Where are the Free Grants for Small Businesses?

In these challenging times, many potential small business owners ask about getting free financing for their new business or for helping their existing business. Unfortunately, nothing good in life comes easy, and that includes getting financing for your small business.

This is such a common question that we hear from SCORE clients that I will address it again in this column. I consulted with one of our SORE mentors who has a wide background in business financing. “Despite advertisements to the contrary”, SCORE Counselor and former local Bank President, Paul Olander explains that “no federal government agency—including the Small Business Administration—offers grants to start or expand small businesses. Most foundations, corporations and private institutions that sponsor grant programs follow the same policy, except in cases where the business involves development of a new technology, or is a nonprofit organization.”

Olander comments further, that the SBA does administer several loan programs in partnership with local lenders, community development organizations, and micro-lending institutions (agencies that specialize in limited, short-term financing). SBA backs those loans with a guaranty against non-payment for a portion of the loan. This eliminates some of the lender’s risk. In other words, your application for an SBA-backed loan is actually an application for a commercial loan structured according to the bank’s and SBA’s requirements. It is expected that this will be repaid.

SBA loan programs include the basic 7(a) program; “504” loans, which are delivered through Certified Development Companies (CDCs) for acquiring real estate, machinery, or equipment as part of an expansion or modernization; 7(m) Micro-loans of up to $35,000; and post-disaster recovery and assistance loans. Complete details on these programs and their application requirements are available under the Services section of www.sba.gov.

The 504 Corporation, officed in Rochester, is an example of one these companies. Dwayne Lee, their Director of Business Development explains their role “as an SBA Certified Development Company, 504 Corporation works with SBA and lenders to deliver the 504 Loan Program to small businesses. The staff also assists businesses with local, state and federal financing programs and provides general business assistance”.

Depending on where you live, your small business may be eligible for assistance from state and local economic development agencies. Most often, the assistance takes the form of workspace, training, and administrative support for start-ups; reduced rates on existing office or production space; and tax incentives. Others sponsor micro-loan programs for specific business types such as childcare and firms that locate in or support designated enterprise zones.

The Southern Minnesota Initiative Foundation has been a catalyst for economic growth in 20
Minnesota counties. Their Director, Tim Penny explains that “they work to build a prosperous region with vibrant communities, innovative businesses and a skilled and valued workforce. To accomplish this, he continues, “we invest in emerging businesses and the emerging workforce. We help businesses, local governments and nonprofit organizations find common ground, pool resources and achieve more.”

Established small businesses can apply for federal grants to carry out various publicly mandated services or programs. As with the SBA loan program, they must be operated for profit, have a place of business in the U.S., significantly contribute to the economy, and meet size standards for its industry. For example, wholesale trade industries are limited to 100 employees, while most retail and services industries can have average annual receipts of no more than $6.5 million. More information is available at grants.gov, a central storehouse of information on over 1,000 grant programs from 26 federal agencies.

Another source for researching potential grant opportunities is The Foundation Center’s Foundation Directory Online at fconline.fdncenter.org. This subscription service offers access to a directory of more than 80,000 grant makers.

For more assistance with creating a financing strategy for your new or growing small business, contact a business mentor at SCORE, "Counselors to America’s Small Businesses." These volunteer counselors provide free, confidential business counseling as well as training workshops to small business owners. For example, next Tuesday night SCORE’s business workshop will be on the topic of “How to Finance a Small Business” and will be taught by Rick Jaacks, VP/Branch Manager, Eastwood Bank, Stewartville.

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Web Links related to this article:
Southeast Minnesota Initiative Foundation: http://www.smifoundation.org/
504 Corporation: http://www.504corporation.com/
Federal Grants: www.grants.gov
Foundations Directory of grants: www.fconline.fdncenter.org