

DELTA 10/95
The Defense Loan and Technical Assistance Program

SBA - S.D.
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DELTA is a joint effort of the U.S. Small Business Administration and the Department of Defense (DoD) to provide financial and technical assistance to defense-dependent small firms adversely affected by defense reductions. The goal of the program is to help these businesses diversify into the commercial market while remaining part of the defense industrial base.

Reductions affecting businesses may be the result of any number of actions, such as cuts in defense spending, termination or cancellation of a defense contract, discontinuation of an approved weapon system, merger or consolidation of the operations of a defense contractor, or the closure or realignment of a military installation.

Using funds transferred from DoD under a memorandum of understanding, the SBA will guarantee loans made by its participating lenders to qualified, defense-dependent small businesses. These loans will be made through the SBA's existing 7(a) and 504 programs, under recent modifications covering defense economic-transition loans. In addition, many DELTA clients will require technical and management assistance to make the transition to the commercial market. The SBA will provide this support through its resource partners, other federal agencies, and other technical and management assistance providers.

Eligibility

To be eligible for this program, a firm must --

Meet the requirements of the 7(a) or 504 program;

Be defense-dependent, i.e., a small business that derived a substantial amount of its prior year's revenue from DoD contracts, defense-related Department of Energy contracts, or subcontracts in support of defense-related prime contracts; and

Meet at least one of the program's three policy objectives.

Policy Objectives

Each DELTA loan must achieve at least one of the following policy objectives:

Job retention -- retain defense workers (employees of the contractor) whose employment would otherwise be permanently or temporarily terminated due to defense reductions

Job creation -- create job opportunities and new economic activity in communities adversely affected by defense reductions

Plant retooling and expansion -- modernize or expand the applicant's plant to enable it to remain in the nation's technical and industrial base and available to DoD

Loans

The maximum DELTA loan under the 7(a) Program is \$1.25 million; under the 504 Program, the SBA can guarantee up to \$1 million. Both programs may be used, but the maximum amount for any combination of loans is \$1.25 million.

DELTA loans may not be typical 7(a) or 504 loans and may require special handling because of complicated credit analyses. While they may have significant collateral, DELTA applicants may not be able to show the ability to repay based on past operations because of their state of transition. New revisions in the Small Business Act allow the SBA to resolve reasonable doubts in favor of the DELTA applicant.

Use of Proceeds

Loan proceeds may be used for --

working capital

acquisition of equipment

raw materials or inventory

capital improvements which may include renovation, leasehold improvements, expansion or replacement of the applicant's plant.

Maturities, Fees and Interest Rates

Maturities, fees and interest rates are the same as for other 7(a) or 504 loans. Under 7(a), maturity is usually five to 10 years for working capital and up to 25 years for fixed assets. Both fixed and variable interest rates are available. Rates are pegged at no more than 2.25 percent over the lowest prime rate for loans with maturities of less than seven years and up to 2.75 percent over prime for loans of seven years or longer. For loans under \$50,000, rates may be slightly higher. A guaranty fee of 2 percent on a loan with a maturity greater than one year is paid by the lender and may be passed on to the borrower. On loans with maturities of under one year, the fee is just 0.25 percent.

Under 504, interest rates on SBA-guaranteed debentures are pegged an increment above the current market rate for 5-year and 10-year U.S. Treasury issues. Maturities of 10 and 20 yearical and management assistance through its small business development centers, the Service Corps of Retired Executives, other federal agencies and other providers. These resources will help applicants to prepare a realistic business plan and loan package, as well as help them to make the transition to commercial markets. Types of assistance will include basic technical assessments, product development, manufacturing process redesign, marketing, exporting, and employee retraining, among others. Additional assistance is available to businesses in California, Connecticut, Florida, Michigan, Missouri, New York, Ohio, South Carolina and southern Texas through special defense economic transition grants made to small business development centers.

How to Apply

The 7(a) and 504 loan applications and procedures are used for DELTA loans.