



ALTERNATIVE VENTURE FINANCE: FEDERAL GRANTS AND LOANS

While most companies seeking venture capital initially think about angel investors and venture capitalists, a large alternative source of financing is federal grants and loans. The two largest federal grant programs are run by the Small Business Administration (SBA), and by Small Business Investment Companies (SBICs).

An SBA loan, regardless of whether it is a direct loan from the SBA, or, as is more common, a bank loan guaranteed by the SBA, is essentially a bank loan. The benefit of it versus a traditional bank loan is the rate. SBA rates are typically much less than traditional business loan rates.

In most cases, in a guaranteed SBA bank loan, the SBA guarantees 90 percent of the loan will be repaid to the bank. As such, banks are at much less risk than in most other loans, and are a bit more flexible with regards to who they offer these loans. However, the SBA usually requires the founders of the company to personally guarantee the loans, which makes them risky should the venture collapse.

Alternatively, Small Business Investment Companies (SBICs) are privately organized corporations that are licensed and regulated by the SBA. Small or emerging businesses which qualify for assistance from the SBIC program can receive equity capital and/or long-term loans from these companies. Essentially, these companies provide their own capital, which is supplemented by federal funds, to the companies they fund.

Interestingly, U.S. taxpayers benefit from the SBIC program as tax revenues generated from successful SBIC investments have more than covered the cost of the program. Likewise the program has created hundreds of thousands of jobs.

In summary, SBA and SBIC financing are viable alternatives to financing from angel investors and venture capitalists and should be considered in the capital raising process. Similarly to angel and VC financing, companies seeking SBA and SBIC financing need a strong management team and value proposition, and a highly professional and compelling business plan in order to raise the capital they need.

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