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A Study of Financial Aids for the Small Business

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A STUDY OF FINANCIAL AIDS FOR THE SMALL BUSINESS

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DEDICATION

With sincere gratefulness this thesis is dedicated to my Mother, Mrs. Sedalia Samuels who has been an inspiration to me, and to my husband, Mr. Leon L. Mooring, who has been very dear to me in helping me to accomplish my goal.

It is also my sincere desire that this thesis will serve as an aid to those individuals desiring to set up a business, in that they may know the necessary steps to be taken in this respect in order to gain the most success.

ACKNOWLEDGEMENT

The writer wishes to express her sincere thanks and appreciation to those who aided in securing data presented in this thesis.

She is especially grateful to the Head of the Department of Business Education, Dr. W. C. Ferguson, Prairie View A & M College and other members of her advisory committee for the interest shown and the unceasing efforts put forth in aiding with the preparation of this paper.

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CHAPTER I

THE PROBLEM AND NEED FOR THE STUDY

<u>Purpose of the Study</u>. It was the purpose of this study (1) to point out some of the financial assistance available to those desiring to start a small business of their own; (2) to assist the small businessman in maintaining a profitable enterprise; (3) to provide worthwhile information for the businessman that will help rebuild his business in case of disaster; (4) to provide information on financial aids to the small business this study has been made and set up according to ethical business principles as indicated by the Small Business Administration and other recognized authors on running a business.

Taking all of the data compiled for this study the writer has set up a summary sheet of steps involved in setting up or financing a small business.

<u>Sources of Data</u>. The sources of data in this study were literature on the small business taken from authors on this subject, giving particular reference to the financial aspects and from information obtained from the Small Business Bureau or Administration.

<u>Limitations</u>. This study is limited to loans available for the small business only as a means of helping them to gain access to adequate capital and credit through financial counseling, banks, Small Business Administration participation

loans and/or direct Government loans.

Definitions. In the Small Business Act, a "small business" is defined as one which is independently owned and operated and which is not dominant in its field.[1]

The term financial aid refers to money, in regards to its investment or use in the operation of a business.

Treatment of Data. The first step in making the study was to secure all information possible from organizations dealing with the small business. Letters were sent to these organizations and the most beneficial information obtained from them were compiled to complete this study and outlined on the basis of its importance to the businessman. Then books were secured from different libraries in order to consult authors on the subjects, their findings and recommendations.

These data are discussed in the form of chapters. Chapter II deals with capital requirements for a small business, indicating how one may best possibly succeed in the adventure. Chapter III deals with financial assistance available under the 1958 Small Business Investment Act. Chapter IV tells the loans available on a long-term basis. Chapter V is used as an aid for helping the business obtain financial assistance in a case of unforseen disaster.

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[1] Small Business Administration, "SBA Business Loans", (U. S. Government Printing Office, 1959), p. 1.

Chapter VI presents a summary set up as a result of this study and steps to be taken in securing financial assistance available to the small business owner.

Related Studies. Through the years different studies have been made in part on the financing of the small business. However, the Small Business Administration is the first independent agency of the Federal Government ever established in peacetime solely to advise and assist the Nation's small business concerns. In this agency one of the main functions is to counsel with small business concerns on their financial problems; to help them obtain financing from private lending sources, and to make loans to them when private financing is not available on reasonable terms.[2]

It was noted that the number of new business incorporations reached a record high of 150,268 in 1958. The previous record was 140,775 in 1956.[3]

The record number of incorporations in 1958 indicates that despite a temporary slack in economic activity, businessmen have remained confident of the opportunities in small

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[2] Small Business Administration, "What It Is-What It Does", (U. S. Government Printing Office, 1953), p. 5.

[3] Small Business Administration, "Economics of Small Business", (U. S. Government Printing Office, 1958), p. 9.

The increase in failures in the past two years, and particularly after the decrease in economic activity in the second half of 1957, was concentrated in the retail trades (the automotive group, eating and drinking places, and furniture and home furnishings dealers) and the residential construction industry. In the manufacturing industries, there were increases in the lumber and mill products field, and in some metalworking industries.[4]

Small business is the bulwark of the American system of free enterprise. It is the cornerstone upon which billion dollar corporations are founded. It has survived the change from an agricultural to an industrial economy and will continue to prosper wherever the American businessman discovers unfulfilled need.

With technological advance and scientific progress, new frontiers are continually emerging to challenge the creative ingenuity of the individual who might wish to operate a small business independently. The opportunities are multiple and should not be ignored. Obviously, there are advantages and disadvantages in owning and operating a small business.

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[4] *Ibid.*, p. 9.

There are over four million small businesses in this country. Roughly speaking, that means that for every 38 people in the United States, there is one small business firm. Of course, not everyone who enters business manages to succeed. The important point is that the opportunity to go into a business of your own is there if you want to take advantage of it.[5]

The writer wishes to note the two major causes of failures of small businesses are incompetence and lack of capital. Lack of capital in itself is a kind of incompetence, for it means that the businessman did not measure carefully the amount of capital he would need before he entered the business.

Too many people venture into business on an impulse, expecting business to reap great gains without realizing the possible financial error.

The writer of this paper, therefore, will furnish information on some of the financial aids available in the hope that it will aid some individual opening or running a small business, to succeed.

To open a business is not a difficult task for the man

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[5] National Bureau of Economic Research, Federal Grants and The Business Cycle (New York: 1956), p. 11.

with the necessary funds. To stay in business is definitely more difficult. Assuming that the necessary requirements for entrance to business are available, what are the chances of success? In normal times, approximately one-seventh of the business enterprises in the United States close their doors, but an equal number open for business annually.[6]

The fact remains, there is a need for sound finances for many businesses fail due to lack of capital.

Besides the initial investment in merchandise, equipment, and supplies, a reserve cash investment, equal to the expenses of the business for at least six months, should be set aside. Many enterprises have failed because the owner invested all his funds in housing, fixtures, and merchandise and kept in reserve only enough cash to pay rent and salaries for the first month. The first month's sales are seldom large enough to meet current expenses.

An enterprise must be operated for at least a month, two months, three months, or in some cases six months, before an operating profit is realized by the owner. Customers do not always flock to a new store. It may take considerable time to acquire regular customers.

In starting a business, therefore, sufficient cash

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[6] James Gemmell, Business Organization and Management (McGraw-Hill Book Company, 1949), pp. 284-285.

must be on hand to meet operating expenses until sales are large enough to cover them. As a general rule, one-fourth of current assets should be held as a cash reserve. Current assets consist of such items as cash, inventories, and accounts receivable.

Every company needs such an excess of current assets over current liabilities as is necessary to keep up the circulation of the capital from cash to inventories to receivables and back again to cash. No business can afford to run the unnumerable risks of enterprise without some margin of cash over immediate needs. Moreover, however closely "sold down" a business is, there will always be some circulating capital in the circulatory system.[7]

In making his plans for financing a proposed business, the promoter is limited to a choice between only two means. He can sell part ownership in the business, or he can have the business borrow money for its capital. Generally a plan is devised consisting of a combination of the two.

The promoter must decide the total amount of capital to raise, how much to raise by the sale of stock, and how much through the sale of bonds. He thus devises what is

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[7] Charles W. Gerstenberg, Financial Organization and Management of Business (Prentice-Hall, Inc., 1940), p. 449.

known as the financial plan, and the financing of the promotion as well as the future success of the business itself depends very largely upon the judgment and ability he displays in forming this plan.

A business enterprise is subject to many risks, some of which are insurable and others not. Business enterprise and risk are inseparable. Every venture faces the possibility of loss caused by broken promises or by catastrophes. For most risks, however, there is insurance that affords protection against the loss. The businessman's problem, therefore, is to determine the risks to which his enterprise is subject and to take the necessary precautions against loss. There are two ways the businessman may protect himself against loss. He may transfer his risk to an insurance company or he may carry self-insurance. Self-insurance is a plan whereby funds are set aside at regular intervals to cover future losses that may occur.

Thus the writer in this paper will endeavor to give the basic know-how of financing a business in terms of required capital and loans.

CHAPTER II

CAPITAL REQUIREMENTS FOR A SMALL BUSINESS

In determining the facilities needed to run a small business successfully the capital requirements needed should be studied carefully, since lack of capital is one of the major causes of business failures.

Operating a business deals with knowing the correct techniques, attitudes and knowledge needed to make a financial success of it, for one of the main reasons an individual ventures into business is to make a profit.

When one goes into business, he will have two choices. He may start a new business from the very beginning, or he may buy an established business. This will be a decision he must make very carefully, and it will not be easy since there are many arguments on both sides. One will never know exactly what he is getting, but there are fewer unknown things about an established business once it has been completely investigated.

Some advantages of a new business are:

(1) You will need less money to start because you will not be buying the assets or good will of an established business.
(2) Since you will be starting from the beginning you will invest carefully and think over each move.
(3) You will not takeover the mistakes of the old owner. You have a freer choice of location and can pick your own up-to-date merchandise and equipment.
(4) You will know just how much money you have and plan your expenses accordingly.

(5) You will grow as the business grows and you will know it inside out.[1]

It is well also to take note of some of the possible problems to be encountered in a new business. Some of these problems are:

(1) You must make the choice of location, set up the business and make contacts with people to supply your business.
(2) You must be sure your actions meet local regulations that apply to your business and start a system of record keeping.
(3) You must start looking for and attracting customers who will become regular buyers.
(4) You will have a difficult time at first and may not show any profit for some time.[2]

As has been stated previously the largest single cause of business failures is too little capital. You must be sure that you have enough money to start your business and to keep you going for the first three to six months, when your business should begin to show a profit. Your capital will have to pay for:

(1) A place to do business
(2) The equipment needed to do business
(3) Merchandise to sell
(4) The expenses of running the business until enough profit is made to pay them.

Capital must be divided into two classes: fixed or permanent capital, and operating or working capital. Fixed

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[1] National Bureau of Economic Research, Op. Cit., p. 12.
[2] Ibid., p. 13.

capital refers to things you buy once and can use for a long time. This would include such items as real estate, fixtures and equipment.

You must decide approximately how much money you will need to go into business. You must not invest so much in fixed capital that you will be short for operating expenses. Renting is usually better, because you save a lot of money and have less to lose until the value of the place is proved by the business you do in the first six months or year. If you rent and pay a monthly amount of money, your spending of capital will be mainly for improvements. It is easy to figure exactly how much fixtures, equipment and merchandise will cost.

Secondly, you must decide in advance how much capital you will need for operating expenses for this time until a profit can be shown. Thus, you use your money as fixed operating capital and start your business. If at the end of the trial period you are not taking in enough money (gross profit) to pay all your bills (operating expenses), your business is operating at a loss and will be heading for a failure. Then financial assistance of some kind will be needed in order to maintain a good status.

There are many agencies that will make loans to a business for working capital, construction of new facilities and the expansion or improvement of existing facilities. However, in most cases, the business must meet certain eligibility requirements.

In approaching a small business investment company for financing you should be aware of what types of financing it is permitted to offer, and what other services it is permitted to render under the Small Business Investment Act of 1958.[3]

The wise businessman licks the capital problem either by going into a business which requires little capital or by going into one that others will finance for him. It is an unwise businessman who goes into an operation which he can't afford to finance personally and which is inherently unattractive to investors.[4]

There are many types of enterprise which require little capital. Insurance brokerages, business-consultant firms, advertising agencies, public relations firms, employment agencies, manufacturer's representatives, real estate brokerages, business brokerages, all can be started, if the

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[3] Small Business Administration, "Capital and Long-Term Loans For Small Business", A Report by the Investment Division (U. S. Government Printing Office, 1953), p. 4.

[4] Thomas P. Murphy, _A Business of Your Own_ (McGraw-Hill Book Company, Inc., 1956), p. 193.

opportunity is there, with only enough money to support the entrepreneur for six months or a year. Many types of manufacturing can be entered without much more capital. In the metalworking trades, for example, a common growth pattern starts with tool and die work done in basement or garage which, as it blossoms, goes into contract manufacturing and ultimately into manufacture of a branded product.[5]

It must be remembered that capital requirement is one of the main factors to consider in making a choice for business also. You may know exactly what you want. You may know the business, you may like it and enjoy working at it, yet you may not be able to afford to make a start on your own.[6]

The very first thing you will learn about financing a small business is this: the greater your need for a capital loan, the harder it is to obtain. The less you need it, and the lower the interest rate.

The early battle is the longest and the hardest. This really is the critical point in the development of a new small business. Yet, once you have nursed it through the

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[5] Ibid., p. 193.

[6] Nelms Henry Black, How To Organize and Manage A Small Business (University of Oklahoma Press, 1950), p. 32.

build-up period, you can snowball your business growth, not only in size but also in prosperity.[7]

There are three ways working capital may be obtained. They are:

1. Through investment by yourself and others interested in this business. This should be sufficient to secure the fixed assets which cannot be financed upon long terms at reasonable rates of interest. It should also provide an important portion of your working capital needs--if possible, the initial or minimum working funds, so that loans need be used only for seasonal or expansion purposes.
2. By borrowing money from one of many places such as government sources like Federal Reserve banks; and insurance brokers; full use of the "business opportunity" columns of the paper, a very useful source for financing. Other sources include: extending your terms with creditors; getting advances from customers, taking negotiable paper from customers as soon as you can get it.
3. Through retaining profits in the business from year to year.[8]

As stated previously, in order to obtain additional needed capital by borrowing there are certain specifications a business must meet in order to obtain a loan.

Like all good selling, obtaining a business loan requires a complete presentation of the product. In this case the product is the manager of the business, his

[7] Ibid., p. 33.

[8] Jacob Kay Lasser, How To Run A Small Business (McGraw-Hill Book Company, Inc., 1955). p. 100.

managerial ability and his business. Banks, as well as other lenders, usually require applicants for business loans to be able to show:

1. Good personal character and reliability
2. Sound business ability
3. Success in past business ventures or sufficient knowledge of business methods to give promise of future success
4. Adequate investment on the part of the proprietors
5. Reasonable need for the loan; reasonable probability of repayment on time and in full.[9]

The interest rate paid for a business loan is influenced by the money market, location and the degree of risk involved.

To qualify for consideration for a Small Business Administration loan, a firm must be a small business, and must meet certain practical credit requirements.

In order to qualify as a small business, an applicant for a Small Business Administration loan must meet the requirements of the Small Business Act as to independence of ownership and operation and non-dominance in its field, as well as the more detailed standards developed by the Small Business Administration.

The Agency's standards for determining whether a

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[9] Lasser, Op. Cit., p. 106.

business concern is small, for loan purposes, are as follows:

1. A manufacturing concern is considered small if its average number of employees in the preceeding four calendar quarters was 250 or fewer persons, including employees of affiliates, and large if its average employment in this period was more than 1,000 persons, if its average employment was more than 250, but not more than 1,000 persons, it may be considered either small or large, depending on the employment size standard which the SBA has developed for its particular industry.
2. Any wholesale concern is classified as small if its yearly sales are $5,000,000 or less.
3. Most retail and service trade concerns are considered small if their yearly sales or receipts are $1,000,000 or less.[10]

The form of organization of a business--that is, whether it is a proprietorship, partnership, corporation or other form of business enterprise--has no bearing on the question of whether the concern qualifies as a small business.

In addition to the "small business" criteria, a loan applicant must meet certain requirements established by the SBA's Loan Policy Board. This Board, made up of the Secretary of the Treasury, the Secretary of Commerce, and

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[10] Small Business Administration, SBA Business Loans (U. S. Government Printing Office, 1959), p. 2.

the Administrator of the Small Business Administration, has established these requirements for the Agency's loans:

a. An applicant must be of good character.
b. There must be evidence he has the ability to operate his business successfully.
c. He must have enough capital in the business so that, with loan assistance from the SBA, it will be possible for him to operate on a sound financial basis.
d. As required by the Small Business Act, the proposed loan must "be of such sound value or so secured as reasonably to assure repayment".
e. The past earnings record and future prospects of the firm must indicate ability to repay a loan out of income from the business.[11]

Figures on net worth, which serve to indicate capital requirements, show that less money is needed in retail and service fields than in wholesaling and manufacturing. While chances are generally better in retailing or service, the starting capital is small, the difference is not enough to matter if the choice lies in manufacturing or wholesaling. The smaller the capital, the greater are the factors of "shoestringing" and speculation. Risk varies according to ability and net worth rather than type of enterprise.[12]

In order to determine the amount of working capital required the cash requirements in the rise and fall of inventories and accounts receivable should be studied. Also

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[11] *Ibid.*, p. 3.

[12] Black, *Op. Cit.*, pp. 37-38.

the point of largest investment in inventories and accounts receivable must be ascertained. At that time, the amount of all current assets, minus your current liabilities, is the minimum working capital required. Current assets are cash, inventories, marketable investments, and goods receivables. Some working capital may be borrowed, but what cannot be readily and surely borrowed must be invested capital. If it cannot be raised in that way, the business must be planned on a smaller scale.[13]

There are many ways of financing a new enterprise, or reviving one in difficulties. It is not always necessary or even advisable, to rely upon the time-honored plan of years of savings before launching a new business.

It is generally more difficult, and consequently, more costly, to attract customers to a new store in a small town, especially if the owner is unknown, than in a large city where retail business is conducted on a far more impersonal basis and where customers habitually shop from store to store. Of course, the newcomer in any community is likely to have certain initial trade-pulling costs in an amount dependent on the strength of his competition. He may need a more modern set-up and be obliged to spend more on advertising in order to have a chance to show that he can give service

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[13] Lasser, Op. Cit., p. 103.

better than or at least equal to that offered by his competitors.

The question may arise whether it would be advisable to buy out a going business or to purchase substantial interest in such business.

Experienced retailers say it is generally preferable to start out fresh instead of buying an established business. As a rule, when an individual is willing to sell his business it is because he has not been able to make a go of it himself. You would likely find in such case that the stock of merchandise is in bad condition, with a large proportion of obsolete styles and badly broken sizes. Furthermore, the buyer of a run-down business also inherits a high percentage of customer ill-will. Even if the name and character of the business were changed it would take years to overcome this handicap.[14]

Of course, an owner may want to move to another community or retire. If the shoe store or department for sale is a profitable one or can be made profitable by minor changes and if it bears a good reputation in the community, one could get established more quickly and stand less chance of unwise expenditures of capital by taking it over than by setting up

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[14] U. S. Department of Commerce, Establishing and Operating A Retail Shoe Store (U. S. Government Printing Office, 1946), pp. 12-13.

a business from scratch.

If a purchase is decided on, do not pay more for the fixtures than their fair depreciated value. Also, a careful inventory should be made of the merchandise on hand and learn the exact condition of the sizes in each merchandise lot. The stock must be fully depreciated to a cost-value which is in proper relation to the retail prices that the merchandise will bring, which will be dependent largely on the condition of the sizes.

Some businesses insure the lives of key men in their organizations to prevent losses caused by their deaths. Partners may insure the lives of each other to prevent loss that might result if the survivors of a deceased partner were elected to withdraw his investment. Moving picture companies may insure the lives of featured stars. Insurance can also be obtained to cover other property losses caused by explosion, water, earthquake, windstorm, hailstorm, flood, rain, collision, theft, breakage, title defect, forgery, infidelity and various kinds of broken promises.

In addition to property insurance, coverage can be secured to eliminate an employer's risk of loss arising from injuries sustained by employees in the course of employment. In most states, an employer is liable for injuries sustained by his workers if the injury occurs on the job, unless the accident was attributable to drunkenness or some willful intention.

Some businessmen carry only a minimum amount of insurance. They try to determine those major losses that would leave the business in a very serious financial position and insure against only these losses.

It is necessary to take note of these things before going into a new business. For the number of new businesses being open are steadily rising, and the number of new business incorporations reached a record of 150,268 in 1958.

CHAPTER III

ASSISTANCE UNDER THE SMALL BUSINESS INVESTMENT ACT OF 1958

The Small Business Administration is the first independent agency of the Federal Government ever established in peacetime solely to advise and assist the Nation's small business concerns. The Agency was created by an act of Congress on July 30, 1953, and was made permanent by the Small Business Act of 1958. This act was signed into law by President Eisenhower on July 18, 1959.[1]

This act provides a new avenue of financing for small business concerns. Under its terms the SBA licenses small business investment companies, which are privately operated, and these companies, in turn, provide equity--type capital and long-term loans to small business concerns. In addition, the SBA under the act is granted authority to assist State development companies and local development companies in the financing of small businesses in their area.[2]

Small Business Investment Companies are chartered under State laws, however, in States where they cannot be organized or operate effectively under State laws, they may be chartered by the SBA.

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[1] Small Business Administration, Op. Cit., p. 1.

[2] Small Business Administration, SBIC's (U. S. Government Printing Office, 1959), p. 61.

Where State-chartered, a small business investment company which proposes to operate under the Small Business Investment Act must be licensed by the SBA.

Before it can begin operations under the act, a company must have paid-in capital and surplus of at least \$300,000. However, in order to enable a company to get started, the SBA is authorized to purchase subordinated debentures from the company up to a maximum amount of \$150,000.

As a further step to encourage the formation and growth of these new sources of equity--type and long-term funds for small business, the SBA may also make loans to an investment company, up to 50 per cent of the company&s paid-in capital and surplus. Funds provided by the SBA through purchase of company subordinated debentures are considered for this purpose and for the purpose of enabling the company to meet its initial capital requirements, as part of the company's capital and surplus.

A small business investment company finances small business concerns by purchasing their debentures, and by making long-term loans to them. The debentures are convertible into stock of the small concerns, at the option of the investment company.[3]

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[3] Ibid., p. 14.

In its lending activities, as in its borrowing, a small business investment company is subject to SBA regulations.

The small firm which obtains equity--type financing from an investment company, by selling it convertible debentures, must purchase a certain amount of stock in the investment company.

An investment company may make long--term loans to small firms either entirely from its own funds or in participation with other lending institutions, on an immediate or a deferred basis.[4]

The criteria for granting licenses to SBIC's include, but are not limited to, the following:

1. The need for financing of small business concerns in the area in which the proposed company is to commence business; An actual, rather than a theoretical need should be demonstrated by the applicant as far as possible.
2. The number of such companies previously organized in the United States, and the volume of their operations.
3. The good character of the incorporators, the experience of management, and its ability to carry out its plan of operation.
4. The stated plans of operation of the company. These should be in such detail as to permit consideration by the SBA in the light of their completeness, general feasibility and soundness.[5]

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[4]Ibid.

[5]Small Business Administration, Establishment and Operation of Small Business Investment Companies (U. S. Government Printing Office, 1953), p. 2.

Incorporators and management must be of good moral character and reputation, particularly in all their financial dealings. Management should include persons with experience in the investing, banking, credit or similar fields, but the experience requirements may vary with the size of the proposed organization, its area of operations, and its ability to secure advice and counsel from its stockholders and from others who are interested in the success of the company's operations.

The issuance of a license by the Small Business Administration will depend in large measure on SBA's determination of the applicant's ability to carry out the purposes of the act. The SBA may, in its absolute discretion, decline to issue a license.

The SBA, the agency established by Congress to extend loans to small business, also works through local banks. From its inception in 1953 until fall of 1955, SBA made 3,000 loans. Two thirds of them were under the Participation Plan; that is, SBA did not actually make the loan, but agreed to buy a certain portion of it if the lender ever desired it to do so. Also arranged through banks is the veteran's loan. Under this program banks are permitted to advance up to $4,000 on farm or business real estate on extremely long terms--thirty years amortization for the business property, forty years in the case of farms--and the interest rate on the loan cannot exceed 4 1/2 per cent.[6]

The SBA encourages financial institutions, to the extent permitted under applicable laws, to participate in the ownership of SBIC's.

Any organizing group must submit to the investment division:

1. Its articles of incorporation and bylaws, whether proposed or actually adopted;
2. The amount, classes, and description of its capital stock;
3. The objects for which the company is formed;
4. The name assumed by the company;
5. The area in which its operations are to be conducted;
6. The location of its principal office;
7. Names and background of its directors, officers and counsel;
8. Other items called for in an application form prescribed by the SBA.[7]

Each application for license is subject to a full examination by the Investment Division, Small Business Administration.

Under the act, each SBIC must have, in cash, paid-in-capital and surplus equal to at least $300,000 before it receives a license and commences business. Subsequent stock sales must also be for cash.

In exchange for executed debentures, a commitment

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[6] Murphy, Op. Cit., p. 229.

[7] Small Business Administration, Ibid., p. 3.

letter will be furnished the applicant by SBA at the time of licensing, as evidence that the amount of the debenture is considered to be part of the paid-in-capital for the purpose of organization and licensing. Interest at the rate of 1 per cent per year will be charged on the funds so committed. These funds are paid out in the form of U. S. Treasury checks as the Licensee may require. However, if the Licensee has meanwhile, subsequent to the date of licensing, obtained further funds from the sale of its own securities, the commitment will be reduced by that amount.[8]

The regulations, issued by the SBA emphasize the great importance of sound management of investment companies to insure accomplishment of the aims of the act.

The office of Small Business will assist small manufacturers in obtaining contracts from government procurement agencies and in obtaining subcontracts from larger manufacturing concerns. Small manufacturers are also assisted in obtaining scarce equipment and production materials. New methods of production and new uses for materials are investigated. The results of these investigations will

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[8] Ibid.

be made available to any manufacturer who requests them.

The office of Small Business also represents the interests of small--businessmen before Government agencies that formulate policies and regulations which affect small business.[9]

The significance of the SBA Act, so long sought by members of the Senate Small Business Committee, is that it signalizes the acceptance by the Congress of small business as a distinct and vital element of the national economy. In thus formalizing a philosophic concept first given tangible expression by the creation of the Smaller War Plants Corporation in the early days of World War II, Congress has now made it clear that independent small--business enterprises are to be considered as one of this Nation's invaluable resources--as essential to our strength as our fertile farmlands, timber, mines and waterway systems.

The Act establishes a division of the SBA to be known as the Small Business Investment Division. This Division, headed by a Deputy Administration appointed by the Administrator of the SBA, has the power and authority to:

a. Charter, regulate, and examine small business;
b. Lend funds to such investment companies, and

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[9]Gemmell, Op. Cit., p. 271.

c. Lend funds to State and local development companies.[10]

The Act provides that the new functions to be performed by the SBA shall be carried out in such manner as to insure the maximum participation of private financing sources and shall be administered so that any financial assistance shall not result in a substantial increase of unemployment in any area of the country.

The Act provides funds for the program by authorizing additional $250 million of appropriations to the existing revolving fund of the SBA which was established by the Small Business Act of 1953. These additional funds, however, are used only to carry out the purposes of the Small Business Investment Act, such as to make loans to small business investment companies, and to make loans to State and local development companies.

SBIC's formed to operate under this Act may be chartered under State law, or by the SBA in States where such companies cannot be chartered under the State law, as previously mentioned.

SBA's authority to charter small business investment companies will terminate on June 30, 1961. Thereafter,

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[10] Select Committee on Small Business, Small Business Investment Act, A report made by representatives of the U. S. Senate (U. S. Government Printing Office, 1958), p. 15.

such companies must be chartered under State law and may-be given permission to operate under this Act by the SBA. By June 30, 1961, all States will have had an opportunity to enable the formation of Small Business Investment Companies to operate under this act, and a chartering function in the SBA will therefore be unnecessary. Termination of this authority shall have no effect upon the continuing activities of any small business investment companies chartered by the SBA.[11]

A small business investment company is authorized to borrow money from private sources under such conditions that of debentures purchased by SBA to encourage the formation of small business investment companies, and subject to such limitations and regulations as prescribed by the SBA.

It is through them, that the use of convertible debentures, which has been developed to a high degree in recent years by many large, publicly financed companies, is thought to be the most suitable financing instrument for this type of program. This type of debenture is attractive to speculative investors who want an opportunity to share in the future prosperity of a business beyond the fixed claim of ordinary debt. In view of the risk inherent in, and the admittedly

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[11]*Ibid.*, pp. 16-17.

experimental nature of the financing which this act seeks to encourage, consideration is given to encouraging such speculative investors.

To protect the investment company, a small--business concern may be required to agree not to incur further indebtedness without approval of the investment company.

Whenever an investment company provides capital to a small business concern through the purchase of convertible debentures, such concern is required to purchase stock in the investment company in an amount equaling from 2 to 5 per cent of the amount of the capital provided, as established by SBA regulations. The purpose of this stock--purchase requirement is to build up the investment of private funds, and in due course to make Federal participation unnecessary.

The Act recognizes that state and local development companies can play an important role in helping supply small businesses with long-term loans and with plant facilities.

The Act authorizes SBA to make loans to any State development company in a total amount not exceeding the amount borrowed by the company from all other sources. It also provides for secured loans to both State and local development companies for site acquisition and plant construction, where the proceeds of the loan will assist an identifiable small--business concern. After June 30, 1961 such loans may be made only to State development companies.[12]

The rate of interest on subordinated debentures and other obligations or loans to small business investment companies, purchased or made the SBA, is 5 per cent per annum. This rate may be adjusted from time to time, but such adjustments will not affect the rate on debentures previously purchased or on existing loans from SBA.

It has been stated that equity capital may be provided by an SBIC to a small business concern only through the purchase of convertible debenture bonds of the small concern. These bonds will:

1. Bear interest and contain such other items or terms as the SBIC and the small business concern agree upon. The rate of interest may not exceed the maximum rate permitted by local laws; where no limit is fixed, the interest rate charged must meet with the approval of SBA.
2. Be callable on any interest payment date, upon 3 months notice, at par plus accrued interest.
3. Be convertible, at the option of the small business investment company, or a holder in due course, up to and including the effective date of any call by the issuer, into stock of the small business concern at the sound book value of such stock determined by the parties at the time of the issuance of the debentures. In determining the value of the stock, all pertinent factors are to be considered,

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[12]<u>Ibid</u>.

> including the actual value of the assets of the small business concern and the relationship of its earnings to its invested capital.[13]

In addition to financial assistance, licensed companies are exempt from the provision of the Investment Act of 1940 which requires three hundred per cent asset coverage after borrowings and are eligible for security exemptions under the Securities Act of 1933 and Trust Indenture Act of 1939. Further, investors in licensed small business investment companies are entitled to an ordinary, rather than capital, deduction for any losses resulting from such investment. The companies themselves receive a similar tax deduction for any loss on the convertible debentures or stock of small business concers. A 100 per cent dividends received deduction is also available to such companies.

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[13] Small Business Administration, Op. Cit., p. 4.

CHAPTER IV

CAPITAL AND LONG-TERM LOANS FOR THE SMALL BUSINESS

Small business investment companies may make long-term loans to incorporated and unincorporated small business concerns with funds needed for sound financing, growth, modernization and expansion. Long-term loans, as used in this paper, means loans with final maturities of not less than 5 years and not more than 20 years. However, this requirement will not preclude the making of incidental shorter-term loans when necessary to protect the interests of the investment company.

These loans must be of such sound value as to assure repayment. In loans made on a deferred participation basis the participation by the SBIC may not be in excess of 90 per cent of the balance of the loan outstanding at the time of disbursement.[1]

Small manufacturers, wholesalers, retailers, service establishments and other small businesses are eligible for the SBA loans for these purposes:

1. Business construction, conversion or expansion
2. The purchase of equipment, facilities, machinery, supplies or materials
3. Working capital.[2]

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[1] Ibid., p. 5.

[2] Ibid., p. 7.

Basically, there are two types of SBA business loans--"participation" and "direct". In a participation loan the Agency joins with a bank or other private lending institution in a loan to a small business concern. In a direct loan, there is no participation by a private lender--the loan is made entirely and directly by the SBA to the borrower.

By law, the Agency may not make a direct loan if a bank or other private lending institution will join with it in a loan to the borrower.

Under the Small Business Act, as amended, the Agency may not enter into a loan on an immediate participation basis if it can arrange to do so on a deferred basis.[3]

The Limited Loans are made entirely through banks, with the banks participating in and servicing them.

The SBA's share of a loan of this type can be no more than $15,000 or 75 per cent of the total amount of the loan, whichever is the lesser. The participating banks share in the loan must not be less than 25 per cent of the total amount of the loan and must be "new money"--that is, money not already owed to the bank and which would have been outstanding no more than 6 months, or loans made for a

[3] Ibid., p. 8.

longer term on which repayments have been made promptly as originally scheduled, may be substituted by the bank for this new money requirement or included in computing the bank's participation on the loan. In either case, the bank's share in the loan must at least equal the outstanding loan to be refunded with a part of the new loan or be 25 per cent of the full loan, whichever is the larger.[4]

For example, on a loan of $15,000 and with an outstanding qualified loan of $3,000 to the borrower by the bank, the maximum SBA participation would be $11,250 and the bank's share would be $3,750, of which $3,000 would be the outstanding loan and $750 would be new money. On a $30,000 loan, the maximum SBA participation would be $15,000 and the bank's share would be the same amount, either new money or qualified outstanding loans.

The maximum maturity of a loan under this plan is 5 years, with a monthly replacement schedule. The interest rates are the same as for other types of participation loans.

Loans may not be granted by SBA:

1. If the funds are otherwise available on reasonable terms
   (a) from a financial institution
   (b) from the disposal at a fair

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[4] Small Business Administration, _Op. Cit._, p. 10.

price of assets not required by the applicant in the conduct of its business or not reasonably necessary to its potential growth

(c) through use, without undue personal hardship, of the personal credit or resources of the owner, partners, management, or principal stockholders of the applicant.

(d) through the public offering or private placing of securities of the applicant.

(e) from other Government agencies which provide credit specifically for the applicant's type of business or for the purpose of the required financing, or

(f) from other known sources of credit.

2. If the direct or indirect purpose or result of granting a loan would be:

   (a) pay off a creditor or creditors of the applicant who are inadequately secured or who are in a position to sustain a loss

   (b) provide funds for distribution or payment to the owner, partners, or shareholders of the applicant, or

   (c) replenish working capital funds previously used for either of such purposes.

3. If the purpose of the applicant in applying for a loan is to effect a change in ownership of the business; however, under certain circumstances, loans may be authorized a for this purpose, if the result would be to aid in the sound development of a small business or to keep it in operation.
4. If the loan would provide or free funds for speculation in any kind of property, real or personal, tangible or intangible.
5. If the applicant is an ellemosynary or charitable organization or social agency or society or other nonprofit enterprise; however, a loan may be considered to a cooperative if it carries on a business activity and the purpose of such activity is to obtain financial benefit for its members in the operation of their otherwise eligible small-business concerns.

6. If the purpose of the loan is to finance the construction, acquisition, conversion or operation of facilities which are or will be used for recreational or amusement purposes in connection with which any part of the gross income of the applicant (or of any of its principal owners) is derived from gambling activities, or a substantial portion of the gross income of the applicant (or any of its principal owners) is derived from the sale of alcoholic beverages, or if the business of the applicant is not considered to be in the public interest.
7. If the applicant is a newspaper, magazine, radio broadcasting or television broadcasting company, or similar enterprise.
8. If a substantial portion of the gross income of the applicant (or any of its principal owners) is derived from the sale of alcoholic beverages.
9. If any part of the gross income of the applicant (or any of its principal owners) is derived from gambling activities.
10. If the loan is to provide funds to an enterprise primarily engaged in the business of lending or investments or to any otherwise eligible enterprise for the purpose of financing investments not related or essential to the enterprise.
11. If the purpose of the loan is to finance the acquisition, construction, improvement or operation of real property which is, or is to be, held for sale or investment; however, loans may be made for the remodeling or improvement of existing commercial and industrial structures held for rental where the applicant is performing substantial maintenance and operational services in connection with such structures.
12. If the effect of the granting of financial assistance would be to encourage monopoly or would be inconsistent with the accepted

standards of the American system of competitive enterprise.

13. If the loan would be used to move a business for other than sound business purposes.[5]

There is no charge to a bank for SBA participation in a loan on an immediate basis.

Where the Agency agrees to participate in a loan on a deferred basis, it charges the lending institution a small fee. The fee is based on the extent of the Agency's participation in the loan, and is discontinued when and if the Agency is called upon to purchase its share of the loan.

The SBA's fees for deferred participations are designed to encourage maximum participation by lending institutions in the program of loans to small firms.

The SBA pays a service fee to the bank in the case of an immediate participation loan which is made and serviced by the bank, and in the case of a deferred participation loan where the Agency has purchased its share of the loan. In these loans, the bank may deduct, only out of funds collected for the account of the SBA, a service fee for one half of one per cent per annum on the unpaid principal balance of the SBA's portion of the loan. The bank may

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[5] *Ibid.*, pp. 10-11.

collect the fee as long as it is servicing the loan. It may not add the fee to any amount which the borrower is obligated to pay under the loan.

A bank which is servicing a loan also may make a service charge to a borrower if the loan is a construction loan, or involves the handling of accounts receivable and inventory collateral, provided it can show clearly that extra-ordinary servicing is involved and that the fee does not represent additional interest or profit on the loan. The maximum fee is 2 per cent per annum on the outstanding balance of such loans. If receivables or inventory make up only part of the collateral for the loan, the service fee may be charged only on that part of the loan secured by such collateral.[6]

In the Regular Participation Loan Plan, collateral for loans may consist of one or more of the following: A mortgage on land, buildings, and equipment; assignment of warehouse receipts for marketable merchandise; assignment of certain types of contracts; a mortgage on chattels; or, in some instances, assignment of current receivables. As a rule, a pledge or mortgage on inventories is not considered satisfactory collateral unless the inventories

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[6] Small Business Administration, Bank-SBA Participation Loan Plans (U. S. Government Office, 1959), pp. 4-5.

are stored in a bonded or otherwise acceptable warehouse.

In the Limited Loan Plan, the determination as to adequacy of collateral for a loan, and the responsibility for obtaining the pledge of collateral, rests with the participating bank. Security for these loans may include, but is not limited to, mortgages on real or personal property; assignment of accounts receivable or moneys due on contracts; pledges of warehouse receipts; negative pledge agreements, and corporate guarantees or personal endorsements.

Collateral documents relating to a participation loan are held by the bank or the SBA, whichever is servicing the loan.

The division of interest is collateral received in support of either a deferred or immediate participation loan is in proportion to the participation by the private lender and the SBA.[7]

The SBA makes two types of disaster loans:

1. Loans are made in storm, flood, and other major disaster areas to help repair or rebuild homes, businesses and nonprofit institutions, and to help replace lost furnishings or business machinery, equipment and inventory.

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[7] *Ibid.*, p. 7.

2. Loans are made in drought or excessive rainfall disaster areas to help small business concerns suffering substantial economic injury to overcome this injury and to continue in business until the disaster conditions end.[8]

Individuals, business concerns and nonprofit organizations are eligible for these disaster loans provided:

(a) they have suffered tangible property loss as a result of the disaster, and
(b) the SBA has declared their area a disaster area for purposes of financial assistance.[9]

There is no statutory limit on the amount of an SBA disaster loan. The loan limit is determined by the actual tangible loss suffered by an applicant. The maximum maturity of a loan is 20 years.

Disaster loans are made by the SBA either in participation with banks or other private lending institutions or as direct Government loans. The interest rate on a direct disaster loan, on the SBA's share of a participation loan to a business concern, and, on both the SBA's and the private lender's share of a disaster loan for home repair or construction, is 3 per cent per annum. On other than home loans, the private lender may fix the rate of interest

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[8] Small Business Administration, Op. Cit., pp. 15-16.

[9] Small Business Administration, loc. cit.

on its share, within reasonable limits.

A small business concern may be considered for an SBA disaster loan, in addition to suffering substantial economic injury, provided the President or the Secretary of Agriculture has declared the area a major disaster area because of the drought or excessive rainfall.

Disaster loans of this type must be used solely to provide relief from economic injury directly attributable to the disaster. Loans may be used to provide ordinary working capital, to replenish normal inventories, and to pay financial obligations (except bank loans) which the borrower would have been able to meet had it not been for the loss of revenue resulting from the disaster conditions in his area.

There is no statutory limit on the amount of a drought or excessive rainfall disaster loan. The amount of loan is determined by the working capital needs of the applicant, taking into account possible economies which would be appropriate during a period of reduced business.[10]

Loans may be made by the Agency in participation with private lending institutions, or as direct Government loans.

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[10] Ibid., p. 17.

In order to determine whether to secure permanent capital by issuing capital stock or some kind of long-term bonds or notes, you should seek capital through stock--

> If you want to avoid debts; you can raise what you need from sale of some of the many kinds of stock available
> If the economy is heading for a period of deflation
> If the maturity date or the fixed charges will be a burden that cannot be met
> If your capital position and credit are weak.[11]

Obtain capital by long-term bonds or notes, borrowing only when you are certain to be able to refinance or pay the loan when it matures if the effective long-term interest rate is below the probably rate of future earnings. But use the following pointers on the kind of permanent borrowing you do:

> Borrow for short term only for working capital. See that debts mature as they can be paid
> Borrow for long-term only for financing fixed assets, land, and buildings essential for profitable production
> The term of such indebtedness should approach the productive life of those assets.
> Give no mortgages or pledges if doing so harmfully and substantially affects

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11 Lasser, _Op_. _Cit_., p. 100.

your short-term credit.[12]

In many ways the purpose of the loan is the most important feature of the loan application. The lender wants to be sure the loan will be used for a necessary business purpose.

A term loan is one which is repayable, according to an agreement between lender and borrower, over a period of more than one year. The maturity period averages around 5 years. Sometimes it runs up to 10 or 15 years. Life insurance companies and industrial banks, as well as commercial banks, make long-term loans. Advantages are:

(1) These loans are one of the best ways to make up for equity capital deficiency in your business. The duration of the loan can be arranged to fit your special circumstances.
(2) The repayment schedule may be scaled to fit your earning power. In this way, you may acquire needed assets and pay out of earnings.[13]

The above findings if taken into consideration, will be of great help to the small businessman, whether he starts a new business of his own or goes into a ready-made one.

[12] Ibid., p. 101.

[13] Ibid., p. 110.

CHAPTER V

SUMMARY

The most common error made by the beginner in business is in attempting to establish an enterprise without adequate capital. The person who makes the mistake of doing this has two strikes against him at the start and is bound to be in constant difficulty, and if he hasn't the proper personal qualifications, backed by sufficient experience in his field, he is headed for failure.

Many store owners with sufficient capital tie up too great a proportion of their funds in fixtures and other fixed assets. The customer's primary interest in fixtures and building improvements is incidental.

Still other store owners do not provide in their capital structure a sufficient amount for cash reserves. To maintain their credit with their sources of supply and their banks, these proprietors must put on sales at the end of each season at drastically reduced prices. They must do this not only to pay off their obligations but to be in a position to buy for the following season. Thus a lack of adequate cash reserve cuts deeply into their profits.

After your capital is fully invested in your business, additional capital will more than likely have to come through the accumulation of profits you derive from the sale of your merchandise. Therefore, you should have ample initial capital for your particular business, and plan on a slow but healthy growth at a reasonable net profit to provide funds for expansion.

One of the major problems of small-business concerns is difficulty in obtaining long-term and equity financing. This results from two conditions: First, the Nation's commercial banks normally are not in a position to provide long-term financing; and second, small firms that want to market securities find it costly and difficult to do so.

Recognizing this gap in our economic system, and in view of the vital importance of small business to the American way of life, Congress passed the Small Business Investment Act of 1958, which authorized the establishment of a new small business financing institution--the small business investment company. Responsibility for licensing, regulating and helping finance these new organizations was vested in the Small Business Administration.

The small business investment company program is designed to stimulate and supplement the flow of private equity capital and long-term loans which small business concerns need for the sound financing of their business operations, and for their growth, expansion and modernization.

A unique feature of this new medium of small business financing is that it brings together local capital and management talent. The organizers of investment companies undoubtedly know their own communities and industries, and should be familiar with the needs of small businesses in their area. They are therefore in a good position to render needed financial and management assistance.

In considering this potential new source of funds for your small business, you should be familiar with the Investment Company Act of 1958 and the SBA Regulations, and you should be familiar with the procedures to be followed in obtaining financing from a small business investment company. You should consider the costs that will be involved in obtaining financing, and the advantages that expansion of your operations and access to management skills may bring to you.

Most of all, you should know your own company, consult carefully with the necessary agents in obtaining finance.

Regardless of whether your business is or is not incorporated, and of the type of financing you may arrange, your financing relationship with the investment company may provide you the advantage of access to management skills. These skills may be very important to your concern as it grows and enters new markets and areas, encountering new competitors. You should, therefore, inquire into the management consultant and advisory services which the small business investment company is prepared to offer you (for which a fee may be charged). The investment company may wish to put a representative on your board of directors to advise and consult with you as well as to keep it fully informed of your progress. Many small businesses may welcome and profit by such an association.

If a small business concern which applies to a small business investment company for financing is substantially owned by shareholders of the Small Business Investment Company, then the SBIC must obtain SBA's approval before it can extend such financing.

A small business may not re-lend funds obtained from a small business investment company, or re-lend funds released in the accounts as a result of SBIC financing. Therefore, if your concern is a loan or mortgage company, it is not eligible for financing from an SBIC.

RECOMMENDATIONS

It is recommended by the writer that all potential business owners keep these pointers in mind when beginning the new venture. Follow these steps as closely as possible:

1. Keep in touch with all agencies such as the Small Business Administration, for current materials and information. The names of investment companies licensed in your area are available at these agency offices. You may also write to the Small Business Administration, Washington 25, D. C., for this information.
2. Decide how much equity or long-term financing you need, and for what purpose.
3. Discuss the project with an investment company in your area.
4. When you are satisfied with your plan, negotiate with an investment company for the equity or long-term financing.
5. Before receiving financing, if it is needed, examine yourself to see if you have the know-how needed to make a success of the business.
6. Consider carefully your chances for repayment if a loan is obtained.
7. Borrow for short term only for working capital.
8. See that debts mature as they can be paid.
9. Decide in advance the amount of working capital you will need for the first six months of operation.

10. Be patient in your operation of the business. Give it time to mature.

The Small Business Investment Act of 1958 was enacted, and the program established, for the primary purpose of helping the small business find the kind of long-term financing needed.

The extent to which the potential business owner benefits from the program will depend in large part on how well he is prepared to use this new source of capital for his small business.

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APPENDIX

TABLE I

NUMBER OF BUSINESS FAILURES

1957 - 1958

In the last six months of 1958, business failures decreased significantly compared to the first six months

	1957		1958	
MONTH	Number	Annual Basis	Number	Annual Basis
January	1,148	13,776	1,279	15,348
February	1,146	13,752	1,238	14,856
March	1,336	16,032	1,495	17,940
April	1,175	14,100	1,458	17,496
May	1,200	14,400	1,341	16,092
June	1,084	13,008	1,260	15,120
July	1,059	12,708	1,253	15,036
August	1,145	13,740	1,127	13,524
September	1,071	12,852	1,039	12,468
October	1,122	13,464	1,271	15,252
November	1,173	14,076	1,121	13,452
December	1,080	12,960	1,082	12,984

Report made by Small Business Administration

TABLE II

NUMBER OF BUSINESS FAILURES

1900 - 1958

Report made by Small Business Administration -

Year	Number of Business Failures
1900	10,774
1919	6,451
1922	23,676
1928	23,842
1932	31,822
1945	809
1947	3,474
1949	9,246
1951	8,058
1953	8,862
1955	10,969
1956	12,686
1957	13,739
1958	14,964

TABLE III

NUMBER OF FAILURES PER 10,000 FIRMS

1900 Through 1958

Year	Failure Rate
1900	92
1919	37
1922	120
1928	109
1932	154
1945	4
1947	14
1949	34
1951	31
1953	33
1955	42
1956	48
1957	52
1958	56

Month	Monthly Data	
	1957	1958
January	48.0	53.2
February	51.1	54.1
March	54.9	60.0
April	48.2	59.7
May	50.1	55.3
June	50.0	57.3
July	47.8	58.2
August	53.4	54.0
September	58.7	53.4
October	51.5	57.4
November	56.0	55.9
December	51.9	51.3

TABLE IV

NEW BUSINESS INCORPORATIONS

1946 Through 1958

The number of new business incorporations reached a record high of 150,268 in 1958

Year	Monthly Averages
1946	11,076
1947	9,387
1948	8,008
1949	7,124
1950	7,744
1951	6,971
1952	7,735
1953	8,545
1954	9,764
1955	11,638
1956	11,731
1957	11,391
1958	12,522

Month	Monthly Totals 1957	Monthly Totals 1958
January	13,387	13,080
February	10,791	10,466
March	12,049	11,670
April	12,312	11,329
May	12,220	11,943
June	11,269	11,991
July	11,686	12,454
August	11,361	12,234
September	10,526	12,932
October	11,251	13,633
November	9,270	12,090
December	10,575	16,446
Total	136,697	150,268

Report made by Small Business Administration

TABLE V

BUSINESS LOAN PROGRAM

Percentages of Direct and Participation Loans Semiannually
Fiscal Years 1957 - First Half 1959

Business Loans Approved by Type	Fiscal Year-1957 Jul-Dec 1956	Fiscal Year-1957 Jan-June 1957	Fiscal Year-1958 Jul-Dec 1957	Fiscal Year-1958 Jan-June 1958	1959 Jul-Dec 1958
DIRECT					
Number	445	593	510	999	1,097
Percent	27.8	30.6	34.0	39.8	41.7
IMMEDIATE					
Number	768	992	754	1,133	1,096
Percent	48.0	51.3	50.2	45.1	41.7
DEFERRED					
Number	387	351	237	381	435
Percent	24.2	18.1	15.8	15.1	16.6

Report made by SBA

TABLE VI

REASONS FOR DECLINING BUSINESS

LOAN APPLICATIONS

July 1 Through December 31, 1958
(Total applications declined - 1,894)

Reasons Total Reasons[1]	Number 4,825	Per Cent of Total 100.0
Earning ability not demonstrated or assured for future	1,644	34.1
Insufficient collateral	1,032	21.4
Insufficient equity investment	821	17.0
Loan would replace funds distributed to owners	645	13.4
Unsatisfactory financial condition	262	5.4
Need for loan funds not demonstrated	156	3.2
Not eligible - because of size	107	2.2
Not eligible - because of policy reasons	22	0.5
Other	136	2.8

[1] Total number of reasons is in excess of number of applications declined because in most instances two or more reasons for declination were given.

Reported by SBA

TABLE VII

DISASTER LOAN PROGRAM

Applications Received - Semiannually

Fiscal Years 1957 - First Half 1959

A total of 563 applications for disaster loans was received in the first half of fiscal 1959

Number of Applications	Fiscal year-1957		Fiscal year-1958		1959
	Jul-Dec 1956	Jan-June 1957	Jul-Dec 1957	Jan-June 1958	Jul- 1959
Received	488	1,456	872	1,149	563
Withdrawn	33	86	53	41	38
Net available for consideration	455	1,370	819	1,108	525
Declined	124	79	88	262	180
Approved	278	1,319	767	792	422
Pending at end of period	125	97	61	115	38

Report made by SBA