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New small-business fund set up to serve Mass., R.I.

By Dave Cranshaw, Staff Writer

There are more than 100,000 businesses in Rhode Island and southeastern Massachusetts – and most of them are classified as small firms.

If you are one of these small-business owners who, at one point, looked into different financing options to help your company grow and you didn't have enough collateral or assets or your line of credit makes your loan a dicey proposition in the eyes of a bank, then where can you turn?

A new Taunton, Mass.-based fund is joining the ranks of Small Business Investment Companies (SBICs) to offer financing options to small businesses.

Realizing that most small businesses do not qualify for financing from banks, the South Eastern Economic Development Corporation, a nonprofit designed to assist startup businesses, created last month SEED Ventures LP, an SBIC, to serve small firms in Rhode Island and southeastern Massachusetts.

Maurice Dube, the Small Business Administration's Massachusetts district director, said the need for an SBIC to serve southern New England small businesses surfaced about four years ago.

Tom Wooters, vice president of SEED Ventures, said instead of lending against the assets of a company, similar to a bank, an SBIC will loan against current and prospective cash flow, a practice that is more risky for the lender.

In most cases, an SBIC fills in gaps in financing that the bank is willing to provide and what a company needs to ensure a business transaction, said Wooters.

This practice is most prevalent with a business classified in the service industry where the employees are the assets of the company, said Wooters. Without identifiable collateral that can be recouped if a business goes bankrupt, a bank is less willing to provide the necessary capital to grow, he said.

Service industries are a "very important area in the economy where traditional bank financing does not work that well," said Wooters.

In addition to service industries, funds are focused on manufacturing and distribution, retail and wholesale, said Wooters. Capital is primarily used for acquisition, expansion or ownership transitions, he said.

SEED Ventures has yet to close its first deal but it is looking for small businesses with strong management teams that are able to adjust to changing market conditions.

Businesses in a growing market, or ones that possess a leading technology edge, are companies most qualified for a loan, said Wooters.

The investors for SEED contributed $6 million toward the fund while government funds nearly tripled the total to close to $18 million, said Wooters.

Normally, banks can issue a loan at between 8 percent and 10 percent based on the collateral and hard assets of the company, said Wooters. Larger venture capital firms expect a higher rate of return on their investments, opening a gap for SBICs to finance expansion for small businesses, he said.

An SBIC charges higher interest rates than a bank because of the greater assumed risk, said Wooters.

A company without hard assets or a limited growth potential does not make it a bad company, said Wooters, noting that niche companies can be very profitable.

SBICs make more than 65 percent of all venture financings, according to the SBA.

The SBIC program was created by Congress in 1958 to provide long-term financing and venture capital resources to help small businesses maintain and expand their operations. SBICs are privately managed investment firms that are licensed and regulated by the SBA. To become an SBIC, an investment firm must have at least $1 million in capital. An SBIC can receive matching funds from the SBA with the promise to only invest in small businesses.

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