

# SIMPLE STEPS FOR STARTING YOUR BUSINESS

## Session 5: Funding Options



## YOUR PRESENTER



**Zachary (Zack) Sink** is the Small Business Lending Product Manager at Truist. His vision is that small businesses in our communities have access to the credit they need and can support through a delightful streamlined-digital process with a human touch. Zack is a 23-year veteran of the banking industry with experience in retail branch banking, small business and commercial banking, special assets, and learning & development. He's a graduate of The University of North Carolina at Chapel Hill and the Truist School of Banking at Wake Forest University.

# ABOUT SCORE

As a resource partner of the SBA, we help small businesses by:



Providing free  
business advice and  
mentoring



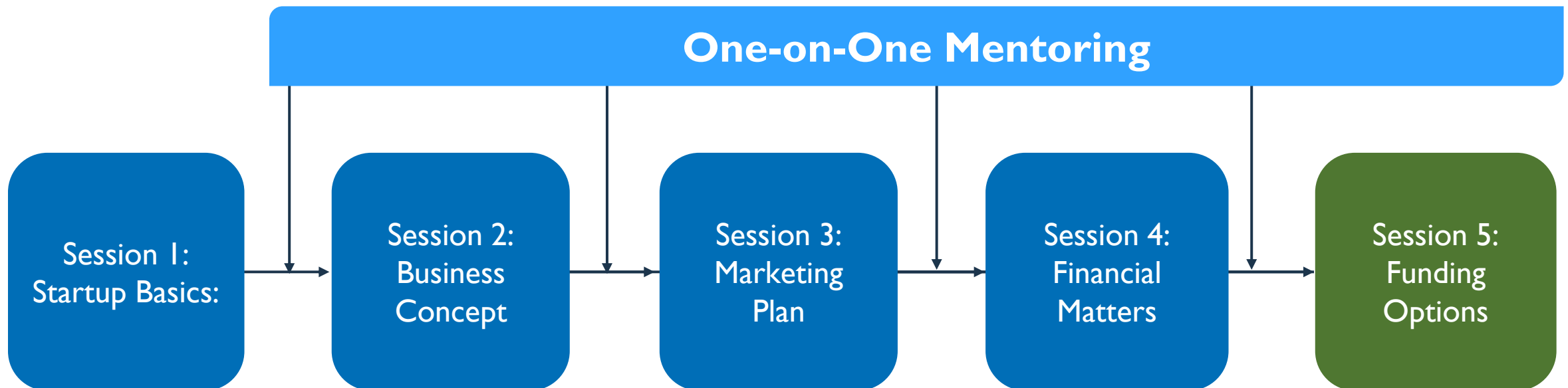
Offering low or  
no-cost business  
training



Sharing free business  
templates and  
resources

Request a **SCORE** mentor at [www.score.org/find-mentor](http://www.score.org/find-mentor)

## Simple Steps for Starting Your Business Series



# AGENDA

Session 5: Funding Options

- Funding and sources
- 6 C's of credit
- What bankers want
- Borrowing strategies

# WHY BUSINESSES NEED FUNDS

Business outcome	Action examples
<b>Grow business – drive sales</b>	<ul style="list-style-type: none"><li>• Open a new location</li><li>• Launch a new product</li><li>• Increase digital marketing</li></ul>
<b>Increase production or service capabilities</b>	<ul style="list-style-type: none"><li>• Automate/add equipment</li><li>• Upgrade software/technology</li><li>• Train additional staff</li><li>• Replace a worn-out delivery van</li></ul>
<b>Boost profits</b>	<ul style="list-style-type: none"><li>• Shift sales from in person to ecommerce</li><li>• Take advantage of volume purchase discounts to lower costs</li><li>• Increase staff productivity</li></ul>
<b>Manage cash engaged in the business</b>	<ul style="list-style-type: none"><li>• Consolidate debt</li><li>• Build inventory for busy seasons</li><li>• Handle seasonal cash requirements</li><li>• Secure funds for one-time/unplanned expenses</li></ul>

# BUSINESS OUTCOMES

What are the business outcomes you are seeking and the actions you can take to reach them?

Business outcome	Actions my business could take	Fund with existing cash?
Grow business – drive sales		<input type="checkbox"/> yes <input type="checkbox"/> no
Increase production or service capabilities		<input type="checkbox"/> yes <input type="checkbox"/> no
Boost profits		<input type="checkbox"/> yes <input type="checkbox"/> no
Manage cash engaged in the business		<input type="checkbox"/> yes <input type="checkbox"/> no
Other		<input type="checkbox"/> yes <input type="checkbox"/> no

# WHERE TO FIND FUNDING

Sources of funds	Pros	Cons
<b>Business cash reserves</b>	<ul style="list-style-type: none"><li>• Inexpensive, low risk source of funds</li><li>• Flexibility to use profits and retain control of the business</li></ul>	<ul style="list-style-type: none"><li>• Accumulating reserves can take time</li><li>• Limits cash availability for emergencies or other needs</li></ul>
<b>Equity investment by owner</b>	<ul style="list-style-type: none"><li>• Primary source for startup/early-stage businesses</li><li>• Quick access to funds</li></ul>	<ul style="list-style-type: none"><li>• Requires additional cash from owner personal funds</li><li>• May create personal financial stress</li></ul>
<b>Equity investment from external source</b>	<ul style="list-style-type: none"><li>• No repayment schedule</li><li>• Potential industry experience and connections from investors</li></ul>	<ul style="list-style-type: none"><li>• Owners may give up control and future profits</li><li>• Investors expect a higher return</li></ul>
<b>Borrowing</b>	<ul style="list-style-type: none"><li>• Often lowest cost form of outside financing</li><li>• Owners retain control, equity, and profits</li></ul>	<ul style="list-style-type: none"><li>• May not be available for new business or those without sufficient equity</li><li>• Business/personal assets at risk if not repaid</li></ul>

# WHICH IS BEST FOR YOUR BUSINESS?

## Business cash reserves vs. equity vs. borrowing – Which is best for your business?

How much do you have in business cash reserves?

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What plans do you have to use them?

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Do your profits support reinvestment in the business? \_\_\_\_\_ Does your current cash flow meet your needs? \_\_\_\_\_

What plans have you made to secure more equity?

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Who will provide it (e.g., owner, investor, etc.)?

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How much debt do you have now? \_\_\_\_\_ Do you have plans to borrow more? \_\_\_\_\_

# SELECT THE RIGHT TYPE OF FINANCING

## How to select the right type of financing

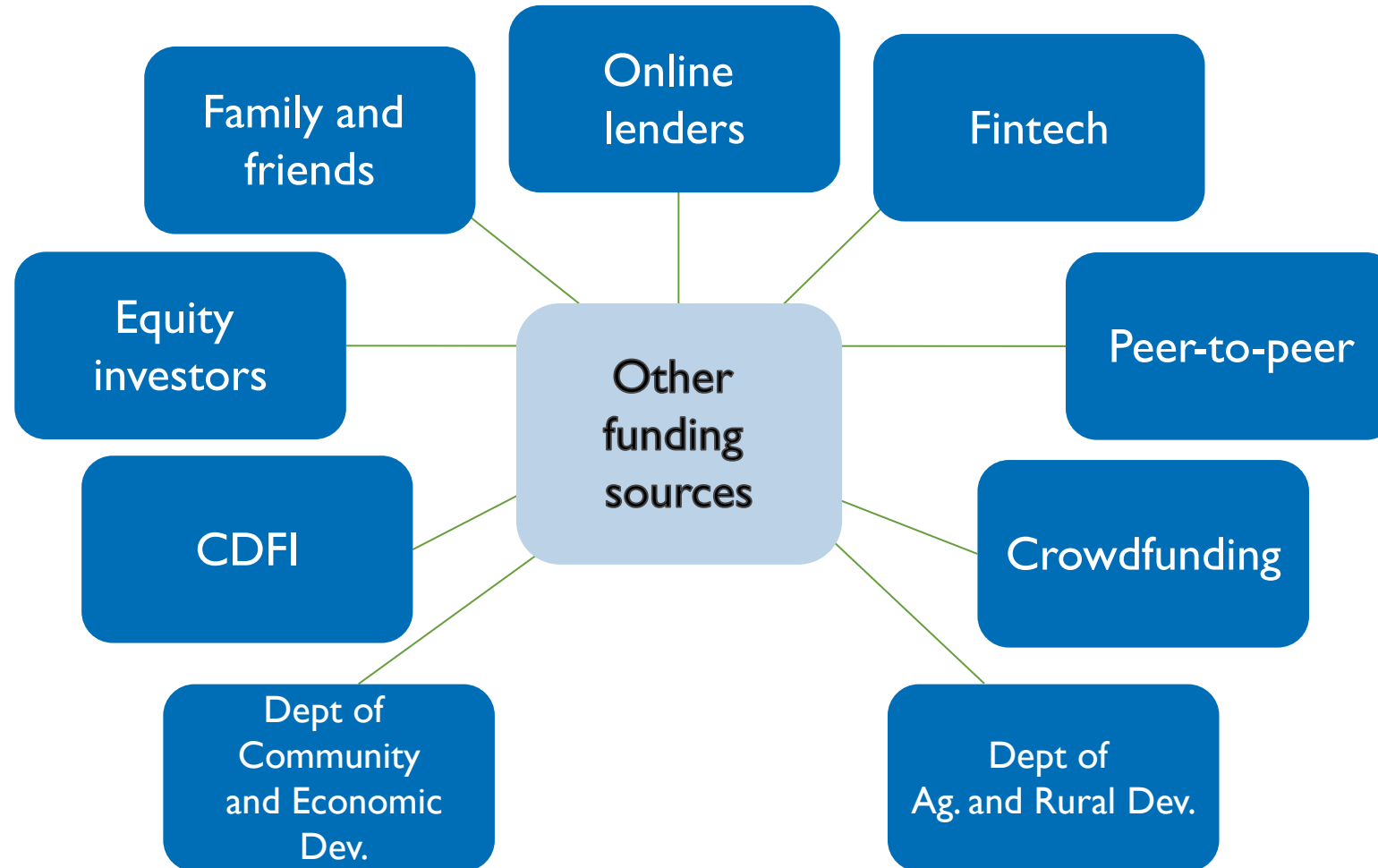
	Business credit card	Business loan	Business line of credit
<b>Best for</b>	Everyday purchases, rewards based on spending, or very short term borrowing.	Financing major purchases or one-time cash needs	Recurring or seasonal cash flow needs
<b>How you access funds</b>	Available up to a limit and tied to a card for purchases; may be able to transfer balances for a fee	Typically, funds at one time after your loan closing	Available to draw up to your line limit; how you access will depend on your lender.
<b>How do payments work</b>	Pay a minimum amount monthly and incur interest charges or pay entire balance to avoid interest.	Balance reduces over time as payments are tied to loan maturity or amortization term.	Lenders may offer interest only payments or a percent of the balance plus interest.
<b>Interest rates</b>	Interest typically variable (floats) and often higher than bank loans	Typically, fixed rates locked in when you close your loan	Interest typically variable (floats)
<b>Collateral</b>	Typically, unsecured	Can be secured or unsecured. Larger loan sizes may require collateral.	Can be secured or unsecured. Larger loan sizes typically require collateral.
<b>Check</b>	<input type="checkbox"/> Have <input type="checkbox"/> Need	<input type="checkbox"/> Have <input type="checkbox"/> Need	<input type="checkbox"/> Have <input type="checkbox"/> Need

**Business lease** – allows the business to use the property owned by the lessor. May have an option for the user to purchase the property. Often used for commercial real estate, office equipment, and business vehicles.

**Construction loan** – a type of real estate loan where the balance increases as a project is completed until a point where the loan is paid off or converted into a commercial mortgage.

**Small Business Administration (SBA) guaranteed loan** – a type of financing offered by lenders where the SBA guarantees a portion of the loan. Often a way for borrowers to obtain longer terms or flexible funding if they do not meet conventional borrower qualifications.

# OTHER FUNDING SOURCES



# OTHER FUNDING SOURCES

Description	Consider
<p><b>Family and friends</b></p>	<ul style="list-style-type: none"> <li>• Can be easier to obtain than other alternatives</li> <li>• May offer lower interest rate and more flexible repayment terms</li> <li>• Can add strain to family and friend relationships</li> </ul>
<p><b>Equity investors</b> <i>(angel investors, venture capitalists, outside investors)</i></p>	<ul style="list-style-type: none"> <li>• Provide funds in exchange for ownership share in the business</li> <li>• Typically, no payments— investors are seeking a share of the profits and proceeds from any ownership sale</li> <li>• Some investors are experienced business owners may can provide practical advice and may want input into business decisions</li> <li>• Finding the right investor can be a long, involved process</li> </ul>
<p><b>CDFI</b> <i>(Community Development Financial Institutions)</i></p>	<ul style="list-style-type: none"> <li>• Typically serve community businesses—small businesses, microenterprises, nonprofit organizations, commercial real estate, and affordable housing</li> <li>• Financing for businesses that spark job growth and employee retention in hard-to-serve markets</li> <li>• Tailored for smaller and early-stage businesses</li> </ul>

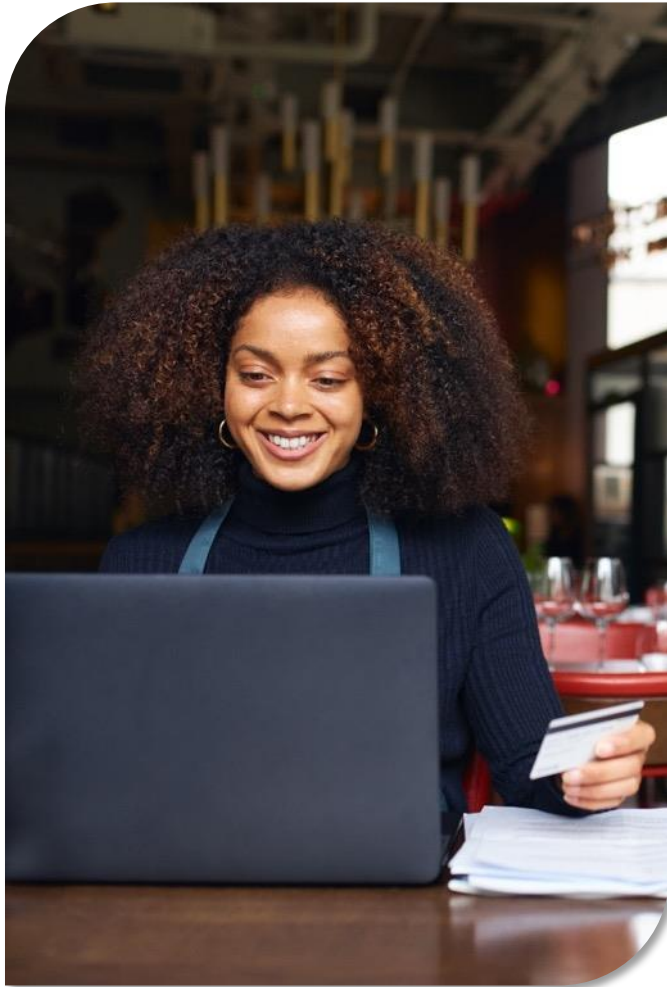
# OTHER FUNDING SOURCES

Description	Consider	
<b>Online lenders</b>	<ul style="list-style-type: none"> <li>• Fast decisions on loans and quick funding (sometimes within days)</li> <li>• Predictable monthly payments</li> <li>• More lenient on credit criteria with less documentation required</li> </ul>	<ul style="list-style-type: none"> <li>• Typically, higher interest rates</li> <li>• May be difficult to find for large loan amounts</li> </ul>
<b>Peer-to-peer (P2P) lending sites</b> <i>(e.g., Funding Circle, CircleUp)</i>	<ul style="list-style-type: none"> <li>• Borrowers with lower credit ratings may qualify</li> <li>• May offer lower interest rates than other options</li> <li>• Fast application processing</li> <li>• No interaction between lender and borrower</li> </ul>	<ul style="list-style-type: none"> <li>• Mostly used for personal loans, but growing use for small business loans</li> <li>• May require substantial personal information to determine loan eligibility</li> </ul>
<b>Crowdfunding</b> <i>(e.g., Kickstarter, Fundable)</i>	<ul style="list-style-type: none"> <li>• Works best for funding new products</li> <li>• Requires an excellent marketing campaign and social media savvy</li> </ul>	<ul style="list-style-type: none"> <li>• A strong social media following helps secure funding</li> <li>• Minimal cost to try (but considerable time investment)</li> </ul>
<b>Fintech</b>	<ul style="list-style-type: none"> <li>• Refers to companies that use advanced technology to improve financial decision-making.</li> <li>• It encompasses a wide range of financial services from mobile payment apps to online lenders</li> </ul>	<ul style="list-style-type: none"> <li>• It may be easier to get your loan approved by a fintech company, but interest rates may be higher, and loans may be due sooner.</li> <li>• Fintechs offer various financial opportunities</li> </ul>

# OTHER FUNDING SOURCES

Description	Consider
<b>SBA guaranteed loans through banks</b>	<ul style="list-style-type: none"><li>• A percentage of the loan is guaranteed by the Small Business Administration</li><li>• Banks are more willing to take a risk on your business</li></ul>
<b>Dept. of Community and Economic Development</b>	<ul style="list-style-type: none"><li>• Local economic development programs may offer financing assistance</li></ul>
<b>Dept. of Agriculture &amp; Rural Development Service</b>	<ul style="list-style-type: none"><li>• If you are located in a rural area or starting an agricultural-related business, there may be special loan programs available to help you.</li><li>• The SBA also has loans targeting rural entrepreneurs</li></ul>

# SOURCES OF CAPITAL: WEBSITES



## SBA guaranteed loans:

- [www.sba.gov](http://www.sba.gov)

## Federal Government Grants:

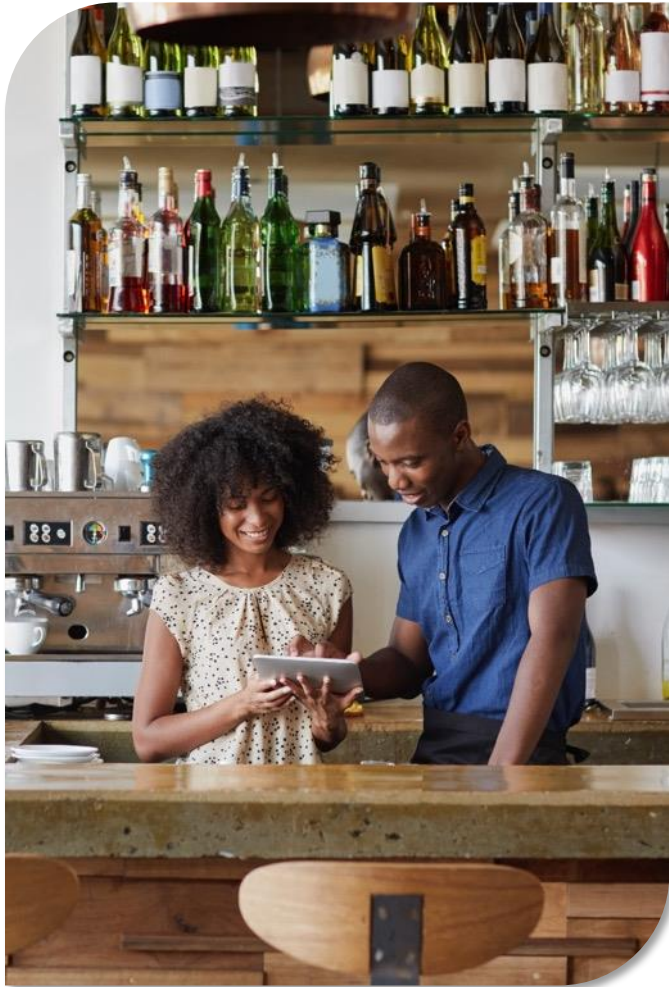
- [www.grants.gov](http://www.grants.gov)

Chapter to add local organization here

Chapter to add local organization here

# FINANCING FROM THE BALANCE SHEET

Session 5: Funding Options



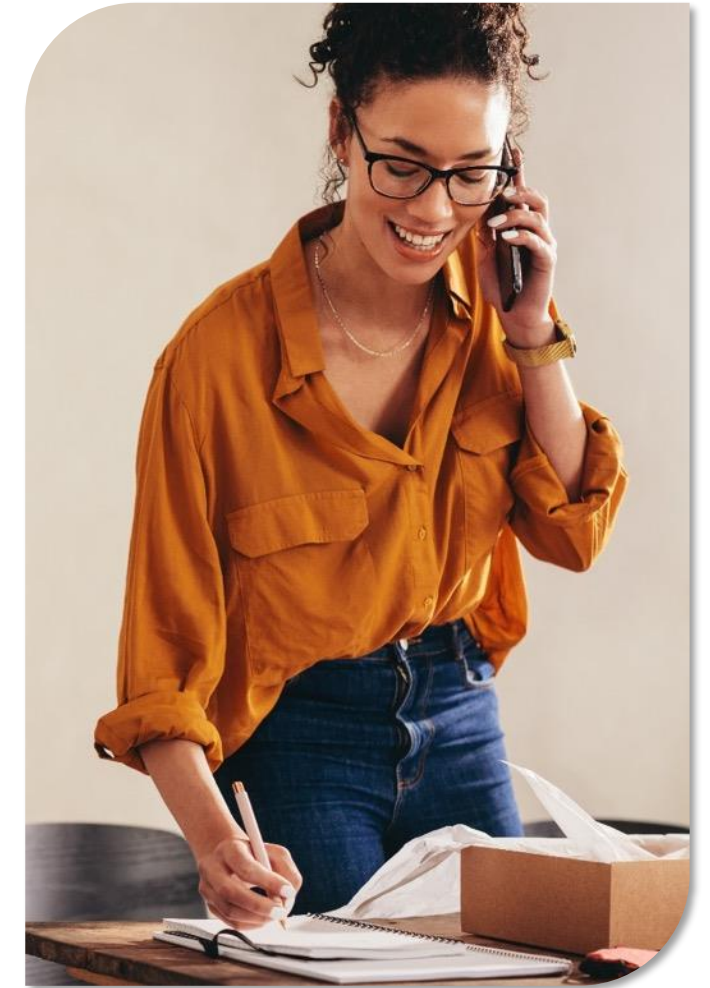
Sometimes you can get financing based on the value of assets in your business or the value of items you are using the loan to buy. These include:

- Accounts receivable financing/factoring
- Bank line of credit
- Equipment leasing
- Chattel mortgages
- Plant improvement loan
- Conditional sales contract

# WHAT LENDERS LOOK FOR

## Lenders and banks look for:

- Good credit
- Management expertise and commitment
- Feasible business plan
- Adequate owner equity
- Sufficient collateral



# 6 C'S OF CREDIT



1. Character
2. Capacity
3. Collateral
4. Capital
5. Conditions
6. Cash Flow

# CHARACTER

- Trustworthiness
- Personal and business credit history
- Integrity
- Quality of references
- Experience in the business
- Impression you make on the lender or investor



# CAPACITY



- Is your company able to repay the amount borrowed?
- How soon can you generate positive cash flow?
- When will you show a profit?
- How large will the profit be?
- Can the profit be sustained?

# CAPITAL

- The money you have personally invested
- Your ability to save money and accumulate growth in owner's equity





## Terms of loan:

- Intended purpose of loan
- How much is requested
- Length of loan

**Local economic climate of industry**

**Local economic climate of business**

## Additional Forms of Security:

- Secondary source of repayment
- Third-party guarantee
- Tangible assets
- Property
- Equipment
- Accounts receivable
- Inventory



# CASH FLOW



- Where is the money coming from to repay the debt obligation?
- Where will all the money go?
- How much of a “cushion” should I keep?

# CREDIT SCORE & REPORTS

**A FICO score of 700 or greater is desirable.**

Your personal credit report available for free  
from: [www.annualcreditreport.com](https://www.annualcreditreport.com)



## To apply for a loan, be prepared to provide any of the following:

- Cover letter of introduction
- Summary of financial needs
- Business financial statements (3 years)
- Business tax returns (3 years)
- Projected cash flow statement (1 year)
- Collateral (business and personal)
- Personal tax returns (3 years)
- Personal financial statements
- Résumé

## The lender will also ask:

- Are there any legal claims, liens or judgments vs. you or your business?
- Are any assets pledged?
- Are your tax returns and payments up to date?
- Do you have life insurance? If so, what is the face value or cash value?
- What are your monthly household income and expenses?



## Getting Your Foot in the Door

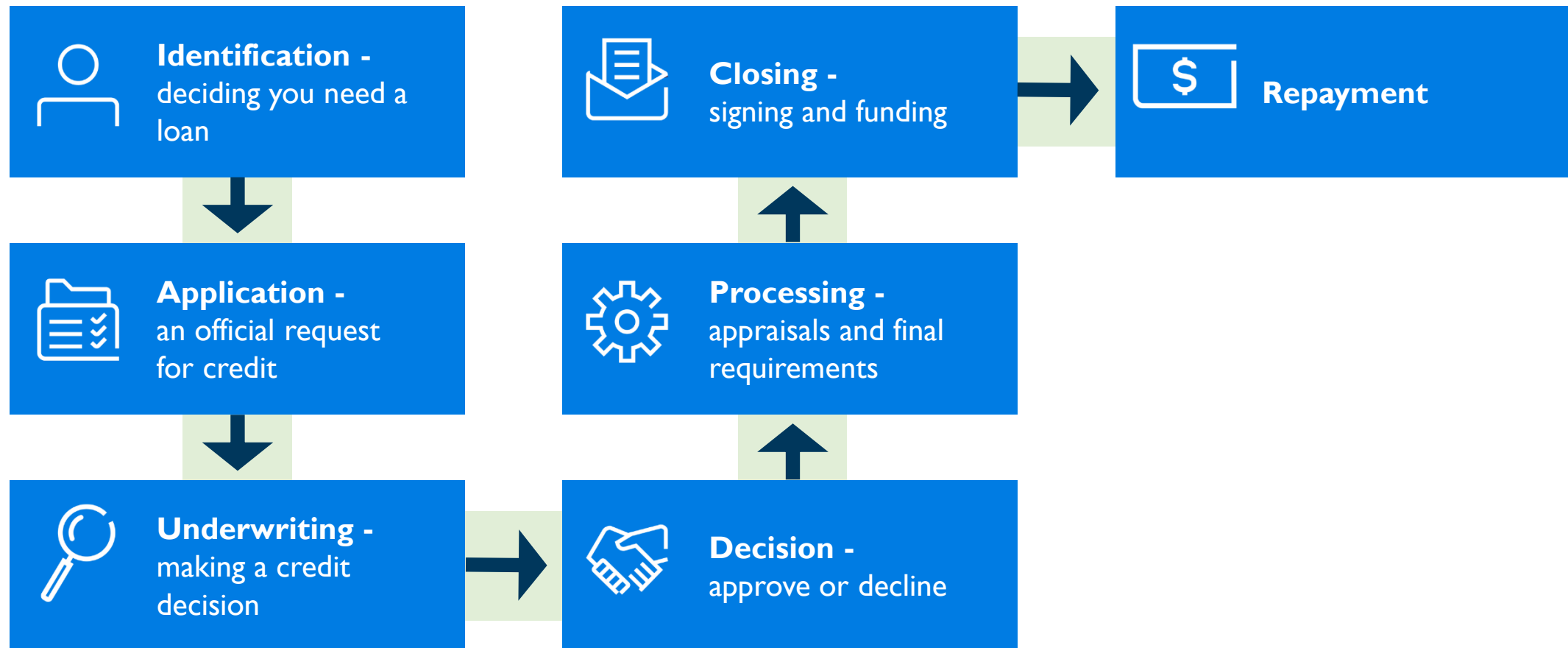
Know your financial **SWOT**

- **S**trengths
- **W**eaknesses
- **O**pportunities
- **T**hreats

Use your “strengths” for your:

- Elevator speech
- Abbreviated presentation

# THE BORROWING PROCESS



## Four steps to prepare for your next financing

1. Build a record of making payments on time. Update your cash flow planning and monthly payment reminders to include loan payment(s) and other regular obligations or put all your payments on automatic draft.
2. Address any business issues or deficits that could keep you from securing credit.
3. Build your track record of sales and profit growth to support future borrowing.
4. Continue to build the equity value of your business—a strong balance sheet and capital structure position you for future financing.

# KEY POINTS ABOUT BORROWING

**By understanding these points, you can put your small business in position to get the funds you need to sustain and grow your business**

- Borrowing requests should drive meaningful business outcomes.
- Borrowing, along with equity and cash reserves, are the primary sources of business funding.
- The best type of financing for your business (credit card, loan, or line of credit) depends on your situation and what you want to accomplish.
- Lenders focus on six considerations when assessing a loan request: character, capacity, capital, conditions, collateral and cashflow.
- Understanding the borrowing process and setting the right expectations can lead to a smoother experience and a more positive outcome.
- Putting your borrowing profile in writing can help you and a lender understand the fundamentals of your business and your borrowing needs.

# Questions?

# NEXT STEPS

- Sign up for other [Simple Steps for Starting Your Business](#) and [Small Business Essentials](#) webinars
- Review the Simple Steps for Starting Your Business [Workbook](#)
- Find other SCORE resources for small businesses at [score.org/templates-resources](https://score.org/templates-resources)
- Book an appointment with a SCORE mentor today at [score.org/find-mentor](https://score.org/find-mentor)



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