelines with the following exception: use of proceeds must be for fixed-assets only.

	Terms and Conditions
Loan Size	Up to $2 million. Maximum percent of SBA guaranty is 75%.
Term	Up to 25 years depending on use.
Interest Rate	Capped at 2.75% over Prime Rate (1.0 to 1.5% are typical).
Loan Fees	SBA guaranty and other fees: 2.0 – 3.5%.
Other Conditions	Collateral: real estate or equipment.
Processing Time:	15 business days.
Additional Info	Contact current lender or: http://www.sba.gov/services/financialassistance/sbaloantopics/SpecialPurposeLoans/pollution/index.html

Enterprise and Empowerment Zones

Zone-based initiative programs, commonly referred to as enterprise zones, are typically economically depressed geographic areas in which businesses located there are exempt from certain taxes and are given other economic advantages as an inducement to locate there and employ residents. The most common incentives offered in the enterprise zone states include: federal contracting preferences; income tax credits; job creation tax credits; and sales and use tax exclusions. Other incentives--such as direct state loans; property tax relief; investment tax credits; tax increment financing; and improvements on public infrastructure and services--are offered by more than a third of the enterprise zone states. Currently 43 states have some type of enterprise and empowerment zone. In addition, the federal government has established historically underutilized business zones - "HUBZones" in many states that provide access to more Federal contracting opportunities.

Eligibility: Firms may be required to demonstrate performance measures on net job creation, capital investment in facilities located within the zone, and employment of enterprise zone residents or other workers who belong to a group defined by the program as disadvantaged, in order to maintain eligibility for incentives.

Terms: The goals of many state programs focus on employment issues. Tax credits for increased payroll expenditures as a result of more hiring are among the most common incentives offered to firms in enterprise zones throughout the states.

Additional Info: http://www.sba.gov/hubzone/section05b.htm

FEDERAL LOAN PROGAMS – INTERNATIONAL TRADE

Export Credit Guaranty Program

The Commodity Credit Corporation (CCC), U.S. Department of Agriculture, administers export credit guarantee programs for commercial financing of U.S. agricultural exports. The programs encourage exports to countries where buyer credit is necessary to maintain or increase U.S. sales, but where financing may not be available without CCC guarantees. Two programs underwrite credit extended by the private U.S. banking sector to approved foreign banks using dollar-denominated, irrevocable letters of credit to pay for food and agricultural products sold to foreign buyers.

Equity: Any business, regardless of size or type seeking to export U.S. agricultural products.

Financing: The CCC-approved foreign bank issues a dollar-denominated, irrevocable letter of credit in favor of the U.S. exporter, ordinarily confirmed by the financial institution in the U.S. agreeing to extend credit to the foreign bank. The U.S. exporter may negotiate arrangement to be paid as exports occur by assigning to the U.S. financial institution the right to proceeds that may become payable under the CCC's guarantee. The exporter would also provide transaction-related documents required by the financial institution and CCC, including a copy of the export report.

Terms: The Export Credit Guarantee Program (GSM-102) covers credit terms up to three years. The Intermediate Export Credit Guarantee Program (GSM-103) covers longer credit terms up to 10 years.

Additional Information: http://www.fas.usda.gov/excredits/ecgp.asp, http://trade.gov/media/publications/abstract/trade_finance_guide2008desc.html

U.S. Small Business Administration (SBA) Export-Express

The SBA Export Express provides exporters and lenders a streamlined method to obtain SBA backed financing for loans and lines of credit up to $500,000. Lenders use their own credit decision process and loan documentation and exporters get access to their funds faster. The SBA provides an expedited eligibility review and provides a response in less than 24 hours.

Eligibility: Available to businesses that meet the normal requirements for an SBA business loan guaranty. Financing is available for manufacturers, wholesalers, export trading companies, and service exporters. Loan applicants must demonstrate that the loan proceeds will enable them to enter a new export market or expand an existing export market. Applicants must have been in business, though not necessarily in exporting, for at least 12 months.

Use of Funds: May be used to finance export development activities such as: standby letters of credit when required as a bid or performance bond, or advance payment guarantee; participation in a foreign trade show; translation of product brochures or catalogues for use in overseas markets; general lines of credit for export purposes; service contracts from buyers located outside the U.S.; transaction-specific financing needs associated with completing actual export orders; purchase of real estate and equipment to be used in production of goods or services which will be used in expansion; term loans and other financing to enable export trading companies and export management companies develop foreign markets, and; acquiring, constructing, renovating, modernizing, improving, or expanding production facilities or equipment to be used in the U.S. in the production of goods or services involved in international trade.

Financing: Private lenders provide the loan. SBA will guarantee up to 85% on loan amounts up to $150,000 and 75% on loans amounts $150,000 to $500,000.

	Terms and Conditions
Loan Size	The maximum Export Express line of credit/loan amount is $500,000.
Term	The maturity of an SBA Export Express term loan is usually five to 10 years for working capital, 10 to 15 years for machinery and equipment (not to exceed the useful life of the equipment), and up to 25 years for real estate. The maturity for revolving lines of credit may not exceed seven years.
Interest Rate	SBA does not set the interest rates on loans; rates are negotiated between the borrower and lender subject to SBA caps. Rates are fixed or variable and are tied to the Prime Rate or the SBA Libor Base Rate.
Loan Fees	The SBA fee for an Export Express with a 12-month maturity or less is 0.25% assessed on the guaranteed portion of the loan. For loan maturities longer than 12 months, the guaranty fee is 2.0% on loans up to $150,000 and 3.0% on loans between $150,000 - $500,000.
Collateral	Lenders follow collateral policies that the lender has established for its non-SBA guaranteed loan.
Additional Info	http://www.sba.gov/aboutsba/sbaprograms/internationaltrade/useac/index.html or http://www.sba.gov/services/financialassistance/sbaloantopics/SpecialPurposeLoans/exportexpress/index.html

Export Working Capital Financing; Government Guaranteed Export Working Capital Loans

Financing offered by commercial lenders on export inventory and foreign account receivables is not always sufficient to meet the needs of U.S. exporters. commercial lenders are generally reluctant to extended credit due to the repayment risk associated with export sales, and early stage small and medium sized exporters are general not eligible for commercial financing without a government guarantee. In such cases, government-guaranteed export working capital loans (EWC) can provide the exporter with the liquidity to process and acquire goods and services to fulfill export orders. The Export Working Capital Program (EWCP) is a combined effort of the U.S. Small Business Administration (SBA) and the Export-Import Bank (Ex-Im Bank) to offer a unified approach to the government's support of export financing through participating lenders. By completing one standardized application form, exporters are directed to the agency best able to assist them, with SBA typically handling financing below $2 million and Ex-Im Bank processing larger requests.

Comparison: Commercial Loan Agreement versus Government Guaranteed Loan Agreement: the following table illustrates how a government-guaranteed export loan from a lender participating with SBA or Ex-Im Bank can increase an exporters borrowing base against total collateral value.

Borrow up to $1.65 million against your collateral value of $2 million.		Commercial Loan without a Government Guarantee		Commercial Loan With a Government Guarantee	
COLLATERAL	VALUE	Advance	Borrowing Base	Advance	Borrowing Base
Export Inventory					
Raw materials	$200,000	20%	$40,000	75%	$150,000
Work-in-process	$200,000	0%	$0	75%	$150,000
Finished goods	$600,000	50%	$300,000	75%	$150,000
Export accounts receivable					
On open account	$400,000	0%	$0	90%	$360,000
By letter of credit	$600,000	70%	$420,000	90%	$540,000
Total collateral value	$2,000,000				
Total borrowing base			$720,000		$1,650,000

Table found in "Trade Finance Guide: A Quick Reference for U.S. Exporters," U.S. Department of Commerce, International Trade Administration, Washington D.C. pgs. 197-199. Published 2008. http://trade.gov/media/publications/abstract/trade_finance_guide2008desc.html

Key Features of the SBA's Export Working Capital Program:

- Exporters must meet SBA eligibility and size standards.
- There is no application fee and no restrictions regarding foreign content or military sales.
- A 0.25 percent upfront facility fee is based on the guaranteed portion of a loan of 12 months or fewer.
- Fees and interest rates charged by the commercial lender are negotiable.
- The "Export Express" pilot program can provide exporters and lenders a streamlined method to obtain SBA-backed financing for EWC loans of up to $250,000. With an expedited eligibility review, a response may be obtained in fewer than 24 hours.

Key Features of Ex–Im Bank's Export Working Capital Program:

- Exporters must adhere to the Bank's requirements for content, non-nuclear uses, non-military uses, and environmental and economic impact and to the Country Limitation Schedule.
- There is a non-refundable $100 application fee.
- A 1.5 percent upfront facility fee is based on the total loan amount and a one-year loan but may be reduced to 1 percent with export credit insurance and if designated requirements are met.
- Fees and interest rate charged by the commercial lender are usually negotiable.
- Enhancements are available for minority- or woman-owned, rural and environmental firms.

Eligibility: Applicants must establish that the loan will significantly expand or develop an export market, is currently adversely affected by import competition, will upgrade equipment or facilities to improve competitive position, or must be able to provide a business plan that reasonably projects export sales sufficient to cover the loan.

Use of Funds: Proceeds of a EWCP loan may be used to acquire materials, labor, inventory, goods, and services for export. Proceeds may not be used to finance professional export marketing advice or services, foreign business travel by principal or support staff to trade shows, except to the extent it relates directly to the transaction being financed. Proceeds may not be used to make payments to owners, pay delinquent withholding taxes or pay existing debt.

Financing: Depending on the size of the loan, EWCP provides either SBA or Ex-Im Bank financing for single transactions or multiple sales (i.e., revolving line of credit) to cover pre-shipment or post-shipment for terms of 12 months or less.

	Terms and Conditions
Loan Size	SBA typically handles financing below $2 million and Ex-Im Bank processes requests of all sizes in excess of $2 million.
Term	If the loan is for a single transaction, the maturity should correspond to the length of the transaction cycle with a maximum maturity of 12 months. If the loan is for a revolving line of credit, the maturity is typically 12 months, with annual re-issuances allowed twice, for a maximum maturity of 3 years.
Interest Rate	SBA does not prescribe the interest rate or lenders fees for the EWCP. Interest rate and any fees charged by the commercial lender are usually negotiable.
Loan Fees	SBA loans: 0.25% facility fee based on the guaranteed portion and a loan up to 12 months. Ex-Im Loans: $100 application fee, 1.5% facility fee based on the total loan amount for a one-year loan.
Other Conditions	Applicants must submit cash flow projections to support the need for the loan and the ability to repay; after the loan is made, the loan recipient must submit continual progress reports.
Collateral	A borrower must give SBA a first security interest equal to 100% of the EWCP guaranty amount. Collateral must be located in the U.S.
Additional Info	For more information, visit the SBA Web site at http://www.sba.gov/content/us-export-assistance-centers or call 1-800-U-ASK-SBA (8-275-722), or visit www.exim.gov or write the Business Development Group, Export-Import Bank of the United States, 811 Vermont Ave., NW, Washington D.C. 20571 or telephone 1-800-565-EXIM (3946).

U.S. Small Business Administration (SBA) International Trade Loan Program

The International Trade (IT) Loan Program is designed for businesses preparing to engage in or currently engaged in international trade or adversely affected by competition from imports.

Eligibility: Small businesses that are in a position to expand existing export markets or develop new export markets and small businesses that have been adversely affected by international trade and can demonstrate that the loan proceeds will improve their competitive position are eligible for international trade loans.

Use of Funds: May be used for the acquisition, construction, renovation, modernization, improvement, expansion of long-term fixed assets, or the refinancing of an existing loan used for these same purposes. There can be no working capital as part of an IT loan or as part of any refinancing.

Financing: Private lender provides the loan and SBA will guarantee up 75% of the loan (or up to 85% for loans less than $150,000).

	Terms and Conditions
Loan Size	The maximum amount ($5 million) and SBA-guaranteed amount ($3.75 million) for an international trade loan is the same as a SBA 7(a) loan. However, when there is an international trade loan and a separate Working Capital Loan, the maximum SBA guaranty on the combined loans can be up to $1.75 million as long as the SBA guaranty on the Working Capital Loan is less than $1.25 million.
Term	The maturity of an International Trade loan is usually 10 - 15 years for machinery and equipment (not to exceed the useful life of the equipment), and up to 25 years for real estate.
Interest Rate	Interest rates are negotiated between the borrower and the lender, subject to SBA caps. Rates can either be fixed or variable, and are tied to the Prime Rate as published in The Wall Street Journal. For loans greater than $50,000 and maturity in excess of 7 years, lenders may charge up to 2.75% over Prime Rate.
Loan Fees	The SBA guaranty fee is between 2.0% and 3.75%, depending on the size of the loan.
Collateral	Secured by a first lien position or first mortgage on the property or equipment financed by the loan. Additional collateral (to the extent it is available) may be accepted to ensure that the loan is fully collateralized. The requirement for a first security interest on the property or equipment financed is a mandatory condition of the international trade loan.
Additional Info	http://www.sba.gov/aboutsba/sbaprograms/internationaltrade/useac/index.html http://www.sba.gov/aboutsba/sbaprograms/internationaltrade/index.html.

U.S. Department of Agriculture (USDA) Market Access Program

The Market Access Program (MAP), formerly the Market Promotion Program, uses funds from the U.S. Department of Agriculture's (USDA) Commodity Credit Corporation (CCC) to help U.S. producers, exporters, private companies, and other trade organizations finance promotional activities for U.S. agricultural products. The MAP encourages the development, maintenance, and expansion of commercial export markets for agricultural commodities. Activities financed include consumer promotions, market research, technical assistance, and trade servicing.

Eligibility: Any business, regardless of size or type seeking to export U.S. agricultural products.

Financing: Participants may seek reimbursement for an incurred expenditure for an approved activity that will not be reimbursed by any other source. Eligible expenses include: production and distribution of various types of advertising, in-store and food service promotions, product demonstrations, fees for participation in retail, trade, and consumer exhibits and shows. For generic promotion activities only, additional activities such as: cost and living expenses to U.S. citizen employees or U.S. citizen contractors stationed overseas, expenditures associated with trade shows, seminars, and educational training conducted in the U.S. and demonstration projects are eligible. Many of these expenses are subject to limitations.

Additional Info: www.fas.usda.gov/agx/financing/financing.asp

U.S. Department of Agriculture- Facility Guaranty Program

The Commodity Credit Corporation's (CCC) Facility Guarantee Program (FGP) provides payment guarantees to facilitate the financing of manufactured goods and services exported from the U.S. to improve or establish agriculture-related facilities in emerging markets. By supporting such facilities, the program is designed to enhance sales of U.S. agricultural commodities and products to emerging markets where the demand for such commodities and products may be constricted due to inadequate storage, processing, or handling capabilities for such products.

Eligibility: Any business, regardless of size or type seeking to export U.S. agricultural products.

Use of Financing: For export sales of U.S. equipment or expertise to improve ports, loading/unloading capacity, refrigerated storage, warehouse and distribution systems, and other related facilities.

Financing: The CCC guarantees payments due from approved foreign banks to exporters of financial institutions in the U.S. Typically, the CCC provides a payment guarantee covering 95% of principal and a portion of interest.

Terms: From 1 to 10 years, with semi-annual installments on principal and interest.

Additional Info: www.fas.usda.gov

STATE GRANT PROGRAMS – INTERNATIONAL TRADE

State Grant Programs to Support International Trade

According to a survey taken by the State International Development Organizations (SIDO), state economic development agencies will spend over $103 million helping small businesses export their products abroad in 2008. According to SIDO, this figure represents roughly half of what the federal government spends on export promotion and investment attraction.

Use of Funds: Grants vary in size from $1,000 to $50,000 and are often tied to participation in trade shows, trade missions, or other state-sponsored events. At present, the federal government offers no comparable programs.

Eligibility: The primary clients for these state export programs are small businesses as defined by the Small Business Administration's standard of 500 employees or less. Smaller companies, those with 50 employees or less, are typically the program's primary client audience.

Grant Amounts	
Connecticut	Offers partial reimbursement for selected companies for trade events up to $1,000.
Indiana	Operates a Trade Show Assistance Program that offers up to $5,000 per company per fiscal year to attend international trade shows.
Maine	Offers $1,000 to $1,500 toward matchmaking costs.
Maryland	Offers grants up to $5,000.
Mississippi	Offers reimbursement of up to $500 per company for trade events.
Montana	Reimburses 50% of fee to participate in Foreign Commercial Service's Gold Key program or other trade fees, up to $2,000.
New York	Offers grants up to $50,000.
Oklahoma	Offers matching grants to companies to attend international trade shows; up to $2,500 for booth rental, translation service and promotional materials shipping costs.
Oregon	Offers $2500 grants for trade show participation.
Pennsylvania	Maintains a $ 1 million grant fund; $5,000 per company for companies with less than $40 million in revenue; available every year.
Rhode Island	Provides mini grants up to $5,000 for export training.
Vermont	Provides grants of up to $1,500 for trade mission participation or subscribing to U.S. Commercial Service programs.

Virginia	Provides up to twenty $5,000 grants per year and up to fifteen $10,000 grants per year.
Wisconsin	Offers grants up to $5,000.
Additional Info:	The website of State International Development Organizations (SIDO) provides a directory of international trade contacts in all 50 states that can provide information on these and other state export assistance programs: http://www.sidoamerica.org/.

FEDERALLY SUPPORTED, PRIVATE SECTOR OPERATED LOAN PROGRAMS

Small Business Investment Companies (SBIC)

Small Business Investment Companies (SBICs) are privately owned and managed investment companies 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 are motivated to share in the success of small businesses. Some SBICs also provide management assistance to the companies they finance to foster growth.

Eligibility: Small businesses, defined as having a net worth less than $18.0 million and an average after tax net income for the prior two years less than $6.0 million. While a complete business plan may not be required to hold preliminary discussions, it is generally a pre-requisite for funding. Minority or women–owned business can also access Minority Enterprise Small Business Investment Companies (MESBIC's).

Use of Funds: Approximately 90% of SBIC financing typically goes to operating capital and acquisition capital. Other uses include marketing activities, research and development, facility modernization, new equipment and machinery, or construction.

Financing: SBIC financing is through debt (debentures) or debt with equity features (equity-type debentures). SBICs tend to be more risk tolerant than banks, with their own financing polices (size, industry preferences and geographic requirements).

Terms & Conditions	
Loan Size	The median size of investment is 250,000.
Term	The terms of investment are negotiated by the SBIC and the small company. Generally financings are for at least five years, and less than 20 years.
Interest Rate	Interest is limited by SBA regulations and depends upon the security offered and is negotiated between the SBIC and the company, subject to the legal ceiling (if any) of the State in which the SBIC is organized. In general, the interest rate is calculated using all points, fees, discounts and other costs of money that may be charged in addition to the permitted interest. SBICs may also structure financing to receive a royalty based on improvement in the performance of a portfolio company.
Loan Fees	An SBIC may charge application and closing fees of up to 5% of the financing if it is an equity-type debt or up 3% for straight loan. An SBIC may be reimbursed for its routine closing costs, including legal fees.
Collateral	One of the major functions of an SBIC is to extend unsecured loans and loans not fully collateralized to worthy small businesses.
Additional Info	www.sba.gov/INV or http://www.nasbic.org/ or http://naicvc.com or antoinette.shingler@sba.gov.

Community Development Financial Institutions (CDFI's)

Community Development Financial Institutions (CDFI's) are a category of domestic financial institutions, which provide credit, financial services, and other services to underserved markets or populations. Many CDFI's finance businesses that would otherwise have difficulty obtaining capital. CDFI's may take different forms: community development banks; community development credit unions (CDCUs); loan funds (non-depository community development loan funds - CDLFs, including microloan funds); or community development venture capital funds – (CDVC's). CDFIs are certified by the CDFI Fund at the U.S. Department of the Treasury, which provides funding to individual CDFI's , which is then used leverage more dollars from the private sector for development activities. CDFIs are chartered under a CDFI U.S .Treasury program that provides direct investment in and special tax credits to community institutions that work under the program. The Department of Treasury requires participating CDFI's to not only make loans to eligible businesses, but to also provide training, counseling, and technical support to borrowers, such as business plan development, validating market assumptions, or making financial projections.

Eligibility: Businesses may be eligible to receive CDFI funding if they are in a distressed urban or rural community and are not likely to receive funding from other local institutions. Minority- and woman-owned businesses receive special consideration. Since each CDFI maintains its own criteria, it is suggested that potential borrowers contact CDFI's in their area to learn about their specific requirements. Borrowers in rural areas and low-population states may need to reach beyond their local community to find a certified CDFI.

Terms & Conditions	
Loan Size	Companies can receive anywhere from $2,000 to $300,000 in CDFI financing. CDFI's may also work with other banks and credit unions to give borrowers access to a larger amount of capital in which case the CDFI lender would have a subordinate position in the collateral to the primary lender.
Term	The terms of investment are negotiated by the local CDFI and the company. Once a company demonstrates the ability to execute its plan with the first loan's proceeds, the lender may make additional loans over time up to the CDFI's loan limit.
Interest Rate	Each CDFI prices its loans based on risk and whether it's a primary or secondary lender. Interest rates may range from the lowest best market rates to 4 percent to 5 percent above the best market rate.
Loan Fees	Each CDFI prices its loans based on risk and whether it is a primary or secondary lender.
Collateral	One of the major functions of a CDFI is to extend unsecured loans and loans not fully collateralized to worthy small businesses.
Additional Info	The U.S. Treasury maintains on its website a list of certified CDFIs and a searchable award database. As of June 2010 the list contained 862 CDFI's. For questions or suggestions, call Treasury at 202-622-8662 or e-mail cdfihelp@cdfi.treas.gov .

STATE AND LOCAL FINANCING PROGRAMS

State Loan Guaranty Programs

Some states have established programs similar to the SBA's 7(a) loan program to guarantee loans to small businesses that cannot obtain financing on reasonable terms through normal lending channels. Like the SBA's program, these state-level programs do not loan government funds to small businesses, but are designed to increase the availability of loans from private lending institutions. The guaranty programs provide a lender with the necessary security to approve a loan or line of credit.

Besides providing a business the opportunity to obtain a loan it otherwise could not obtain, these guaranty programs allow a business to establish a favorable credit history with a lender. A business may subsequently obtain further loans on its own, without the assistance of the program.

Use of Funds: Typically for equipment purchases, contract financing, business expansion, and working capital. All loan proceeds must be used in the particular state.

Financing: Private lenders provide the loan and the state underwrites the loan guaranty, up to a given percentage of the loan.

Terms and Conditions	
Loan Size	The percentage of guaranty, up to a maximum allowed, is typically a matter of negotiation between a lender and a state government and its agencies. The maximum percentage of the guaranty typically decreases with the size of the loan. For example, the maximum percentage of guaranty may be 80% for loans of $5 million, 70 % for loans between $5 -$10 million, and 60 % for loans exceeding $10 million.
Term	Term loans up to 5 years are typical. Lines of credit are usually renewed annually.
Interest Rate	Usually negotiated between the lender and borrower.
Loan Fees	1.5-2.0% of guaranteed amount plus a modest application fee is typical. Lenders may impose additional fees.
Other Conditions	Sometimes the borrower is required to pledge all available collateral including business and personal assets.
Additional Info	www.sba.gov or http://www.sba.gov/services/financialassistance/7alenderprograms/index.html or http://www.naggl.org/AM/template.cfm.

State Energy Efficiency Financing Programs

Many states provide low interest loans or other subsidies to help small businesses become more energy efficient. Some states, like Indiana, have established programs to help manufacturers increase the energy efficiency of their manufacturing process. These funds may be used to replace or convert existing equipment or to purchase new equipment as part of a process/plant expansion, which will lower energy use. http://www.ase.org/content/article/detail/1320 In addition, most states offer some kind of technical assistance with ENERGY STAR and other energy efficiency programs.

Additional Info: A list of the relevant state offices can be found on the "National Association of State Energy Officials" web site http://www.naseo.org/members/states/default.aspx Click on the map to get the contact information for each state and where to call to receive technical information or find out if that state currently has any financing opportunities. The "Alliance to Save Energy" provides a database of over 60 energy efficiency funds and programs and a variety of information about each fund, including interest rates, loan terms, minimum and maximum loan amounts, eligible sectors and technologies, and contact information. Although most programs documented are loan funds, the inventory also includes some loan guarantee and equity funds. http://www.ase.org/section/topic/financingee/northamerica

Revolving Loan Funds (RLFs)

Revolving Loan Funds (RLFs) are pools of public and private-sector funds that provide affordable financial assistance to individuals and businesses, recycling money as loans are repaid. Since the 1970's, RLF's have often been used in rural areas for business activities for which credit is not otherwise available. Funding sources for local programs include: the Economic Development Administration (EDA), U.S. Department of Agriculture (USDA), Appalachian Regional Commission (ARC), State governments, economic development entities, and councils of government. RLFs are sometimes the sole lenders but often take a subordinated lien position in loans to leverage their capital through joint lending with private lenders.

Eligibility: Small businesses, industrial, commercial, or retail for-profit enterprises. The business in consideration often must demonstrate that other financing alternatives have been exhausted.

Financing: Usually longer-term, fixed-rate financing at concessionary terms.

Use of Funds: Operating capital, inventory, machinery and equipment, acquisition of land and buildings, new construction, rehabilitation, and property improvements. No debt refinancing.

Terms and Conditions	
Loan Size	Loan amounts range from small ($1,000 - $10,000) to mid-sized ($25,000 - $75,000), with larger amounts ($100,000 - $250,000 plus) available when a borrower has secured a substantial sum from private lenders.
Term	Durations vary according to the use of funds. A loan used for working capital, for instance, may range from 3 to 5 years, while loans for equipment are up to 10 years and real estate loans may last 15 to 20 years.
Interest Rate	An RLF issues loans at below market or an attractive rate – for example 80 % of Prime or the current Prime Rate fixed for the duration of the loan. With low interest and flexible terms, an RLF reduces total expenses

	for the borrower, while lowering overall risk for participating institutional lenders. The rate for each particular borrower usually depends on the company's financial position and its ability to maintain an adequate profit.
Loan Fees	There is usually a 1.0-2.0% loan review fee.
Other Conditions	Such as a minimum number of jobs created or retained per a specific amount of funds within a time period.
Additional Info	http://www.cdfa.net/cdfa/cdfaweb.nsf/pages/rlffactsheet.htm http://www.nado.org/aboutnado/membersites.php

General Obligation Bond Financing

States and municipalities have sold bonds to finance private capital projects for many years. In recent years, many states have established up long term debt financing mechanisms, such as bond and certificate programs, to finance worker training and human capital development. States like Iowa have granted their community colleges the ability to sell new jobs training certificates and to use the proceeds to finance and provide training to companies with training needs.

Eligibility: These types of programs are usually targeted toward manufacturing, processing, or assembly type of businesses. Programs typically stipulate that the amount of training credits available to employers are based on the estimated number of jobs retained or created over a period of time. Some states may use a combination of bond proceeds and funds appropriated through their general assembly to fund training that creates or preserves jobs.

Financing: Typically, 50% of the cost of the training provided.

Use of Funds: For training and human capital development. The training can be provided by community colleges, other educational institutions, or other third parties. On-the-job training is sometimes covered. In the case of Iowa, an employer is permitted to send employees to training outside the state and still be reimbursed for the training costs and any associated travel and lodging expenses.

Terms: The bonds are typically repaid over a maximum number of years.

Fees: In some states, bonds are repaid through a diversion of the percentage of the gross payroll generated by a participating employer's newly hired employees.

Additional Info: http://www.ncee.org/wfd/whitepapers/index.jsp?setProtocol=true

Industrial Development Revenue Bond Programs (IRDBs)

Industrial Development Revenue Bond (IRDB) programs permits public agencies, like counties, cities, and towns, to issue federal tax-exempt bonds on behalf of private companies. The proceeds from the bond sale are loaned to businesses to finance capital investment projects at, primarily, manufacturing facilities. Bonds are typically purchased by private parties to earn tax exempt interest. Borrower advantages include; long-term maturities, low interest rates, and low down payment with 100% financing.

Eligibility: Federal and state regulations define eligible projects. Eligible projects are limited to manufacturing or processing firms and include; construction and or/improvement of faculties, new machinery and equipment, engineering work, acquisition of land, and financing arrangements and interest accrued during construction. Manufacturing generally includes almost every type of processing that result in a change in the condition of tangible assets.
Financing: IDRBs may finance up to 100% of project costs with loans up to $10 million for tax-exempt bonds and no limit if the bond is taxable. Because significant legal costs are necessary when an IDRB is issued these bonds are generally used when financing of $1 million and higher is required.

Use of Funds: Bond proceeds can be used to finance equipment, building, and property. Working capital and inventory are usually not eligible for this type of financing.

How It Works: These bonds are issued and sold by county, local, or state agencies and purchased by private parties. The borrower is responsible for paying the principal, interest, and other costs associated with the bond. Neither the loan nor the bond is backed by the moral or general obligation of the state or any local government. Stringent credit procedures typically apply, and the facilities and equipment are pledged as collateral for the loan, as negotiated by the company and the banks that underwrite these types of bonds.

Terms and Conditions	
Loan Size	Between $1 -10 million.
Interest Rate	Borrowers typically pay a tax-exempt rate of interest, which is normally 1.0% to 2.0% less than the rate of conventional financing, depending on the strength of the borrower's credit. Interest on IDRBs may be at a fixed or variable rate.
Term	Maturities vary from 5 to 30 years, matching the life of the assets.
Other Conditions	Borrowers are usually required to appear before a city or county board where the project is located to obtain local approval and a portion of that body's available annual IDRB allowance.
Other Features:	IDRBs may also provide real property tax abatement, exemption from sales tax on newly acquired on materials and equipment, and exemption from mortgage recording tax to businesses whose projects result in new jobs an increased local employment.
Additional Info	Companies typically initiate the process by meeting with representatives of the municipality where the project is to be located. In addition, state agencies (e.g. Departments of Business and Industry, or Economic Development) usually maintain a division that handles bond finance and work with attorneys and bond specialists to guide applicants through the process. Companies should also consult with a bond counsel and its lender to determine a project's feasibility.

SPECIALIZED PRIVATE SECTOR SHORT-TERM FINANCING

Export Factoring

Export factoring is a complete financial package that combines export working capital financing, credit protection, foreign accounts receivable bookkeeping, and collection services. A factor is a bank or a specialized financial firm that performs financing through the purchase of invoices or accounts receivable. Export factoring is offered under an agreement between the factor and exporter, in which the factor purchases the exporter's short-term foreign accounts receivable for cash at a discount from the face value, normally without recourse. The factor assumes the risk on the ability of the foreign buyer to pay, and handles collections on the receivables. Thus, by virtually eliminating the risk of nonpayment by foreign buyers, factoring allows the exporter to offer open accounts, improves liquidity position, and boosts the exporter's competitiveness in the global marketplace. Factoring foreign accounts receivables can be a viable alternative to export credit insurance, long-term bank financing, expensive short-term bridge loans, or other types of borrowing that will create debt on the company's balance sheet.

Applicability: Ideal for an established exporter who wants (1) the flexibility of selling on open account terms, (2) to avoid incurring any credit losses, or (3) to outsource credit and collection functions.

Pros	Cons
Risk inherent in an export sale is virtually eliminated. Maximize cash flows.	More costly than export credit insurance. Generally not available in developing countries.

How it Works: The exporting company signs an agreement with the export factor who selects an import factor through an international correspondent factor network, who then investigates the foreign buyer's credit standing. Once credit is approved locally, the foreign buyer places orders for goods on open account. The exporting company then ships the goods and submits the invoice to the export factor, which then passes it to the import factor who handles the local collection and payment of the accounts receivable. During all stages of the transaction, records are kept for the exporting company's bookkeeping. The two most common types of arrangements are:

- **Discount factoring**: the factor issues an advance of funds against the exporting company's receivables until money is collected from the importer. The cost is variable, depending on the time frame and the dollar amount advanced.

- **Collection factoring**: the factor pays the exporting company, less a commission charge, when receivables are at maturity, regardless of the importer's financial ability to pay. The cost is fixed, ranging generally between 1.0– 4.0%, depending on the country, sales volume, and amount of paperwork involved. As a rule of thumb, export factoring usually costs about twice as much as export credit insurance.

Additional Info: The international factoring business involves networks similar to the use of correspondents in the banking industry. Factors Chain International (FCI) http://www.factors-chain.com/ is the largest of these global networks. Another useful source is the International Factoring Association (IFA) http://www.factoring.org/ .

Forfaiting

Forfaiting is a method of trade finance that allows an exporting company to obtain cash by selling its medium term foreign account receivables at a discount on a "without recourse" basis. A forfeiter is a specialized finance firm or a department in banks that performs non-recourse export financing through the purchase of medium-term trade receivables. Similar to factoring, forfaiting virtually eliminates the risk of nonpayment, once the goods have been delivered to the foreign buyer in accordance with the terms of sale. Unlike factors, forfeiters typically work with the exporting company who sells capital goods, commodities, or large projects and needs to offer periods of credit from 180 days to up to seven years. In forfaiting, receivables are normally guaranteed by the importer's bank, allowing the exporting company to take the transaction off the balance sheet to enhance its key financial ratios.

Applicability: Ideal for exports of capital goods, commodities, and large projects on medium-term credit (180 days to up to seven years). Most In users of forfaiting have been large established corporations, although SME's are slowly embracing forfaiting as they become more aggressive in seeking financing solutions for countries considered high risk.

Size: The current going minimum transaction size for forfaiting is $100,000.

Costs: Most forfaiting companies use a rate that is tied to the London Inter Bank Offered Rate (LIBOR) or a Prime Rate and a margin reflecting the risk being sold. The risk varies based on the importing country, the length of the loan, currency of transaction, and the repayment structure. The higher the risk, the higher the margin and therefore the discount rate. Forfaiting can be more cost-effective than other finance tools because of many attractive benefits it offers to the exporter.

Pros of Forfaiting	Cons of Forfaiting
▪ Eliminate the risk of nonpayment by foreign buyers. ▪ Strong capabilities in emerging and developing markets. ▪ Can work on a one-shot deal without requiring an ongoing volume of business; commitments can be issued within hours/days depending on details and country; documentation is usually straightforward.	▪ Cost can be higher than commercial bank financing ▪ Limited to medium-term and over $100K transactions.

How It Works: The exporting company approaches a forfeiter before finalizing a transaction's structure. Once the forfeiter commits to the deal and sets the discount rate, the exporting company can incorporate the discount into the selling price. The exporting company then accepts a commitment issued by the forfeiter, signs the contract with the importer, and obtains, if required, a guarantee from the importer's bank that provides the documents required to complete the forfaiting. The exporting company delivers the goods to the importer and delivers the documents to the forfeiter who verifies them and pays for them as agreed in the commitment. Since this payment is without recourse, the exporting company has no further interest in the transaction and it is the forfeiter who must collect the future payments due from the importer.

Additional Info: The Association of Trade & Forfaiting in the Americas, Inc. (ATFA) http://afia-forfaiting.org/ and the International Forfaiting Association (IFA) http://www.forfaiters.org/ may be useful sources. I addition, the U.S. International Trade Administration has developed a *Trade Finance Guide* that can be found at http://trade.gov/media/publications/pdf/trade_finance_guide2007.pdf

EQUITY FINANCING

Strategic Investors

Strategic investors or investment groups provide equity capital to complete transactions that include: recapitalization and growth financing, management buyouts of private companies or divisions of a corporation, management buy-ins, family succession, and industry consolidations or other acquisition or ownership transitions.

Sources: Strategic investors may raise their investment funds from other affluent individuals, insurance companies, bank affiliates, endowment funds, or other investment groups.

Terms: Strategic investors look for companies that can be grown quickly or be made more efficient within a relatively short time, usually 3-7 years. Strategic investors may also seek to recoup their initial investment and make a profit by exiting during that time frame through the sale of the company to a strategic buyer, financial buyer, or in some cases an initial public offering.

Conditions: Strategic investors typically seek companies with good management. Many are willing to take a minority ownership position, with company management accountable to clearly defined performance benchmarks. In general, most look to existing management to run the daily operations while providing support and strategic planning at the board level.

Options for Manufacturing Company Owners

For family-held companies looking to finance growth, while controlling personal financial risk by diversifying their net worth, strategic investors offer a variety of financial options. Business owners that are willing to alter "lifestyle" practices (e.g. compensation structures that depress the amount of capital retained in the company) may find that strategic investors offer opportunities for injecting capital and building company value. Likewise, business owners that are facing inter-generational ownership issues may find that strategic investors can provide opportunities that combine business growth, wealth maximization, and ownership succession planning.

Specific strategic investment transaction types include:

Recapitalizations: For many business owners, their financial net worth is often tied up in the company. A business owner can sell a portion of his or her equity to an investment group to realize liquidity or to reinvest the proceeds back in the business. The advantage of a recapitalization over an outright sale of the company may include: access to growth capital, continuing equity and partnership in future growth, liquidity, and additional management support in developing new products or markets.

Growth Financing: Access to beyond what a bank can provide in terms of capital, contacts, and expertise to enable a strategic acquisition or to support organic growth through expansion.

Generational Transitions: Retiring company owners may be able to transfer their ownership through an insider transaction with family members, partners, management, or employees while achieving liquidity.

Management and Employee Buyouts: Opportunities often exist for management or employees in private companies or divisions of public companies to buy out ownership and resources to support continued company growth after the transaction.

Buy-out or Sale: Company owners may seek to maximize their liquidity and financial security through an outside sales transaction with investors who are interested in assuming company ownership and management responsibilities. Sales can be timed and planned to ensure maximum value and liquidity for the owners.

Benefits That May be Expected by Business Owners	Issues for Business Owners
▪ Increased business value. ▪ Better decision making and shared responsibility. ▪ Improved performance and predictability. ▪ Increased control and responsiveness. ▪ Reduced business and personal risk. ▪ Better alignment between personal financial objectives, and non-financial objectives. ▪ Better contingency planning. ▪ More successful ultimate business transition.	▪ The owner(s) long term plans for the company and how do they affect the company's opportunities for growth and expansion. ▪ The owner's personal values, management style and objectives aligned with what the company needs for optimal business performance. ▪ As all owners eventually exit their businesses, do the owners have in place the plans for thoughtful management succession. ▪ The owner's tolerances for business and financial risk. ▪ The owner's preferences for control and accountability.

How it works: Candidates for investment are typically introduced to strategic investors through banks, brokerage firms, professional advisors, other investors, or through a variety of professional and personal contacts. Some firms specialize in niches, such as manufacturing companies who have a proprietary product and need capital for expansion, while others will consider most industries. A key factor in negotiating deals between a company and an investor is ensuring an alignment of interests. While some owners strive for family continuity, others hope to maximize their value to potential outside owners. Negotiations typically focus on the development of an ownership strategy that spans all of the remaining timeframe of the owner's tenure as a shareholder and manager.

Additional Info: National Association of Small Business Investment Companies (NASBIC) http://www.nasbic.org

Angel Investment

Angel investors are important participants in the informal, unregulated market for small business equity capital. While no standard angel profile exists, the typical angel is a successful entrepreneur who has sold his or her business and is interested in assisting new businesses in their immediate community or a corporate leader or professional. They often maintain an interest in a particular business sector and are looking for opportunities to invest where they have the chance to apply their acquired skills to help others grow successful businesses. They are generally not interested in controlling a business, although many want to be more than passive investors and have the chance to contribute their experience and skills in an advisory role. This attribute can be a distinct advantage over using other types of financing, as it can offer strategic advice and valuable personal connections to assist a business in accessing potential markets, new customers, or favorable supplier opportunities. This combination of capital, management support, industry knowledge and relationships is often referred to as "smart money" and can be the key to shaping a company's future success.

Finding a Business Angel Investor: The chances of connecting with a business angel investor will be greater if the following profile of the "sophisticated" business angel is kept in mind:

- Has a net worth in excess of $1,000,000 and meets the legal definition of an "accredited" investor.
- Can invest $20,000 - $150,000 of their own money but may participate in a syndicate of other investors to boost the total investment amount possible by multiples (with syndicate rounds between $500,000 and $2 million).
- Is typically "homegrown" and prefers to stay close to home, which is a distinct advantage for "flyover" locations outside major population centers.
- Has previous experience in the industry and can help open new distribution channels, broaden product and service offerings, and locate suppliers and customers.
- Enjoys advising companies and likes to be part of the action.
- Is comfortable being a minority rather than a majority investor, unlike venture capitalists.
- Understands the riskiness of investing and therefore looks for an overall portfolio that will bring a return on investment, but accepts a variety of losses and strong returns in their investment portfolio.
- Expects to stay invested for 5-7 years but may be open to cashing out earlier or being patient for a longer period.
- Acts independently, but also in concert with other angels to share information about possible investments and pool resources (with many participating in formal groups of angel investors).

- Refers deals to other private investors even if the angel has chosen not to invest.

Not All Angels are Alike: Diversity among angel investors is wide. Active experienced angel investors tend to have a targeted industry focus, while passive angel investors may not have an industry focus. While many angels are exclusively focused on early stage companies with the potential for high growth, others will consider moderate growth and existing niche businesses. Angels generally rely on a more subjective evaluation and their due diligence may be less rigorous than venture capitalists. Many base their decision to invest on their "gut" or personal assessment of the company, the product, and the market. Therefore, each investment deal tends to be different. It is also important to recognize that there is a wide variety of sophistication among angels, with a portion of them not adding value to the companies in which they invest or even hurting any future chances of their companies to grow and receive additional capital

Places to Look: Finding Angel Investors may be a lengthy process that can often consume a great deal of time. Some options are:

Associations: Two prominent associations are: Angel Capital Education Foundation, which includes member groups and non-member groups, www.angelcapitaleducation.org/dir_resources/directory.aspx and The National Association of Seed and Venture Funds http://www.nasvf.org/os/nasvf.nsf/members.html

Online Investor Networks and Internet Connection Services: often maintain websites that allow users to search for angel investors based on the size of investment, the geographic areas they serve, and the industries in which they prefer to invest. These websites may be used to contact the angels directly or alternately post a "Request" indicating what type of investment needed. Angels and investors surf these "Requests" to identify deals to invest. The SBA has its own angel network called Active Capital, formerly known as AceNet. http://activecapital.org/. The Angel Capital Education Foundation www.angelcapitaleducation.org/dir_resources/directory.aspx is another good resource.

Professional Networks: Getting introductions to angels through professional networks of other business owners, accountants, bankers, lawyers, or friends is often the best way identify business angels. Membership in business or civic organizations can offer companies more opportunities for the type of introductions to investors that can lead to an investment deal.

Additional Info: http://eventuring.kauffman.org/

FEDERAL AND STATE TAX PROGRAMS

Federal Research and Development (R&D) Tax Credit

The changes that were enacted to the tax laws in 2003 make qualifying for R&D tax credits significantly easier for small and mid-sized companies. The changes broadly expand the tax definition of qualified R&D costs eligible for the credits. For example, companies with expenses that result in new or significantly improved processes, products, performance, reliability, and quality, or reductions in cost, may now be able to claim the credit. The new law also refines the record-keeping and documentation requirements, making it easier for companies to retroactively submit amended tax returns to account for R&D work for prior years. This is considered a significant advantage of the credit for smaller companies in terms of the broad scope of expenditures that are now eligible and documentable through W-2 wage records.

Eligibility: Generally, companies must have taxable income to use the credits. Assuming that a company was profitable and a taxpayer, it may be possible to amend the prior "open" tax years (usually three years back) to receive a cash refund in addition to a credit to offset any tax liabilities in the current tax year. Companies are allowed to include a percentage of the wages of all personnel directly involved in supervising or supporting R&D efforts, making the credit essentially wage-based. Other expenses that may qualify for the R&D tax credit are non-capitalized materials and supplies; materials or items that are expensed and not capitalized and depreciated are eligible for the tax credit. The majority of "qualifying" costs incurred through contracted research (limited to 65%), whether through consultants or a university (not grant money), usually may also be claimed. While the tax rules remain complex, companies are likely to claim the credit if their expenditures generally correspond to the following activities:

- Developing new products, processes, techniques, or software.
- Significantly improving existing products, processes, techniques, or software.
- Developing more reliable products, processes, techniques or software.
- Testing new concepts, technologies, or materials.

A Possible Example:

A typical company:	Revenues = Payroll =	$10 million $4 million

Qualified R&D expenses associated with the development and testing of a new product include 20% of employees' time: $4 million X 20% = $800,000.

R&D tax credit: 20% Gross Credit (6.5% Net Benefit) of qualified R&D expenses

Tax credits: $800,000 x 6.5% = $52,000 for that particular year in tax credits

If eligible in three previous and current tax years:

4 X $52,000 = $208,000 in refunds and credits.

Amounts: Tax credits, which are direct reductions in a company's taxes, are worth more than tax deductions. Companies may not always be able to use all the tax credits at once. Any unused R&D tax credits can be first carried back one year and then forward for up to 20 years

Places to Look: A number of firms specializing in R&D tax credits have developed across the country. These firms can analyze and calculate the size of any potential R&D tax credits and assist companies with documenting the necessary information to generate the credit and refund. However, meaningful tax credits may not always be generated to justify the trouble of filing or the cost of using an R&D tax credit firm. Most R&D tax credit firms offer different payment options, and most will evaluate the potential opportunity at no cost.

Finding a R&D tax credit specialist may be a lengthy process that can often consume a great deal of time. Some options are:

1. A number of trade associations and industry groups like the Society of the Plastics Industry, the Fabricators & Manufacturers Association, and the Precision Metal forming Association are often aware of tax credit firms that are serving their members and industry. www.plasticsindustry.org www.fmanet.org; www.pma.org

2. Accounting firms will often have consulting and tax services and relationships with R&D Tax Credit specialists that can help companies to claim the R&D Tax Credit.

3. Professional Networks: Getting introductions through a professional network of other business owners, bankers, lawyers or friends is often the best way to identify to tax credit specialists.

4. The R&D Credit Coalition, which consists of dozens of trade associations and more than 1,000 companies of all sizes, maintains a website to track the legislative activities and issues around the R&D Tax Credit www.investinamericasfuture.org

Special Conditions: If a company has not been profitable in the more recent past and has not paid taxes, tax credits may not be available for use (however, they may possibly be used by the shareholders of an S corp. or LLC). In 2010, a law was enacted that lifted the Alternative Minimum Tax (AMT) limitation for eligible small businesses for tax years that begin in 2010. Previously, many small privately owned manufacturers (C Corps, S Corp S or partnerships) who qualified for R&D credits were unable to utilize the credits due to the Alternative Minimum tax (AMT).

Federal Tax Credits for Energy Efficiency in New or Existing Buildings

A tax deduction up to $1.80 per square foot may be available for making investments that reduce energy consumption in new or existing buildings. Partial deductions up to $0.60 per square foot may be taken for measures that affect the building structure, lighting, or heating and cooling systems.

Buildings that Qualify: New or existing commercial building in the U.S.

Expenditures that qualify: Certified as being installed as part of a plan designed to reduce the total annual energy and power costs of (1) interior lighting systems; (2) the heating, cooling, ventilation, and hot water systems of the building; or (3) the building envelope.

Size of the Deduction: Equal to energy-efficient commercial building property expenditures made by the taxpayer, subject to a cap. The deduction is limited to an amount equal to $1.80 per square foot of the property for which such expenditures are made. The deduction is allowed in the year in which the property is ready for its intended use.

1. Partial Deductions: For buildings that do not meet the whole building requirement of a 50% energy savings, a partial deduction may be allowed for each separate building system that comprises energy-efficient property up to $0.60 per square foot. The separate building systems are: 20% improvement in the interior lighting system.
2. 20% improvement in the heating, cooling, ventilation, and hot water systems.
3. 10% improvement in the building envelope.

Certification requirements: to apply for the tax deduction, applicants must use one of the software tools approved by the Department of Energy for calculating and verifying energy and power costs.
http://www1.eere.energy.gov/buildings/qualified_software.html

Additional Info:
http://www.business.gov/guides/environment/energy-efficiency/get-started/tax-credits.html
http://www.efficientbuildings.org/
http://www.lightingtaxdeduction.org/
http://www1.eere.energy.gov/buildings/qualified_software.html
www.eere.energy/gov/buildings/info/qualified_software.
http://www1.eere.energy.gov/buildings/qualified_software.html

State Research and Development Tax Credits

Over the past twenty years many states have adopted tax credits for spending on research and development (R&D), often using the federal R&D tax credit as a model. As of 2006, 32 states provided a tax credit on general, company-funded R&D. A number of states have gone beyond the scope of the federal R&D tax credit program and have made the tax credits transferable between eligible firms (e.g. Pennsylvania, New Jersey, and North Dakota). Some states have targeted tax credits for R&D spending in specific fields or industries, in particular geographic zones, or only by small or start-up companies.

Eligibility: Similar to the federal program, state R&D tax credit programs allow companies to take a credit against their tax liability equal to a percentage of their current year's "qualified R&D" expenditures in excess of some base amount. "Qualified R&D" generally consists of the salaries and wages, materials expenses, and the rental expenses equipment incurred in performing research that is:

- Undertaken to discover information
- Technological in nature
- For a new or improved business purpose

How State Credits work: State R&D tax credits generally work in a similar fashion to the federal R&D tax credits. States generally use the federal definition of qualified R&D expenses in their tax codes. However, unlike the federal R&D tax credit, companies must first figure out the taxable income they owe to each of the states in which they operate (companies pay corporate or income taxes to states based on an apportionment of their total federal taxable income). The value of these credits will also vary from state to state depending on the credit rate and how the base amount of R&D is defined. States may also offer different credit rates for different levels of R&D spending, typically with the rate higher for smaller businesses and startups to perform R&D. In states like Pennsylvania' and New Jersey, the state has also provided a process (usually through the State Department of Revenue) for enabling companies to generate revenue from the sale of unused credits. This feature is assumed to be mutually beneficial for both smaller or start-up companies who may lack the taxable income to realize the tax credit, and for the larger and well established companies that have exhausted all available state R&D tax credits and seek to reduce their state tax liabilities. The rules also vary as to what type of companies can use the state credit. In some states only C corps can use the state credit, where as in Pennsylvania, S corps and LLC's can also utilize the credit.

State and Local Energy Grants and Tax Credits

State and local governments are increasingly establishing assistance programs to help small businesses become more energy efficient. These programs typically offer financial assistance in the form of tax incentives, loans, and sometimes grants to companies making energy efficient upgrades.   These programs may also offer free, or low cost technical assistance to help small business conduct energy audits and implement energy efficient technologies. There are literally hundreds of these type state and local programs.

Types of Programs: The Database of State Incentives for Renewables & Efficiency (DSIRE) is one of the most comprehensive sources of information on state, local, utility, and federal incentives that promote renewable energy and energy efficiency.   DSIRE is an ongoing project of the North Carolina Solar Center and the Interstate Renewable Energy Council (IREC) and is funded by the U.S. Department of Energy.   DSIRE gives users the choices of two databases to search state-by-state: (1) Renewable energy or (1) energy efficiency: http://www.dsireusa.org/index.cfm?EE=1&RE=1

Additional Info: Business.gov maintains its own listing of state, local, and regional resources that help companies become more energy efficient: http://www.business.gov/guides/environment/energy-efficiency/state-local/

The Interstate Renewal energy Council (IREC), a non-profit organization has the mission of accelerate the sustainable utilization of renewable energy sources and technologies in and through state and local government and community activities:, and provides additional information: http://www.irecusa.org/index.php?id=7

Federal Interest-Charge Domestics International Sales Corporations (IC-DISC) Program

Interest-Charge Domestic International Sales Corporations (IC-DISC's) are tax exempt "paper "entities that were created to improve the competitiveness of smaller U.S exporters. Exporters pay IC-DISC (commissions) as a percentage of profits from export sales. Tax on this income is deferred until the income is paid as dividends to U.S. shareholders who pay interest on any deferred tax liability. These benefits are offered on a go-forward basis, and are not available for prior tax periods.

Eligibility: Available only to privately held companies with export sales. There is no dollar limitation. Technical requirements include: products must be manufactured, produced, grown or extracted in the U.S.; products must have a value that is not more than 50% attributable to imported materials.

How it Works:

- The owner-managed exporting company creates a tax-exempt IC-DISC, which is a "paper" entity that does not require office space, employees, or tangible assets.
- The IC-DISC is set-up under the ownership of the shareholders of the exporting company.
- The exporting company then pays the IC-DISC a commission based on the sales of the exported goods, which is included in the income of the IC-DISC.

- The exporting company deducts the commission amount paid to the IC-DISC from its ordinary income taxed at 35%.
- When the IC-DISC pays a dividend to the shareholders, the shareholders pay income tax on dividends at the capital gains rate of 15%.
- The net effect of this is a 20% tax savings on the IC-DISC commission.

Possible Benefits: An exporter may be able to convert significant amounts of ordinary income, which is usually taxable at 35%, into dividend income taxed at 15%. IC-DISC earnings do not need to be distributed to shareholders and may be lent back to the exporting company for additional tax savings and to leverage the cost of capital.

Additional Info: The Society of the Plastics Industry www.plasticsindustry.org or the Fabricators & Manufacturers Association http://www.fmametalfab.org/ and the Small Business Exporters Association http://www.sbea.org/benefits/ic-disc.shtml

Domestic Production Activities Federal Tax Deduction (Section 199 of the IRS Code)

The American Jobs Creation Act of 2004 added the Domestic Production Activities Deduction, which is a tax benefit for certain domestic production activities. It provides a tax deduction to U.S. companies engaged in the domestic production of goods (including software) regardless of whether they are exported.

Eligibility: Businesses with "qualified production activities" may currently take a tax deduction of 6% from net income. Activities that qualify for the section 199 deduction include:

- Manufacture, production, growth or extraction of tangible personal property, computer software or sound recordings or qualified films.
- Production of electricity, natural gas, or potable water in the U.S.
- Construction services including related engineering/architectural services performed in the U.S.

How it Works: The deduction is permanent in nature and is equal to a percentage of the lesser of a company's taxable income or net income earned from qualified production activities. It was made available for tax years beginning after Dec. 31, 2004. The deduction was 3.0% for tax years 2005 and 2006; 6.0% for tax years 2007, 2008 and 2009; and will rise to 9.0% or tax years 2010 or later.

Special Conditions: To qualify for the deduction, property must also be produced "in whole or significant part within the U.S." Companies must be able to determine the portion of their gross receipts that are the result of direct labor and overhead costs from US-based operations, and the portion that are not domestic production gross receipts.

Additional Info: Additional guidance is available at http://www.treas.gov/press/releases/js2201.htm.

FEDERAL GRANT PROGRAMS

Small Business Innovation Research (SBIR) Grant Program

The Small Business Innovation Research (SBIR) program is a federal program, coordinated by the Small Business Administration, in which a portion of the research budgets of eleven government agencies are reserved for contracts to small businesses. The Department of the Defense is the largest of these agencies. Currently, SBIR programs are in place at the following agencies; Department of Agriculture, Department of Commerce, Department of Defense, Department of Education, Department of Energy, Department of Health and Human Services/ National Institutes of Health, Department of Homeland Security, Department of Transportation, Environmental Protection Agency, National Aeronautics and Space Administration, and the National Science Foundation.

The SBIR program provides R&D funding to a broad range of small businesses, from start-up firms to small companies with commercial track records. The program awards both contracts and grants. These contracts and grants are not loans and never have to be paid back even if the project is unsuccessful.

Eligibility: To participate a company must: (1) be a "small business" with fewer than 500 employees; (2) be independently owned, operated, and organized for profit; (3) have its principal place of business in the U.S.; (4) be at least 51% owned by U.S. citizens or permanent resident aliens, and; (5) must submit SBIR proposals to federal agencies in direct response to specific solicitations.

Award Process: SBIR grants are awarded competitively, with the participating federal agencies releasing solicitations for research proposals. Interested firms submit proposals in response to the solicitations which are reviewed by the agency (or a peer-review process). SBIR is a three-phased program:

1. **Phase I:** A small amount of funding (typically less than $100,000) is given to the company to demonstrate the feasibility of their proposed project. A minimum of 2/3 of the effort must be performed by the small business. The remaining 1/3 of effort can be performed by consultants and other outside contractors. Phase I of the project is expected to last approximately 6 months.
2. **Phase II**: successful Phase I efforts are invited to submit proposals for a $750,000 Phase II effort, which is expected to develop the Phase I technology to the point of commercialization. During phase II of the project, 50% of the effort must be performed by the small business. Phase II can last up to two years.
3. **Phase III:** is designed to move the results of the Phase II research to actual commercial production (this phase is funded directly by interested clients including government agencies and commercial partners, and not the SBIR program).

Special Conditions: Companies retain the intellectual property rights, including copyrights, trademarks and patent rights, to any inventions developed under SBIR. The federal government reserves the right to royalty free government use of the technology.

Additional Information: Contact MEP Sr. Technology Advisor Tab Wilkins at 301-646-4069, twilkins@nist.gov. For information on DOD's SBIR/STTR solicitations, contact: 866-724-7457, or http://www.acq.osd.mil/osbp/sbir/solicitations/ or www.dodsbir.net. Similarly, solicitations at the National Institute of Health can be found at: http://grants2.nih.gov/grants/funding/sbir.htm The Small Business Administration (SBA), maintains a list of agency solicitations at: http://www.sba.gov/idc/groups/public/documents/sba_program_office/sbir_psa_07_sbir_sttr.pdf, Additional information on SBIR/SSTR may be found at: http://www.sba.gov/services/contractingopportunities/contracting/sbirsttr/index.html

Small Business Technology Transfer Program (STTR)

Similar to SBIR, the Small Business Technology Transfer (STTR) program is a 3-phased program that funds cooperative R&D between small businesses and U.S. research institutions, such as universities, Federally Funded Research and Development Centers (FFRDCs), and nonprofit research institutions. Five federal departments and agencies are involved in the STTR program; Department of Defense, Department of Energy, Health and Human Services, National Science Foundation, and National Aeronautics and Space Administration (NASA).

These agencies are required by STTR rules to reserve a portion of their research and development funds for the program. As the distributors of STTR funding, they also designate those subjects suitable for additional R&D and determine whether to accept or reject STTR proposals.

Eligibility: To participate a company must; (1) be a "small business" with fewer than 500 employees; (2) be independently owned, operated, and organized for profit; (3) have its principal place of business in the U.S.; (4) be at least 51% owned by U.S. citizens or permanent resident aliens; and (5) must be principally located in the U.S. and be a nonprofit college or university, or a domestic nonprofit research organization, or a FFRDC.

Award Process: Typically, STTR Programs utilize a three-phase development approach:

1. **Phase I:** A small amount of funding (typically less than $100,000) is given to the company to demonstrate the feasibility of their proposed project over 12 months. A minimum of 40% of the effort must be performed by small business. A minimum of 30% of the effort must be performed by a non-profit research institution.
2. **Phase II:** Successful Phase I efforts are invited to submit proposals for a $750,000 Phase II effort which is expected to develop the Phase I technology to the point of commercialization. Like Phase I, a minimum of 40% of the effort must be performed by small business and a minimum of 30% of the effort must be performed by a non-profit research institution. Phase II can last up to two years.
3. **Phase III:** Designed to move the results of Phase II research to actual commercial production (this phase is funded directly by interested clients including government agencies and commercial partners, and not STTR funding).

Special Conditions: Companies retain the intellectual property rights, including copyrights, trademarks and patent rights, to any inventions developed under STTR.

Additional Information: Contact MEP Sr. Technology Advisor Tab Wilkins at 301-646-4069, or twilkins@nist.gov. For information on DOD's SBIR/STTR solicitations, contact: or 866-724-7457, http://www.acq.osd.mil/osbp/sbir/solicitations/ , or www.dodsbir.net, Similarly, solicitations at the National Institute of Health can be found at: http://grants2.nih.gov/grants/funding/sbir.htm The Small Business Administration (SBA), maintains a list of agency solicitations at: http://www.sba.gov/idc/groups/public/documents/sba_program_office/sbir_psa_07_sbir_sttr.pdf Additional information on SBIR/SSTR may be found at: http://www.sba.gov/services/contractingopportunities/contracting/sbirsttr/index.html

CONCLUSION

This guide is designed to be used as a reference guide to demonstrate the different growth financing options that are available to U.S small and medium-sized manufacturers. In practice, it is intended to be used as a quick guide as well as discussion starter for MEP and its partners as they assist clients in strategic planning for the future. Additionally, this guide will serve as the foundation to begin building an MEP Growth Financing Community of Practice.

Users of this information are advised to assess each option in light of a given company's specific circumstances or needs. The options presented here are not totally inclusive and other financing options, techniques, and resources may be available depending on the particular state, community, and location of a company. We have provided links to websites for additional information and access to potential partners that may be useful in helping growth-oriented companies to address their finance needs. It is assumed that the typical users of this document represent a broad spectrum of experience and knowledge, and an appendix has been attached for those that seek access to even more in-depth tools (through the MEP Source).

This document will be updated on a continuous basis and is available as a PDF file with the accompanying zip file containing the more in-depth documents on the MEP Source https://www.mepcenters.nist.gov/cims2-web/coppages/document.mep?state=read&noteID=7AF6

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APPENDIX

SBA LOAN PROGRAMS REFERENCE TABLE

Program	Use of Proceeds	Special Features	Maturity	Collateral	Who Qualifies
Basic 7(a) Loan (See "C" below.)	Acquisition or construction of buildings (including land); machinery and equipment; furniture and fixtures; leasehold improvements; short or long-term working capital; refinancing.	The most flexible. Adaptable to a variety of loan structures for a variety of loan purposes. There are general (government) restrictions on what the proceeds can be used for and the types of businesses that can receive financial assistance from SBA.	Working Capital up to 10 years. Fixed Assets including Real Estate up to 25 years. Maturities combine 1) Use of proceeds and 2) business's ability to repay in a timely manner.	The goal is to take available collateral (valued at the liquidation value) equal the loan amount. Collateral may include all assets financed with loan proceed; other business assets; and personal assets of principals. If all available collateral does not fully secure the loan, that is acceptable BUT it is not acceptable if the loan is not secured by all available collateral.	Must be eligible including being a for-profit business that meets certain size standards; cannot obtain loan proceeds for an ineligible purpose; owners must be of good character. Must be creditworthy including reasonably demonstrate that the loan (along with all other obligations) can be repaid from the operations of the business in a timely manner.
International Trade Loan Program (See "B" below.)	Finances fixed assets including improvements that will be located in the U.S. and used to produce goods/services to be exported. No refinancing allowed	When made in conjunction with a working capital loan, the two loans together can have a SBA guaranteed share up to $1,250,000	Based on the assets being financed. Generally between 10 and 25 years	Must be secured by a first lien on the assets acquired with the loan proceeds.	Same as Basic 7(a) PLUS the Applicant must have been in operations for at least 12 months at the time of application.
Export Working Capital Program (EWCP) (See "B" below.)	Finances the short term working capital needs of a exporting business on either a revolving or non-revolving basis	Prequalification by SBA available prior to small business applying to Lender. SBA provides a 90% repayment guarantee up to $1 million. Only program with a provision for a Standby Letter of Credit to offset risk.	Generally 12 months or less, with annual reissuances for a maximum of 3 years.	First on the assets being financed.	Same as Basic 7(a) PLUS the applicant must have a prior (12 month minimum) history of demonstrated export expertise

Seasonal CAPLines (See "A" below.)	Finance the seasonal working capital needs. New businesses ineligible.	Mandated zero balance at season's end prior to future season draws.	Maximum of 5 years	First on the assets being financed.	Same as Basic 7(a) PLUS business in operation for at least one year with a definite seasonal pattern to sales/expenses
Contract CAPLines (See "A" below.)	Finance the direct costs needed to perform on an assignable contract	Can provide loan funds prior to start of work.	Maximum of 5 years	Assignment of the proceeds from the contract(s) being performed.	Same as Basic 7(a) PLUS business must have demonstrated, historical experience in performing on same type contract.
Builders CAPLines (See "A" below.)	Finance the Contractors cost to build or renovate commercial or residential property to be resold to a third party upon completion	The only SBA program that allows a business to buy a building or home for the purpose of being resold.	Maximum of 5 years	First on the assets being financed.	Only available to businesses in the building and construction trades.
Small Asset Based CAPLines (See "A" below.)	Provides working capital based on eligible accounts receivable and inventory. Limit of $200,000	Required review of a monthly borrowing base by lender to ensure that borrowing does not exceed qualified assets.	Maximum of 5 years	First on the assets being financed.	Same as Basic 7(a) PLUS designed for businesses who sell on credit and who have a need to obtain funds from existing receivables and inventory prior to receipt of funds from customers
Standard Asset Based CAPLines (See "A" below.)	Provides working capital based on eligible accounts receivable and inventory.	Borrowing base review by Lender with each request for disbursement. No restriction on servicing fee charges by lender subject to full disclosure	Maximum of 5 years	First on the assets being financed	Same as Small Asset Based Caplines.
Employee Stock Ownership Plan (ESOP) Loans (See "A" below.)	Provides funds to ESOP to purchase or increase the ESOP's ownership in the business that employs its owners.	The loan is made to the trust, not the business. Other special requirements are on pages 242 to 249 of SOP 50-10(4).	Same as Basic 7(a)	Same as Basic 7(a) BUT the ESOP Trust is not required to guaranty.	A qualified Employee Trust organized under IRS or Department of Labor Requirements.

A - Can be processed only under Standard 7(a). B – Can be processed under Standard 7(a) or PLP.
C – Can be processed under all methods.

Source*: SBA National 7(a) Lender Guide*

LINKS TO ADDITIONAL RESOURCES AND FOR SME GROWTH

Practice or Program	Description	Resource Links	Additional Documents
Internal Cash Management Practices	The first step in any growth financing strategy should be an analysis of internal cash management practices. There are a variety of cash management strategies that can result in greater efficiencies and provide new internal sources of capital for financing growth.	▪ SCORE Managing Cash Flow: http://www.score.org/financing_your_business.html ▪ Vendor and Supplier Financing: http://www.score.org/5_tips_fc_11.html ▪ Inventory Financing http://www.score.org/60_gudie_RLC.html ▪ Accounts Receivable Factoring http://www.score.org/5_tips_fc_4.html ▪ Leasing vs. Buying http://www.score.org/advantages_leasing.html ▪ Negotiating an Equipment Lease http://www.score.org/article_negotiate_equipment_lease.html ▪ Business Templates Templates for Your Business http://www.score.org/template_gallery.html	▪ Cash flow, 12 Months https://www.mepcenters.nist.gov/cims2-web/html/docs/CashFlow12Months.xls ▪ Cash Cycle Worksheet https://www.mepcenters.nist.gov/cims2-web/html/docs/CashCycleWorksheet.pdf ▪ Understand Cash Flow https://www.mepcenters.nist.gov/cims2-web/html/docs/UnderstandingCashFlow.pdf
Commercial Debt	Debt in the form of short-term or long-term loans from banks or commercial lenders has been a primary source of external financing for SMEs.	▪ How to Assemble a Loan Package | SCORE http://www.score.org/article_how_to_assemble.html	▪ Bank Loan Request https://www.mepcenters.nist.gov/cims2-web/html/docs/BankLoanRequest.pdf
LOAN GUARANTY PROGRAMS OFFERED THROUGH THE SMALL BUSINESS ADMINISTRATION (SBA)			
SBA 7(a) Loan Program	This loan program is the SBA's key vehicle for financing assistance for SME's and is available for working capital, inventory, or	▪ Self-paced Finance Primer to SBA's Loan Guaranty Program http://app1.sba.gov/training/sbafp/ ▪ SBA Lender Programs	▪ SBA 7(a) Eligibility Questionnaire https://www.mepcenters.nist.gov/cims2-web/html/docs/7aeligibilityques

	plant and equipment purchases. Loans less than $2 mil.	http://www.sba.gov/services/financialassistance/7alenderprograms/index.html	tionaire.pdf ▪ SBA Lender Instructions https://www.mepcenters.nist.gov/cims2-web/html/docs/SBALenderInstructions.pdf
SBA 504 Loan Program	The 504 loan program provides long-term, fixed-rate, financing for acquisition of equipment, buildings land or renovation.	▪ Basic Description http://www.sba.gov/services/financialassistance/sbaloantopics/cdc504/index.html	▪ SBA 504 Application https://www.mepcenters.nist.gov/cims2-web/html/docs/SBA504Loanapplication.pdf
SBA CAPLines Loan Program	A loan umbrella program that helps SME's meet their short-term and cyclical working capital needs: inventory, etc.	▪ Basic Description http://www.sba.gov/services/financialassistance/sbaloantopics/SpecialPurposeLoans/caplines/index.html	▪ Capline Questions https://www.mepcenters.nist.gov/cims2-web/html/docs/CAPLinesQuestions.pdf
SBA Enterprise and Empowerment Zones(HUBZones)	Provides priority access to Federal contracting opportunities, open to any small business located in a zone.	▪ Program Description http://www.sba.gov/hubzone/section05b.htm	▪ Hubzones How To https://www.mepcenters.nist.gov/cims2-web/html/docs/HubZonesHowTo.pdf
INTERNATIONAL TRADE FINANCING OPTIONS AND PROGRAMS			
Export-Express	Provides a variety of export financing for trade shows, marketing, transactions, equipment, expansion, using an expedited review process.	▪ Program Description http://www.sba.gov/services/financialassistance/sbaloantopics/SpecialPurposeLoans/exportexpress/index.html ▪ Export Assistance Centers http://www.sba.gov/aboutsba/sbaprograms/internationaltrade/useac/index.html	▪ Export Assistance Centers Directory https://www.mepcenters.nist.gov/cims2-web/html/docs/exportasstcentersdir.pdf ▪ SBA Export Finance Program
Export Working Capital Program (EWCP)	Provides export working capital for pre-shipment or post shipment financing for terms of 12 months for single orders or multiple sales (lines of credit).	▪ Program Description http://www.sba.gov/services/financialassistance/sbaloantopics/SpecialPurposeLoans/ewcp/index.html ▪ Exim Bank Portal www.exim.gov ▪ Working Capital Applications and Forms http://www.exim.gov/tools/appsforms/workcap.cfm ▪ Export Basics http://www.export.gov/exportbasics/index.asp ▪ Pre-Export Financing http://www.exim.gov/products/work_cap.cfm	▪ Export Working Capital Application https://www.mepcenters.nist.gov/cims2-web/html/docs/ExportWorkingCapitalApplication.pdf ▪ Export Working Capital Delegated Lenders https://www.mepcenters.nist.gov/cims2-web/html/docs/ExportWorkingCapitalDelegatedLenders.pdf ▪ Export Assistance Centers Directory https://www.mepcenters.nist.gov/cims2-web/html/docs/exportasstcentersdir.pdf ▪ Working Capital Claims

			Checklist https://www.mepcenters.nist.gov/cims2-web/html/docs/WorkingCapitalClaimsChecklist.pdf
International Trade Loan Program	Provides loans for businesses that plan to start/continue exporting or those that that have been adversely affected by competition from imports, offering borrowers an increased maximum outstanding SBA guaranteed portion of $1.75 Million instead of the $1.5 Million for regular SBA borrowers.	▪ Program Description http://www.sba.gov/services/financialassistance/sbaloantopics/SpecialPurposeLoans/tradeloans/index.html	▪ Export Assistance Centers Directory https://www.mepcenters.nist.gov/cims2-web/html/docs/exportasstcentersdir.pdf ▪ ITA Trade Finance Guide https://www.mepcenters.nist.gov/cims2-web/html/docs/ITATradeFinanceGuide2008.pdf
USDA Export Credit Guaranty Program	Provides export credit guarantees to businesses seeking to export U.S. agricultural products	▪ Program Description www.fas.usda.gov/agx/financing/financing.asp ▪ Intro to Guaranty Programs http://www.fas.usda.gov/excredits/ecgp.asp	▪ USDA Export Credit Guarantee FAQS https://www.mepcenters.nist.gov/cims2-web/html/docs/USDAExportCreditGuaranteeFAQS.pdf
USDA Facility Guaranty Program	Provides loan guarantees to facilitate the financing of manufactured goods and services exported from the United States to improve or establish agriculture-related facilities in emerging markets.	▪ Program Description http://www.fas.usda.gov/excredits/facility-new.asp	▪ Facility Guarantee Program Fact sheet https://www.mepcenters.nist.gov/cims2-web/html/docs/FacilityGuaranteeprogramFactSheet.pdf
USDA Business and Industry Guaranteed Loans	Provides loan guarantees to SME's in rural communities for the financing of equipment, supplies, inventory, or leasehold improvements.	▪ List of Loan & Grant Programs http://www.rurdev.usda.gov/rbs/busp/bprogs.htm	
Federally Supported Private Sector Loan Programs			

Small Business Investment Companies (SBIC)	Privately owned and managed investment companies 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.	▪ Program Mission http://www.sba.gov/aboutsba/sbaprograms/inv/esf/inv_sbic_financing.html www.sba.gov/INV ▪ Business Partners http://www.nasbic.org/ ▪ National Association or http://naicvc.com Business Plan Development http://sbdcnet.org/SBIC/businessplans.php	
State and Local Funding Programs			
State Loan Guarantee Program(s)	Typically provide short-term and long term loan guarantees for working capital and for fixed assets like equipments.	▪ Lender Programs http://www.sba.gov/services/financialassistance/7alenderprograms/index.html or ▪ Association of Lenders http://www.naggl.org/AM/template.cfm	Varies by state, i.e.: ▪ California Loan Guarantee Program https://www.mepcenters.nist.gov/cims2-web/html/docs/CaliforniaLoanGuaranteeProgram.mht ▪ Ohio Financing Programs for Manufacturing
Revolving Loan Funds	Typically a self replenishing pool of funds that is used to provide gap financing to SME's for operating capital; machinery and equipment; land and buildings, or renovation .	▪ Council of Development Finance Agencies http://www.cdfa.net/cdfa/cdfaweb.nsf/pages/rlffactsheet.html ▪ List of State Programs http://www.nado.org/aboutnado/membersites.php	Varies by state i.e.: ▪ The St. Louis Business Development Fund https://www.mepcenters.nist.gov/cims2-web/html/docs/StLouisRevolvingloanfund.pdf ▪ Revolving Loan fund directory https://www.mepcenters.nist.gov/cims2-web/html/docs/RLFGranteesDirectory2009.pdf
General Obligation and Revenue Bond Financing	The proceeds from the sale of bonds are made available to SME's to finance equipment, buildings, property, or training and human development.	▪ Finance Workforce Development http://www.ncee.org/wfd/whitepapers/index.jsp?setProtocol=true	Varies from state to state: ▪ How to Use Revenue Bonds https://www.mepcenters.nist.gov/cims2-web/html/docs/HowtouseRevenueBonds.pdf

Specialized Private Sector Financing			
Forfaiting	Forfaiting is a form of international supply chain financing. It involves the discount of future payment obligations on a without recourse basis.	▪ Benefits and Typical Transaction http://www.forfaiters.org/forfaiting/benefits/ ▪ About Forfaiting http://afia-forfaiting.org/forfaiting.htm	▪ Forfaiting Calculations Spreadsheet Forfaiting Calculation Spreadsheet ▪ Guide to Forfaiting https://www.mepcenters.nist.gov/cims2-web/html/docs/guidetoforfaiting.pdf
Export Factoring	Export factors usually want access to a large percentage of an exporter's business (unlike foraiters who typically work on a single deal basis). Export factors work with receivables up to 180 days, (unlike forfaiters who typically provide financing for medium and long-term receivables (180 days to seven years).	▪ Network of Factoring Companies http://www.factors-chain.com/ ▪ International Factoring Association http://www.factoring.org/	▪ About Factoring ▪ Definition of export factoring https://www.mepcenters.nist.gov/cims2-web/html/docs/DefinitionofExptFactoring.ppt ▪ ITA Trade Finance Guide https://www.mepcenters.nist.gov/cims2-web/html/docs/ITATradeFinanceGuide2008.pdf
Strategic Investors	Typically describes investors who can provide special knowledge and skills in addition to capital to companies who are seeking financing for growth, recapitalization, management or employee buyouts, family succession.	▪ National Association of Small Business investment companies http://www.nasbic.org/entrepreneur_center/entrepreneur_center.cfm	▪ Investment Primer https://www.mepcenters.nist.gov/cims2-web/html/docs/InvestmentPrimer.pdf ▪ Funding Sources Checklist https://www.mepcenters.nist.gov/cims2-web/html/docs/FundingSourcesChklst.pdf ▪ Investor Due Diligence Questions https://www.mepcenters.nist.gov/cims2-web/html/docs/InvestorDueDiligenceQuestions.doc

Angel Investment	Financing from affluent individuals, usually in exchange for ownership equity. Angel investors typically invest their own funds or organize themselves into networks or groups to share research and pool investment capital.	Kauffman Foundation Tools	▪ Funding Goals Worksheet https://www.mepcenters.nist.gov/cims2-web/html/docs/FundingGoalsWksht.pdf ▪ Financing Small Business https://www.mepcenters.nist.gov/cims2-web/html/docs/FinancingSmallBus.pdf ▪ Present Your Company as an Investment Opportunity https://www.mepcenters.nist.gov/cims2-web/html/docs/PresentYourCompanyasInvestmentOpportunity.pdf
I Tax Programs			
Federal Research and Development (R&D) Tax Credit	Companies may qualify for a federal R&D tax credit for numerous activities that historically have been regarded as “simply doing business.”	Mold making Article http://www.moldmakingtechnology.com/articles/0907shop.html	▪ R&D Tax Credit Whitepaper 2008 https://www.mepcenters.nist.gov/cims2-web/html/docs/RDtaxcreditwhitepaper08.pdf

Federal Tax Credits for Energy Efficiency	A tax deduction up to $1.80 per square foot is available for making investments that reduce energy consumption in new or existing buildings. Partial deductions up to $0.60 per square foot can be taken for measures that affect the building structure, lighting or heating and cooling systems.	▪ Description; Federal energy efficiency Tax Credits http://www.business.gov/guides/environment/energy-efficiency/get-started/tax-credits.html ▪ Commercial Building Tax Coalition http://www.efficientbuildings.org/ ▪ Lighting Deduction http://www.lightingtaxdeduction.org/ ▪ Qualified Software to Calculate Deduction http://www1.eere.energy.gov/buildings/qualified_software.html ▪ Federal Incentives for Renewables http://www.dsireusa.org/library/includes/incentive2.cfm?Incentive_Code=US02F&State=federal&currentpageid=1&ee=1&re=1	▪ Commercial building Tax Incentive https://www.mepcenters.nist.gov/cims2-web/html/docs/commercialbldgtaxincentive.pdf ▪ Deduction for energy efficient buildings https://www.mepcenters.nist.gov/cims2-web/html/docs/commercialbldgtaxincentive.pdf ▪ Investment Credit Tax Form 3468 https://www.mepcenters.nist.gov/cims2-web/html/docs/Investcredittaxform3468.pdf

State Research and Development (R&D) Tax Credit	Similar to the federal program, state R&D tax credit programs allow companies to take a credit against their tax liabilities for expenditures that include salaries and wages, materials expenses, and the equipment expenses incurred in performing research. A number of states have made the tax credits transferable between eligible firms.	▪ Pennsylvania Department of Community Development http://www.newpa.com/default.aspx?id=15 ▪ New Jersey R&D Tax Credit Program http://www.state.nj.us/njbusiness/financing/tax/science.shtml ▪ Maryland R&D Tax Credit http://www.choosemaryland.org/businessservices/taxincentives/randdtaxcredit.html	Varies from state to state, i.e.: ▪ Penn R&D Tax Credits https://www.mepcenters.nist.gov/cims2-web/html/docs/PennsylvaniaRDTaxCredit.pdf ▪ New Jersey R&D Tax Credit Application https://www.mepcenters.nist.gov/cims2-web/html/docs/NewJerseyRDTaxCreditApplication.pdf ▪ Maryland R&D Tax Credits https://www.mepcenters.nist.gov/cims2-web/html/docs/MarylandRDTaxCredit.doc ▪ California R&D Tax Credit FAQS https://www.mepcenters.nist.gov/cims2-web/html/docs/CaliforniaStateRDTaxCreditFAQS.pdf
State and Local Energy Grants and Tax Credits	State and local governments are increasingly establishing assistance programs to help small businesses become more energy efficient. The Database of State Incentives for Renewables & Efficiency (DSIRE) is one of the most comprehensive resources for searching state-by-state.	▪ Database of State Incentives http://www.dsireusa.org/index.cfm?EE=1&RE=1 ▪ Listing of State and Local Programs http://www.business.gov/guides/environment/energy-efficiency/state-local/ ▪ Interstate Renewable energy Council http://www.irecusa.org/index.php?id=7	▪ Energy Assistance Programs https://www.mepcenters.nist.gov/cims2-web/html/docs/EnergyAssistancePrograms.pdf
Federal Interest Charge Domestic International Sales Corporations (IC-DISC) Program	IC-DISC's were created to improve the competitiveness of smaller U.S. exporters. Under these rules, companies set up and pay IC-DISCs "commissions" equal to a percentage of export income. Tax on this income is deferred until the income is paid as dividends to U.S. shareholders and shareholders pay interest on any deferred tax liability.	▪ Background http://www.nam.org/~/media/Files/s_nam/docs/240300/240240.pdf.ashx ▪ Tax Article http://www.tradeandindustrydev.com/issues/article.aspx?ID=257 ▪ Small Business Exporters Association http://www.sbea.org/benefits/ic-disc.shtml	▪ IC-DISC Form https://www.mepcenters.nist.gov/cims2-web/html/docs/ICDISCform.pdf ▪ Instructions for IC-DISC https://www.mepcenters.nist.gov/cims2-web/html/docs/InstructionsforIC-DISC.pdf

Domestic Production Activities Federal Tax Deduction (Section 199 of the IRS Code)	The "manufacturer's" deduction: a tax benefit for certain domestic production activities. It provides a tax deduction to U.S. companies engaged in the domestic production of goods (including software) regardless of whether they are exported.	▪ IRS Fact Sheet http://www.treas.gov/press/releases/reports/199factsheetjs2200.pdf ▪ IRS Press release www.treas.gov/press/releases/js2201.htm	▪ Domestic product deduction form https://www.mepcenters.nist.gov/cims2-web/html/docs/DomesticProdDeductform.pdf ▪ Instruction for Domestic Product Deduction https://www.mepcenters.nist.gov/cims2-web/html/docs/instructionforDomesticProdDeduct.pdf
Government Grants			
Small Business Innovation Research (SBIR) Grant	Enables small businesses to compete on the same level as larger businesses by providing them competitively awarded grants for product innovation.	▪ Program Description http://www.sba.gov/services/contractingopportunities/contracting/sbirsttr/index.html ▪ Mission http://www.sba.gov/aboutsba/sbaprograms/sbir/index.html ▪ Technology Resources Network http://tech-net.sba.gov/index2.cfm	▪ Federal Technology Funding Guide https://www.mepcenters.nist.gov/cims2-web/html/docs/FederalTechnologyFundingGuide.pdf
Small Business Technology Transfer Program (STTR)	Small businesses can receive federal funding to develop collaborations with universities (or other non-profit institutions) in projects designed to stimulate technical innovation and commercialization.	▪ Program Description http://www.sba.gov/aboutsba/sbaprograms/sbir/index.html ▪ Technology Resources Network http://tech-net.sba.gov/index2.cfm	▪ Federal Technology Funding Guide https://www.mepcenters.nist.gov/cims2-web/html/docs/FederalTechnologyFundingGuide.pdf
The Technology Innovation Program (TIP)	Assists small or medium-sized business, institutions of higher education, national laboratories and nonprofit research institutes, to support, promote, and accelerate innovation in the United States through high-risk, high-reward research in areas of critical national need.	▪ Program Website http://www.nist.gov/tip/	▪ Technology Innovation Program FAQS https://www.mepcenters.nist.gov/cims2-web/html/docs/TechnologyInnovationProgramFAQs.pdf