How To Get Money From Uncle Sam

 *By John R. Brooks and Erwin G. Krasnow, Esq.*

Spurred by the deep freeze in the credit markets that has closed the financing window to many small broadcasters, there has been much talk about the availability of money from Uncle Sam (a/k/a the Small Business Administration). As someone said about Wagner's music, it's not as good as it sounds. That's because there is confusion as to what the SBA can and cannot do. In this article, we'll explain how the SBA works and how to maximize your chances of obtaining SBA financing.

It is an "urban myth" that the SBA lends money. It does not — it is a guarantor. Commercial lenders participating in the SBA program make and administer the loans. Banks participate in the SBA program as "regular," "certified" or "preferred" lenders, the designations representing each bank's ranking in the SBA approval hierarchy based on their commitment to the program. While a "preferred" lender would likely get preferential (faster) treatment over a "regular" lender, they are all eligible.

What is the first step in the process? You start by finding an SBA participant in or near your community. Participants vary from JP Morgan Chase to First National of Podunk (no disrespect to Podunk). If your present bank is an SBA lender, all the better because they know you; if they are a "preferred" lender, better still. If they determine that your application does not qualify as a standard commercial loan under their credit policies, they should be able to provide you with guidance on the SBA process, point out the key ratios and metrics, and assist with a checklist to guide you through the process. Beware: even the checklist can seem byzantine and maddening in its maze of details.

The primary and most flexible SBA loan program is the 7(a) Loan Program which provides maximum loan guarantees of up to $5 million or 75% of the total loan amount, whichever is less. Interest rates are competitive and payback periods generous. A 7(a) loan can be used to purchase a business, real estate or equipment, expand, augment working capital or refinance debt.

To be eligible for this program, you need to (1) operate as a for-profit company in the U.S., (2) qualify as a "small business" (which generally means less than 500 employees or $7 million in average receipts), (3) have a "reasonable" investment of your own funds in the business (they want skin in the game with your personal resources deployed first; for the debt/equity ratio think in terms of what any commercial lender would require), (4) good character of the principal and (5) a sound and realistic business plan and repayment strategy (see our article on writing a business plan, "How to Make Your Case for 'OPM'," Radio & Television Business Report, May 31, 2012. If you own more than 20% of the business, the SBA will require your personal guaranty.

So far so good? Well, not exactly. Here's the hitch. The SBA is like any traditional lender. To back up the loan, they want hard assets and tangible net worth. They want an application that is straightforward. They don't like anything that could be construed as a distraction from a "right down the middle" up or down vote. That puts broadcasters at a disadvantage. Our business is light on hard assets, and the principal asset – the FCC license – cannot be secured by a lender. All of this can be explained, but it takes a well-prepared and thorough application package to make a convincing and succinct case.

In preparing your SBA application, it is imperative that you follow the checklist precisely – federal forms, personal credit scores, financial statements, tax returns, business plan, projections, resumes, contracts, leases, licenses, letter of intent or Asset Purchase Agreement, schedules and signatures. Though not explicit in the SBA checklist, it is wise to provide an appraisal of the broadcast stations, since neither the lender nor the SBA is likely to understand the value of an FCC license or how to obtain a security interest in the value derived from the license. It also may not hurt to explain how your venture will benefit your community, whether jobs or business investment. If you are a minority, highlight that.

If there are any complications in your application, you may be sent to the penalty box, thereby delaying a decision. So it's best to be thoroughly prepared at the outset. Put yourself in the shoes of a decision-maker who might look at your business as something foreign. It is incumbent on you to educate and make their job easier.

Plan on several months to get through the SBA approval process. No matter how well prepared you are, broadcasting is a different animal, and they may come back with more requests, unless they just say no outright. But more requests means you're still in the game. Meanwhile, don't bet on just one lender; hedge your bets.

No one said getting money from Uncle Sam was easy. Some wag said that the chances of rejection are 100% if you don't ask. With preparation and patience, you increase your chances of getting financing and are more likely to be well rewarded for your efforts.

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