

Fairfield County



FOR THE LIFE OF YOUR BUSINESS

Small Business Funding

An Overview of Capital Sources
for Entrepreneurs

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February 8, 2023

Where Can You Get Money?

Two potential sources:

1. Entrepreneur's money
2. Other people's money
 - Grants
 - Debt (private, institutional, and government)
 - Equity (partnership or crowdfunding)?

Where Can You Get Money?

Self-funding sources:

- Cash and equivalents (savings, money market, CD's)
- Sell investments (stocks, bonds, collectibles)
- 'Fun money' (gambling) accounts (Draft Kings, crypto)
- Cash in retirement savings or life insurance
- Sell personal assets (vehicles, jewelry, property, tag sale)
- Future inheritance advance

Where Can You Get Money?

Grants / forgivable loans?:

- Not many are available (even fewer for startups)
- They're not easy to get (forms and a business plan)
- It's not really 'free' (time has an opportunity cost)
- Usually narrowly targeted (see HEDCO, WBDC, Amber Grants, & Black Business Alliance)
- May require matching funds (CCAT)
- Research (Google, www.GrantWatch.com, local library)
- Beware of scams (guard your personal information)

Where Can You Get Money?

Grants / forgivable loans?:

- Large corporations (ex: Fed-Ex, Amazon, Verizon, etc.)
- Foundations (Hello Alice)
- Banks (through their foundations - CRA)
- Federal government (SBIR/STTR, www.grants.gov)
- SBA export (STEP) grant
- State and local municipalities (ARPA)
- Private benefactors (people like a good story)
- Business plan competitions (ex: SCORE, local Chamber)

Where Can You Get Money?

Private loan sources:

- Friends and/or family
- Home equity line of credit (HELOC)
- 401K loan / self-directed IRA
- Margin account (loan secured by investments)
- Personal loan (ex: cash advance / buy on credit cards)
- Loan shark ('hard money' lenders)

Where Can You Get Money?

Institutional loan sources:

- Dealer (seller) financing
- Leasing
- Fin-tech / online lenders
- Factoring (cash advance against future receivables)
- Crowdfunding / peer-to-peer lending
 1. Donation (if there's a social element), equity exchange, or free / discounted products & services
 2. Loan with regular payments (deferred, interest-only)
 3. Any combination of these (all subject to negotiation)

Small Business Loan Sources

Banks:

- Small business lenders in CT (direct & SBA-guaranty loans)

Webster Bank

M&T (formerly People's)

TD Bank

Liberty Bank

Newtown Saving

Savings Bank of Danbury

Fairfield County Bank

First County Bank

Others

Small Business Loan Sources

Community Lenders:

Nonprofit organizations, licensed and regulated by the government

Function as the 'lender of last resort', when banks say "no"

Make loans to not-yet-bankable businesses (help them become bankable)

Community lenders specializing in loans to startups:

- Community Investment Corporation (CIC) *
- Community Economic Development Fund (CEDF)
- Hartford Economic Development Corporation (HEDCO)

Terms and products vary, so be sure to shop around

Small Business Loan Sources

Government:

- Federal programs (through community lenders)

Small Business Administration (SBA)

Microloan, Community Advantage 7a, and SBA 504

Most Common Types of SBA Loans

SBA Microloan:

Used primarily for startups

Borrow \$5,000 to \$50,000

Up to 7 year repayment term (usually 3 to 5)

Fixed interest rate (CIC's loan = 7.75%)

Can use the money for just about anything

Includes 'Technical Assistance' at no additional cost

- Advisory counsel (similar to SCORE)
- One-on-one educational training in certain key business functions
- MicroNow loan (\$15k-\$25k, fast approval for non-startups)

Most Common Types of SBA Loans

SBA 7a:

Issued by commercial banks to more mature businesses

‘Community Advantage’ (CA) alternative

For ‘B’ caliber borrowers, including startups

\$350,000 limit

Can use the money for anything, including real estate

Repayment term is usually 7 to 10 years

Variable interest rate (Prime + 3.75% = 11.75%)

SBA guaranty = more approval time

Most Common Types of SBA Loans

SBA 504:

Used for buying commercial real estate and fixed assets

Borrower's business has to occupy at least 51% of the space

\$5 million loan limit

Up to 25 year repayment term

As low as a 10% down payment (could go up to 20%)

Done in partnership with a bank (10/40/50 split)

Fixed interest rate (~6%) on the SBA piece

Sold as bonds to investors, with Uncle Sam's guaranty

Prepayment penalty may apply

Small Business Loan Sources

Government:

- Federal programs (through community lenders)

Small Business Administration (SBA)

Microloan, Community Advantage 7a, and SBA 504

Economic Development Administration (EDA)

U.S. Dept. of Commerce

Community Development Financial Institutions (CDFI's)

Treasury Dept.

Qualifications for Getting an SBA Loan

Not allowed:

Nonprofit (daycare is okay)

Investment company (ex: real estate investor)

Speculative prospecting

Gambling

Immoral, or of a prurient nature

Federally unlawful (ex: THC)

Financier (ex: payday lender)

Insurer (agents are okay)

Small Business Loan Sources

Government:

- State programs

 - DECD Boost (for non-startups) – See CT SBDC

 - Other DECD programs?

- Local programs

 - Norwalk Kiva (crowdfunding with a potential grant component)

 - Others?

Types of Loans

Term loan

Receive a lump sum upfront and repay it over the 'term'

Typically used to get the business or a project started

The SBA loans are all term loans

Revolving working capital line-of-credit

Plug short term gaps between receivables and payables

Provides a cash reserve (buffer), which every business needs

See Liberty Bank and CEDF

Most often starts with a business credit card

Access to capital is more important than the cost of capital

Best to have in place before you launch, if possible

Requirements for Getting Capital

The 7 C's of Capital:

1. Credit – FICO / D&B score and strong credit history
2. Capacity - ability to deliver on financial expectations
3. Collateral - assets that can be pledged as security
4. Character - owners are competent and trustworthy
5. Commitment - need to have 'skin in the game'
6. Compelling story - strong vision and a realistic plan
7. Confidence - in the people running the business

7 C's of Capital

1. Credit:

- Personal credit score for borrower and spouse
- No delinquencies, bad debt write-off's (especially to the government), or bankruptcy
- SBA loans require the borrower to seek 'credit elsewhere'

7 C's of Capital

2. Capacity:

- Demonstrate you can afford the loan payments
 - Business has to be at or near the point of revenue
 - Look at historical financials (if applicable) and projections
- Adequate household income
- Adequate financial reserves
- No contingent liabilities (ex: lawsuits, divorce, etc.)

7 C's of Capital

3. Collateral:

- Pledge business and personal assets
- These are secured loans, and you're going to have to provide a personal guaranty
 - There's no such thing as 'limited liability' when you borrow money (same for a lease)
- Life insurance policy (on some types of loans)

7 C's of Capital

4. Character:

- Background check / criminal record
 - Be honest (we demand full disclosure and transparency; we don't like surprises)
 - SBA is forgiving, except for fraud or crimes involving children
- Child support has to be current
- Demonstrated humility (ex: working with SCORE)
- References
- Banking is a relationship business, based on trust

7 C's of Capital

5. Commitment:

- 'Equity injection' (down payment)
 - Demonstrate you have 'skin in the game' (lender's money goes in last)
- We want to see effort (show that you're serious)
 - Do your research / homework (due diligence)
 - Grant applications, if you qualify
 - Documents are neat and clean

7 C's of Capital

6. Compelling story:

- Business plan (business case) and financial projections tell your story, in absentia
 - Both should tell the same story, one using words and the other with numbers
- Explain why the lender should give you any money
 - What's in it for them? - remember their economic development mission
- Presentation to the Board for loan approval is a five-minute summary of your story, so it needs to be good

7 C's of Capital

7. Confidence:

- In the viability of the business
- In the person running the business (feasibility)
- Resume of partners / track record of success
- Do partners / investors have confidence in you?
- Self-confidence has to be realistic, genuine, believable

Loan Origination Process

1. Information collection:

- Qualification screening questions
- Lots of forms to fill out
- Lot of information to submit (ex: trailing P&L, balance sheet, taxes, leases, etc.)
 - The lease term has to be at least as long as the loan, including renewal options
- Business plan and projections
 - Again, everything has to function on a standalone basis
 - Questions are a bad thing

Loan Origination Process

2. Underwriting (Processing and Credit):

- Due diligence (confirmation of all information)
- Credit and background check
- Vetting the business for viability and feasibility
- Analysis (afford the loan, reasonable projections?)
- Reconciliation and discrepancy resolution
 - Does everything add up?
 - Undeclared income = no income
- Risk mitigation (determine collateral, insurance, etc.)
- Start to build the business case (how to tell your story)

Loan Origination Process

3. Approval:

- Loan Officer
- Credit review team
- Senior management
- Board of Directors
 - Presentation of the business case by the Loan Officer (they're your advocate)
- SBA approval (if applicable)
 - Knowing SBA's policies and procedures is the economic development lender's value-added

Loan Origination Process

4. Closing:

- More paperwork and forms to sign (electronically)
- Cut the check!
- Plan ahead (it can take two to six months), and start the application process as early as possible

Loan Origination Process

5. **Servicing:** (post-closing)

- Loan payment processing (accounting)
- Credit bureau reporting updates (on-time or late?)
- Statements (monthly and annual)
- Covenant compliance (there are requirements, other than making payments)
- ‘Technical Assistance’ (if you have an SBA Microloan) – similar to SCORE
- Release of liens, once the loan has been paid-in-full

Reasons Why Loans Don't Get Funded

10. Unrealistic business plan and/or projections (not viable/feasible)
9. Assets to be purchased do not appraise at fair market value
8. Uninspiring borrower and/or business (no compelling story)
7. Inadequate industry experience (low confidence in track record)
6. Insufficient capacity (can't afford the loan payments, and live)
5. Insufficient collateral, or unwillingness to pledge assets or guaranty
4. Inadequate financial commitment ('equity injection' & cash reserves)
3. Unreasonable timing objective (I can't get you the money yesterday)
2. Blemishes on the borrower's credit profile (low FICO & delinquency)
1. Lack of borrower dedication (process fatigue → abandonment)

Things You Should Do In Advance

1. Get your financial profile in order

- Optimize your personal credit score (do a 'soft pull' only)
- Resolve any credit delinquencies or defaults
- Save money (build cash reserve)
- Optimize your business financials and business credit score
- Think strategically about your ownership structure (<20%?)
- Maximize supplemental / supporting income
- Resolve any outstanding litigation, such as divorce

Things You Should Do In Advance

1. Get your financial profile in order
2. Pull together copies of your financial documents
3. Figure out how much money you'll need
4. Shop around for credit (talk with various lenders + bank)
- 5. Business case / plan and financial projections**
6. Get your product / service ready to go to market
7. Build your professional resume (experience)
8. Stay focused on what's most important (revenue)
9. Wait (if possible) to sign the lease / P&S agreement
10. Get licensed (if required) and any certifications

Keep In Mind ...

Entrepreneurial risk increases exponentially if you borrow money

- Test the viability and feasibility of the business before you launch

Government debt for startups always requires a personal guaranty

- An LLC provides limited legal liability
- Doesn't apply when the entrepreneur borrows money
- The money has to be paid back, regardless
- If the business fails, the debt obligation survives
- This is very important to remember!

The government is the most common lender for small businesses

- They also have very strong default remedies through their taxation agencies

5 Key Things To Keep In Mind

1. Running out of money is the second most common reason why new businesses fail
2. Make sure you borrow enough money
3. Loans are not easy to get (and they're not supposed to be); demonstrate that you're serious
4. Defaulting on a loan can be onerous, so make sure your business is viable and feasible (see the business case)
5. It takes time to get a loan (there's a lot involved), so be sure to start the process early