

**REPORT OF THE
VIRGINIA DEPARTMENT OF ECONOMIC DEVELOPMENT
AND THE
VIRGINIA SMALL BUSINESS FINANCING AUTHORITY ON**

**The Development of Certain Programs
to Assist Small Businesses in Locating
and Obtaining Capital Financing**

**TO THE GOVERNOR AND
THE GENERAL ASSEMBLY OF VIRGINIA**



HOUSE DOCUMENT NO. 97

**COMMONWEALTH OF VIRGINIA
RICHMOND
1994**

MEMORANDUM

TO: The Honorable George Allen and Members of the Virginia General Assembly

FROM: Mark R. Kilduff, Acting Director *MRK*
Virginia Department of Economic Development

DATE: April 27, 1994

SUBJECT: House Joint Resolution 649 - 1993

The 1993 Session of the General Assembly of Virginia, by House Joint Resolution 649, requested the Department of Economic Development to develop and maintain a comprehensive directory of capital finance sources and to serve as a central source for the dissemination of such information to those seeking capital financing information. The Resolution further requested that the Virginia Small Business Financing Authority (VSBFA) develop and implement, subject to appropriate funding from the General Assembly, a direct loan program which will address the financing needs of creditworthy emerging or existing Virginia businesses that have been unable to obtain financing from conventional private sources.

Enclosed for your review is the report prepared by the Department and the Virginia Small Business Financing Authority (VSBFA) in response to this resolution.

MRK:km

Enclosure

cc: Secretary Robert T. Skunda

PREFACE

House Joint Resolution 649 (*see Appendix A*) passed by the 1993 Session of the General Assembly requested the Virginia Department of Economic Development and the Virginia Small Business Financing Authority (VSBFA) to develop certain programs to assist small businesses in locating and obtaining capital financing. The resolution was generated by recommendations set forth in the Report of the Commission Studying Capital Financing Needs of Small Businesses in Virginia, House Document 82 - 1993.

Specifically, HJR 649 requested:

1. The Department of Economic Development to develop and maintain a comprehensive directory of capital finance sources and to serve as a central source for the dissemination of such information to those seeking capital financing information; and
2. The Virginia Small Business Financing Authority (VSBFA) to develop and implement, **subject to appropriate funding** from the General Assembly, a direct loan program which will address the financing needs of creditworthy emerging or existing businesses that have been unable to obtain financing from conventional private sources. (The budget amendment proposed during the 1993 General Assembly to support the development of a direct loan program was unsuccessful, therefore, the appropriate funding was not made available.)

Staff members of VSBFA have researched and gathered data on capital finance sources in Virginia and are in the process of developing a directory of these sources.

VSBFA presented a proposal to the above-referenced Commission on Capital Financing to provide a direct loan program to address the financing needs of creditworthy emerging or existing businesses that have been unable to obtain financing from conventional private sources. As noted above, funding was not appropriated to allow the program to be implemented.

TABLE OF CONTENTS

EXECUTIVE SUMMARY	1
CHAPTER I -- INTRODUCTION	3
CHAPTER II -- PROGRESS	3
APPENDIX A	5
APPENDIX B	6

EXECUTIVE SUMMARY

In response to House Joint Resolution 649, the Virginia Small Business Financing Authority (VSBFA) has undertaken the development of a comprehensive directory of capital finance sources in Virginia to assist small businesses in the Commonwealth having difficulty in obtaining capital financing due to lack of information and understanding of financing programs available.

VSBFA has gathered information on all federal, state and local public sector sources of capital financing in Virginia and is in the process of organizing this data into a directory by type of financing. The nature of each type of financing and the likely sources from which to obtain this type of financing will be described in detail enabling potential borrowers to focus on programs which meet their particular financing need. Such a directory will help small businesses to seek assistance in the most effective and realistic manner.

The twenty-one local offices of Virginia's Small Business Development Center (SBDC) network will serve as the source for the dissemination of the information contained in the directory to those seeking capital financing information. Additionally, copies will also be provided to local economic development organizations and officials. The SBDCs are in the best position, however, to assess a business' financing needs. Using the directory as a comprehensive reference that will be able to assist the business in accessing appropriate capital financing and public sector financing programs.

It is expected that the directory will be completed, printed and available for distribution on or before September 1, 1994.

House Joint Resolution 649 also requested the Virginia Small Business Financing Authority to develop and implement, subject to appropriate funding from the General Assembly, a direct loan program to address the financing needs of creditworthy emerging or existing businesses that have been unable to obtain financing from conventional private sources. VSBFA developed the framework for such a program and proposed same to the 1992 Commission on Capital Financing. Funding was not appropriated to allow the program to be implemented.

CHAPTER I -- INTRODUCTION

The Virginia Small Business Financing Authority (VSBFA) has undertaken to develop a comprehensive directory of capital finance sources in Virginia in response to House Joint Resolution 649. The resolution's directive reflects the concern that although there are a variety of sources of capital financing which may meet some of the existing capital financing needs of the Commonwealth's small businesses, potential borrowers may have no idea how to access the capital financing available through these sources without such a comprehensive directory.

VSBFA staff has gathered information on public and private sector sources of capital financing in Virginia from its own library, federal financing offices, state financing offices, local economic development officials, and the directors of Virginia's network of small business development centers. VSBFA's goal and approach to compile and analyze this data has been to develop a format for the directory and a method of dissemination of the information contained in the directory that will be of greatest benefit to the many small businesses in the Commonwealth.

CHAPTER II -- PROGRESS

Data for the directory has been collected from VSBFA's library, federal financing offices, state financing offices, economic development officials from all cities and counties in the state, and from Virginia's network of twenty-one small business development centers.

The format of the directory has been developed to make the information contained therein of maximum benefit to the small businesses in the Commonwealth having difficulty in obtaining capital financing due to lack of information and understanding of the various types of financing available.

The directory will be divided into sections by type of financing, e.g., seed capital, short-term working capital and long-term fixed asset financing. The nature of each type of financing will be described in detail including its distinguishing characteristics in terms of, for example, interest rate and collateral requirements, and the likely sources of obtaining this type of financing. The intent is to provide potential borrowers with an understanding of the different types of financing so that they may determine and focus in on their particular financing need and seek assistance in the most effective and realistic manner.

Each section of the directory will include all financing programs providing that type of financing. Each program will be described in detail in a standard format (*see Appendix B*). At the front of each section will be a quick reference listing each program included in the section, its area of operation and any limiting characteristics (e.g., "for manufacturers only"). Potential borrowers then need only turn to those programs offered in their locality for which they may be eligible. Appendix B includes a pro forma table of contents, an outline of the standard format to describe each program and a sample page of the directory.

The twenty-one local offices of Virginia's Small Business Development Center (SBDC) network will serve as the source for the dissemination of the information contained in the directory to those seeking capital financing information. The SBDCs provide business counselling and are continually in direct contact with small businesses seeking financing. The centers are in the best position to assess the business' financing needs and, using the directory as a comprehensive reference, assist the business in accessing appropriate capital financing and public sector financing programs. The SBDCs will be provided with a directory in loose-leaf form so that periodic updates may be easily inserted. A bound version of the directory (to be reprinted periodically) will be distributed to local economic development offices and other interested parties and copies will be available from VSBFA. Based on the initial response, additional methods of distribution will be considered, such as CD-ROM or micro-film.

1993 SESSION

LD7818400

HOUSE JOINT RESOLUTION NO. 649

Offered January 26, 1993

Requesting the Department of Economic Development to develop certain programs to assist small businesses in locating and obtaining capital financing.

Patrons—Phillips; Senators: Reasor and Wampler

Referred to the Committee on Rules

WHEREAS, many small businesses in the Commonwealth face difficulty in obtaining capital financing; and

WHEREAS, there are a variety of public and private sector sources of capital financing which may meet some of the existing capital financing needs of the Commonwealth's small businesses; and

WHEREAS, there is no up-to-date comprehensive directory or source available in the Commonwealth to which a potential borrower may turn for detailed information on all possible sources of public or private capital financing; and

WHEREAS, without such a comprehensive directory, a potential borrower may have no idea how to access the capital financing available through these sources; and

WHEREAS, even when all sources of capital financing currently available are considered, there are small businesses which are unable to obtain needed financing due to an inability to meet inflexible requirements such as minimum loan amounts; and

WHEREAS, the Commission on Capital Financing, created pursuant to HJR 24 (1992), during the course of its study, received a proposal from the Virginia Small Business Financing Authority to provide a direct loan program which will address the financing needs of creditworthy emerging or existing Virginia companies that have been unable to obtain financing from conventional private sources; and

WHEREAS, the Financing Authority, which operates within the Department of Economic Development, has been authorized to and is capable of administering such a new financing program; and

WHEREAS, the Financing Authority will require approximately \$100,000 per year in additional funding in order to administer the program, and will need approximately two million dollars in loan money available in order to make a sufficient impact; now, therefore, be it

RESOLVED by the House of Delegates, the Senate concurring, That the Department of Economic Development be requested to develop and maintain a comprehensive directory of capital finance sources and serve as a central source for the dissemination of such information to those seeking capital financing information; and, be it

RESOLVED FURTHER, That the Virginia Small Business Financing Authority be requested to develop and implement, subject to appropriate funding from the General Assembly, a direct loan program which will address the financing needs of creditworthy emerging or existing Virginia businesses that have been unable to obtain financing from conventional private sources.

The Department and the Authority shall report their progress to the Governor and the 1994 Session of the General Assembly as provided in the procedures of the Division of Legislative Automated Systems for the processing of legislative documents.

PRO FORMA TABLE OF CONTENTS

- I. Introduction**
- II. Nature of Small Business Financing**
- III. Short-Term Working Capital**
- IV. Long-Term Capital**
- V. Seed Capital**
- VI. Venture Capital**
- VII. Asset-Based Lending/Factoring/Leasing**
- VIII. Other Special Programs**
- IX. Listing of Virginia Small Business Development Centers**

CATEGORY

PROGRAM TITLE

ADMINISTRATOR

AREA OF OPERATION

PURPOSE

TYPE OF FINANCING

ELIGIBILITY

USES

USE RESTRICTIONS

TERMS

INTEREST RATE

APPLICATION PROCESS

FEEES AND COSTS

CONTACT PERSON

LOAN GUARANTY PROGRAM

ADMINISTRATOR	Virginia Small Business Financing Authority (under the Virginia Department of Economic Development)
AREA OF OPERATION	Statewide
PURPOSE	This program is designed to reduce the risk to banks in making loans and, thereby, increase the availability of short - term working capital for small businesses.
TYPE OF FINANCING	VSBFA provides a guaranty of: <ul style="list-style-type: none">• One-year lines of credit OR <ul style="list-style-type: none">• Short-term loans of up to three (3) years in duration
AMOUNT	Maximum guaranty of \$250,000 or 50% of the loan amount extended by a bank, whichever is less.
ELIGIBILITY	To be eligible for financing assistance through the VSBFA, a Virginia business must meet at least one of the following criteria: <ul style="list-style-type: none">• have \$100,000,000 or less in annual gross revenues over each of the last three (3) years• have a net worth of \$2,000,000 or less• have fewer than 250 employees
USES	<ul style="list-style-type: none">• One-year lines of credit to finance accounts receivable and inventory.• Loans up to three (3) years in duration to finance permanent working capital or fixed asset purchases such as office or research equipment.
USE RESTRICTIONS	Loans which refinance or restructure existing bank debt are not eligible for a VSBFA guaranty.
TERMS	Up to three (3) years.
INTEREST RATE	<ul style="list-style-type: none">• is established by bank.• must be no greater than prime + two (2) percent.
APPLICATION PROCESS	<ul style="list-style-type: none">• The Borrower's portion of the VSBFA Loan Guaranty application should be completed and submitted to a bank for consideration.• If the bank determines that VSBFA's guaranty is needed in order to approve the loan, the bank must complete the Bank's portion of the application and submit the entire package to VSBFA for consideration.

LOAN GUARANTY PROGRAM

COSTS AND FEES

VSBFA charges a non-refundable Application fee:

- **\$100, if the total loan or line of credit being guaranteed is \$100,000 or less;**
- **\$150, if the loan or line of credit is \$100,001 to \$200,000;**
- **\$250, if the loan or line of credit is \$200,001 or above.**

If the applicant is approved; an Annual Guaranty fee of 1.5% of the guaranteed portion of the loan or line of credit will apply.

CONTACT

**Anna B. Mackley - Financing Programs Manager
Virginia Small Business Financing Authority
1021 East Cary Street
P.O. Box 798
Richmond, Virginia 23206-0798
(804) 371-8255 Fax (804) 371-8185**