

DAKOTA BUSINESS

January 2010

INSIDE THIS ISSUE:

<i>Saving \$\$ for Start-up Equity Investment</i>	1
<i>Consider SBA for Your Ag-Related Financing Needs</i>	3
<i>Want Federal Contracts? Need 8(a) or HubZone Certification?</i>	4
<i>Government Contracting Workshop</i>	5
<i>Big Issues for Small Business</i>	5

Saving \$\$ for Start-up Equity Investment

By: Eric Giltner
Grand Forks Area Office

Small business counselors are confronted week-in and week-out with clients who have a great opportunity to go into business, but do not have enough money saved for the required “start-up equity” injection. As a result, clients are often dismayed to learn they are far short of the amount required by lenders to qualify for a small business loan. Lenders generally require a 30% start-up equity position, although this value can change either up or down given other situational factors. This is often a surprising percentage to a nascent business owner who is used to consumer lenders touting offers of “No Money Down” for vehicles and other consumer goods. Start-up equity is defined as the total value of cash and assets brought into a new venture by the principal owner. A significant start-up equity stake brought into a new venture shows a higher level of commitment by the client to pursue the opportunity during good times and bad. This makes it easier for a lender to act favorably on a loan request. Significant start-up equity also may show the



borrower has a level of fiscal responsibility that would translate favorably to the challenges of running a business.

A client who does not have sufficient start-up equity can turn to family members or friends and receive a monetary “gift” to qualify for a loan. In this situation the lender will ask the person providing the gift to sign a document stating this fact and acknowledging there will be no attempt to have this gift repaid until the original loan is paid in full. Oftentimes, this requirement will discourage the family member from participating.

What usually happens next is the client blames the lender and even the small business counselor of placing unfair requirements in the loan process and reluctantly abandons

the opportunity. What should happen next is a concerted effort to convince the client to create a savings plan so when the next opportunity arrives, he or she has sufficient start-up equity in place to move forward.

The Savings Plan

Anyone who is earning an income has the ability to create and manage a “savings plan”. Unfortunately, many people live for the moment and have little or no savings. How does one start a savings plan? First and foremost is a review of current spending habits. This requires a detailed listing of every dollar spent on a monthly basis. This analysis then becomes the starting point for what you can do to create a savings plan.

continued on page 2

Helping small businesses **start, grow** and **succeed**.



Your Small Business Resource

Saving \$\$ for Start-up Equity Investment

continued from page 1

Distinguish Needs from Wants.

Creating a savings plan means adding some discipline to your



spending habits. “Do you really need that \$3.50 cup of coffee every morning?” That adds up to \$875 each year for a 50 week work schedule. Bringing coffee from home or investing in a single serving machine at your work desk can save hundreds of dollars.

Pay only for what is used. “Are you getting full usage out of that “premium” fitness center membership?” Shop around and chances are you can realize significant savings on a plan that fits your schedule. What about the cable bill? “Do you really watch those premium channels enough to warrant the extra dollars?” You may be able to save money by dumping the plan and renting new releases when there is time to watch them.

Manage Interest Costs. If you have credit card debt and are making minimum payments each month, you are in for a long ride of paying an inordinate amount of dollars on interest payments, when compared to the actual principal dollars. For example, if you have credit card debt of \$4,000 at 18% interest and

make minimum payments of \$30, it will take you over eight years to pay off the original \$4,000. And, you will have paid \$2,147 in interest charges for a total cash outlay of \$6,147. Contact your card issuers to request a lower interest rate, if possible, and then increase your payments above and beyond the minimum to get this debt retired as soon as possible.

Cell Phone Usage. Sit down and review your cell phone bill. “Are the dollars spent on text messages and pictures really worth what you get out of them?” Talk to your cell provider to find a plan that fits your new budget goals.

Buy in Bulk Where it Makes Cents. Buying in bulk serves no purpose if you use the item two or three times a year and/or there is danger of spoilage. Consider the one serving coffee brewer discussed earlier. You may find bulk purchasing of single serving “pods” provides considerable savings compared to buying single servings.

New Car Cash Trap. Sure, a new car provides a certain panache to your lifestyle, but if you are interested in saving money for a new business, buying a two-year old vehicle coming off a lease will save you cash in the long run. Better yet, find a reliable five-year old vehicle, pay cash and save even more money.

Create and Follow a Budget. Once you have reviewed your expenditures and eliminated

or reduced unnecessary or unneeded payments, create a budget for all areas of cash outlay: rent, utilities, groceries, entertainment, clothing, etc. Keep track of each budget area and you will find it easier to stick to your budget.

Use Automatic Deductions for Savings Account.

Before the advent of automatic deductions, budget experts would advocate to pay your savings first each month before any other expense. It is hard to save money at the end of the month if you have unknowingly spent it all. The automatic deduction works the same way only better. It causes you to work with what remains in your paycheck to meet your living expenses.

There are many other ways to save. For example, you can buy used versus new, research price offerings to get the best deals, and eat in rather than out. You will be surprised how much money is spent by not following a well thought-out budget for everyday living. Finally, when that new business opportunity comes up, you will be ready to invest and start that new business and, as an added benefit, you will have attained financial skills needed for success. ♦

Eric Giltner has been a Business Development Specialist and the Grand Forks area manager for the U.S. Small Business Administration since 1998, having formerly been assistant to the dean of the UND College of Business and Public Administration. He can be reached at eric.giltner@sba.gov.

STARTING YOUR OWN BUSINESS WORKSHOP

January 12 & 13, 2010

7:00pm—10:00pm

Minnesota State Community & Technical College, Moorhead, MN

Contact: Fargo SCORE Chapter at 701-239-5677

Any individual who is developing a business plan will benefit from attending this workshop. Topics include: marketing, staffing, financing, and other areas of small business management. The workshop will run from 7pm to 10pm both Tuesday and Wednesday evening. Cost is \$30 in advance or \$35 at the door; additional registrants from the same organization—\$15 in advance or \$20 at the door.

Consider SBA for Your Ag-Related Financing Needs

By: Mike Gallagher
North Dakota District Office

On May 5, 2009, federal regulations were modified to allow a new alternate size standard for all SBA guaranteed 7(a) loans. This is the same size standard that has been utilized in the 504 program. This change will offer increased opportunities for small businesses to utilize SBA programs. The most significant impact in North Dakota may be for agricultural producers.

Businesses are considered small under the new alternate size standard if their tangible net worth does not exceed \$8.5 million (including the sales of all affiliates). In addition, the average net income after Federal income taxes for the preceding two completed fiscal years must not exceed \$3.0 million.

This is a temporary arrangement and it is set to expire on September 30, 2010. While size is generally not a problem for North Dakota SBA borrowers, the new standard

simplifies the process by offering one size standard for all business applicants rather than

having separate standards for different types of businesses. This difference in size standards has been a key issue in providing financing for production agriculture for many years. For example under 7



(a), the size standard for most small businesses in the agricultural industry was \$750,000 in average annual receipts. This excluded most farm enterprises in North Dakota. However, the chicken egg production size standard was \$11.5 million and the cattle feedlot size standard was \$2 million. With the \$8.5 million size standard for all industries, additional businesses (including production agriculture) will be able to qualify for SBA financing and will simplify the process.

Generally speaking, federal financial assistance for agricultural enterprises is provided by USDA, typically the Farm Service Agency. SBA can provide financing with its 7(a) and 504 programs if the business is considered small and if they meet other considerations identified in SBA policy guidelines.

If the customer is presently a borrower of USDA Farm Service Agency it is expected they would continue to utilize USDA for their agricultural

production credit needs. An exception would be if they are found to be not eligible or their application is declined by USDA for reasons other than credit. Applicants declined by USDA for reasons of credit generally will be not eligible for SBA assistance for the same reasons.

Applicants normally should not apply to two Federal agencies to borrow funds for a single purpose nor be bounced between the agencies. Therefore, if either Agency can make the entire loan, it must not refer the applicant to the other agency for part of the needed funds.

Under both the 7(a) and 504 loan programs, loan proceeds can be used for:

1. The purchase of land, buildings, and land improvements (fencing, irrigation systems, construction of dikes, silos, barns, hog, and dairy facilities, etc.);
2. Construction, renovation, or improvement (including water systems) of farm buildings other than residences; and
3. The purchase of farm machinery and equipment.

In addition, loan proceeds may also be used in the 7(a) program for:

4. Operating expenses directly related to the farming operation, excluding personal or family living expenses;
5. The purchase of seed and the acquisition of animals; and
6. Refinancing of debt related to the farming operation, excluding personal or family debt,

providing the refinancing meets Agency policy regarding refinancing.

Under the American Recovery and Reinvestment Act (ARRA), SBA can provide up to a 90% guarantee on 7(a) loans and has reduced fees on both 7(a) and 504 loans. This change has increased SBA lending by reducing risk to lenders and reducing costs to the small business borrower.

Section 506 of the Recovery Act authorized SBA to help viable small businesses make payments on existing small business debt. The America's Recovery Capital, or ARC Loan Program, is designed to give viable small businesses facing immediate financial hardship some temporary financial relief so they can keep their doors open, refocus and get their cash flow back on track. ARC loans are available through SBA-approved small business lenders and have been authorized through Sept. 30, 2010, or until the appropriated funds run out, whichever comes first.

In the first quarter of FY10, September 1, 2009 through December 31, 2009, SBA approved 15 ARC loans. ARC loans are limited to a maximum of \$35,000, but are interest free to the borrower. Several of these loans were provided through participating banks to dairy farms in the state.

With changes to SBA loan programs, many resulting

continued on page 4

GOVERNMENT CONTRACTING WORKSHOP

January 21 & 22, 2010

Ramkota Inn
Bismarck, ND

Contact: Nathan at 701-356-2662 or Darin at 701-356-2664

The workshops will provide basic information to small businesses that have never had a federal or state contract, as well as to those who desire to expand their government procurement opportunities.

Small businesses will also have the opportunity to meet one-on-one with Federal and State Contracting Officers in 15 minute, individual "Matchmaking" sessions. To schedule an appointment, contact Tom at 701-239-5131 x.215 or Nadine at 701-239-5131 x.208.

See page 5 for more details.

Consider SBA for Your Ag-Related Financing Needs

continued from page 3

from ARRA, many more small businesses including those in production agriculture have been able to secure needed financing for expansion and growth as well as meeting the challenges presented in stressful economic times. Part-

nering with SBA lenders, SBA will continue to meet the needs of rural and urban businesses in the State. ♦

Mike Gallagher has been a Business Development Specialist for the U.S. Small Business Administration

since 1984, and the Deputy District Director since 2005. A graduate of the University of North Dakota, Mike is a Certified Public Accountant and a former business owner and educator. He can be reached at michael.gallagher@sba.gov.

Want Federal Contracts? Need 8(a) or HubZone Certification?

By: Tom Linnertz
North Dakota District Office

Do you want to increase your revenue through federal contracting? Perhaps you have done a few contracts but would like to increase this part of your market during the next construction season. Are you disappointed that all those other contractors were "given" federal contracts and you just weren't in the right program? Get signed up **NOW!**

During and after the flooding that occurred all across North Dakota last spring, some contractors missed significant contracting opportunities. Many felt the Army Corps of Engineers passed them over for contracts when they would have been perfectly capable of performing on the contract. More often than not, however, the contractor was passed up, passed over or just completely missed because the business failed to register to do business with the federal government.



Registration is mandatory! If you want to do business with the federal government, now is the time to start preparing for next spring and summer. Don't wait. If you wait too long, you may again miss the opportunity to bid on contracts available next spring. You must be registered on the Central Contracting Registration, (CCR) or Online Representations & Certification Application, (ORCA) to participate in federal contracts. To get more information or register, you can visit the North Dakota District Office SBA website and register online. Visit www.sba.gov/nd click on "Opportunities" in the right hand column and then

scroll down to CCR and ORCA (respectively). Follow the instructions for completing these registrations. In both cases, instructions are found by clicking the "Help" tab.

If you want to apply for SBA Small Business Programs, you can self certify as Small Business, Veteran Owned, Service Disabled Vet-

eran Owned or Woman Owned Small business when you register on CCR. If you are a small disadvantaged firm you may qualify for the 8(a) program. If you are located in a Historically under Utilized Business Zone (HUB Zone), you need to apply for status as a HUB Zone Business. For more information on 8(a) or HUB Zone applications and requirements, refer to the "Opportunities" tab of the website and find the program hotlink.

8(a) and HUBZone applications both have an electronic application process. Although not required, the electronic application process is highly recommended. It is also very important to start now. SBA has a backlog of applications for both 8(a) and HUB Zone so getting your application in today will help you position yourself for contract opportunities in the 2010 season.

Bottom-line . . . before you start, consider if you have the time to invest in the effort. If you answer "Yes, I want to

continued on page 5

Want Federal Contracts?

continued from page 4

use SBA programs to gain federal government contracts,” now is the time to get the paper work in. For more information, contact the District Office at 701-239-5131 and ask for Tom Linnertz (Ext 215) or Nadine Phillips (Ext 208), or email the ND District

office at north.dakota@sba.gov. You can also contact the Impact Procurement Assistance Center (PAC) and ask for Nathan Berseth or Darin Perius at 701-356-2262. Don't forget to ask Nathan or Darin about “Bidmatch”. ♦

Tom Linnertz has been a Loan Officer and Business Development Specialist for the U.S. Small Business Administration since 1989, and the 8(a) Program Manager for the North Dakota District Office since 2002. Tom can be reached at thomas.linnertz@sba.gov.

Government Contracting Workshop

It's generally pretty cold in North Dakota in January. Construction projects have slowed down or come to a halt waiting for spring thaw. It's a great time to focus your efforts for the New Year and spend a little time seeking out sales opportunities – opportunities that turn into cold cash for your business.

SBA and the Impact Foundation are hosting a *Government Contracting Workshop* at the Ramkota Inn in Bismarck on January 21st and 22nd. Match Making Events – one-on-one meetings with federal and state contracting specialists –

will offer you the opportunity to market your business and learn about upcoming projects and contracts available to you as a small business. Workshops offered during the day will help you and your business build an understanding of how to pursue these opportunities, resulting in increased sales for you small business.

During the past year, additional emphasis has been placed on getting federal and state contracts into the hands of small businesses. A special effort has been given to involving veteran owned businesses, women owned business, small

and disadvantaged businesses and business located in HUB Zones (Historically under Utilized Businesses).

Information will be available on how to finance needs in your business using SBA programs as well as opportunities in securing bonding using the SBA Bond Guarantee program. Space is limited and preregistration is requested. To register, visit www.impactpac.com or contact Nathan Berseth at 701-356-2662 or nathanberseth@impactfdn.org. ♦

This newsletter is published monthly with email notification of each new edition of *Dakota Business* going out to subscribers. To sign up for email notification, go to <http://web.sba.gov/list/> and select *Dakota Business* Newsletter.

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All of SBA's programs and services are provided to the public on a nondiscriminatory basis.

Big Issues for Small Business

On Wednesday, February 3rd from 8:00am until 10:00am, the SBA will participate in a panel/forum sponsored by the IRS and titled Big Issues for Small Business. This free program will include a panel of specialists from IRS, SBA the US Department of Labor and the Better Business Bureau. Participants will be able to ask specific questions of the agency representatives and

learn about key issues, new programs and current policy/regulations.

The IRS will offer updates which may include new opportunities for tax credits, depreciations and other deductions as well as information on reporting and tax changes. US Department of Labor will focus on OSHA requirements/regulations but will offer addi-

tional information relating to their programs and how they affect businesses and the employees of these small businesses. SBA will offer information on both financing and contracting programs with an emphasis on opportunities presented through the American Recovery and Reinvestment Act (ARRA). The Better Business Bureau will provide insightful information on how

their organization works with small businesses.

Big Issues for Small Business will be offered in Room 319 of the Federal Building at 657 2nd Ave. North in Fargo. Reservations are required. For more information or to register contact Ann Makres with IRS at 651-726-1596 or email to Ann.P.Makres@irs.gov