

# SIMPLE STEPS FOR STARTING YOUR BUSINESS:

## Funding your Dream



# AGENDA

- Why do businesses need funds?
- Types of funding and sources
- What lenders look for?
- 5c's of credit + ONE
- Borrowing strategies

# WHY DO 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 e-commerce</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>

# 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 the 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 have to 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>

# SELECT THE RIGHT TYPE OF FINANCING

## How to select the right type of financing

	Business credit card	Business loan	Business line of credit
Best for	Everyday purchases, very short-term borrowing, or to get rewards based on spending.	Financing major purchases or one-time cash needs	Recurring or seasonal cash flow needs Emergency situations
How do you access funds	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.
How do payments work	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.
Interest rates	Interest typically variable (floats) and usually higher than bank loans	Typically, fixed rates locked in when you close your loan	Interest typically variable (floats)
Collateral	Typically unsecured	Can be secured or unsecured. Larger loan sizes may require collateral.	Can be secured or unsecured. Larger loan sizes typically require collateral.

**Business lease** – use the property owned by the lessor. May include a purchase option. Used for commercial real estate, office equipment, & business vehicles.

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

**Small Business Administration (SBA) guaranteed loan** – a bank loan 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

Description	Considerations
<b>Family and friends</b>	<ul style="list-style-type: none"><li>• Often easier to obtain than other alternatives</li><li>• May offer lower interest rate and more flexible repayment terms</li><li>• May strain family and friend relationships</li></ul>
<b>Equity investors</b> <i>(angel investors, venture capitalists, outside investors)</i>	<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>• May be experienced business owners who 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>
<b>CDFI</b> <i>(Community Development Financial Institutions)</i>	<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><li>• Can help improve credit worthiness from banks and more traditional funding sources.</li></ul>

# OTHER SOURCES

Description	Considerations
<b>SBA guaranteed loans through banks</b>	<ul style="list-style-type: none"><li>• A portion of the loan is guaranteed by the Small Business Administration</li><li>• Banks are more willing to take a risk on your business</li><li>• Generally, carry a higher interest rate than a standard bank loan</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>

# OTHER FUNDING SOURCES

Description	Considerations	
<b>Online lenders</b>	<ul style="list-style-type: none"> <li>• Faster 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 upfront 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>

# KC AREA MICRO-LENDERS

## **AltCap** ([www.altcap.org](http://www.altcap.org))

Serves Missouri and Kansas

Loans up to \$250k with acceptable business model

## **Kansas City Hispanic Economic Development Corporation** ([www.kchedc.org](http://www.kchedc.org))

Open to the general public with an emphasis on Latino businesses and credit building. Average loan size is \$5,000 (Serving the Kansas City metro area)

## **Justine Petersen** ([www.justinepetersen.org](http://www.justinepetersen.org))

Open to the general public, credit building focus-Average loan is \$10,000 up to \$50,000 (Serving the Kansas City metro area)

## **Women's Business Center** ([www.kansascitywbc.com](http://www.kansascitywbc.com))

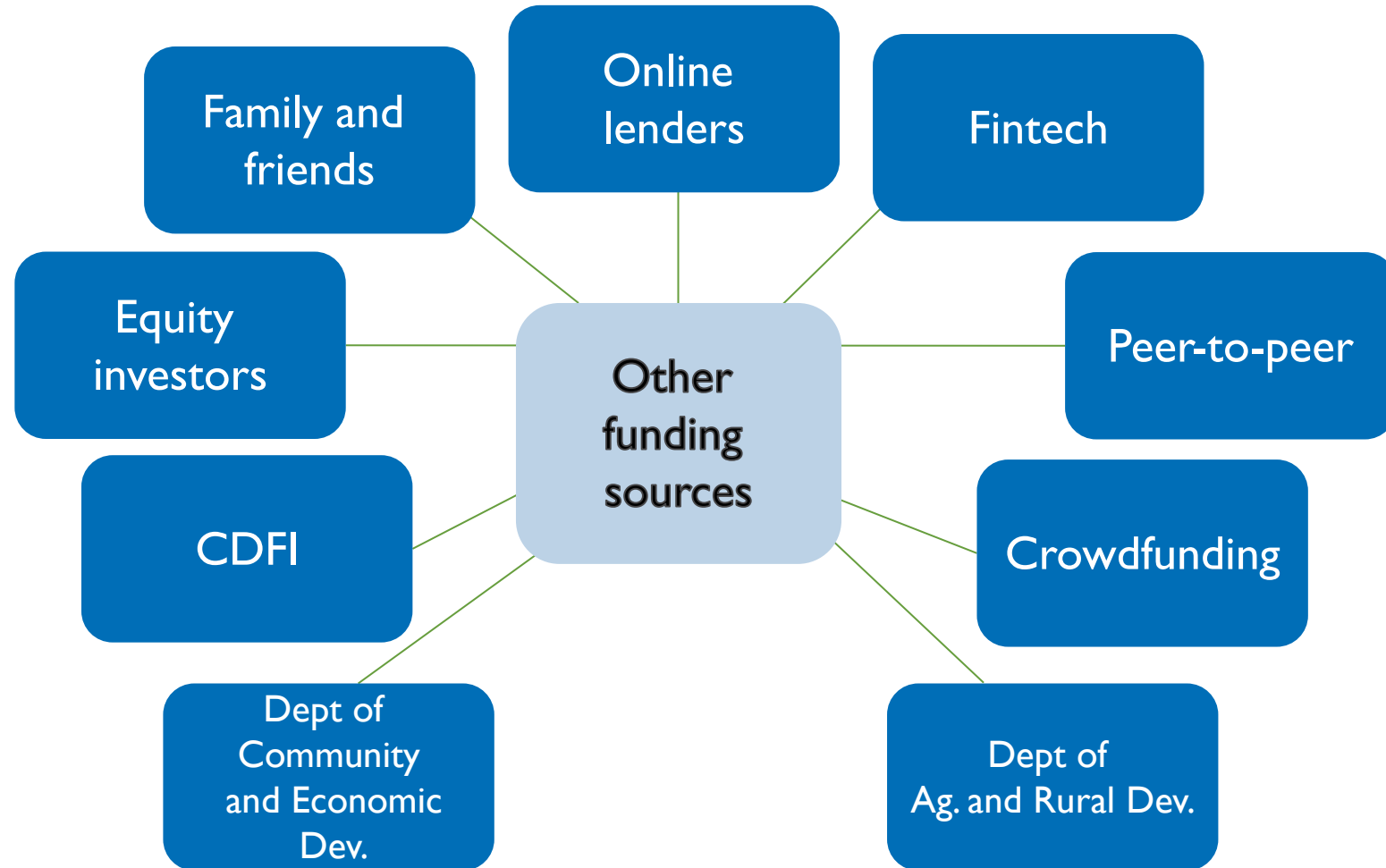
Start-up loans for women-led businesses- \$5000 to \$25,000

## **Dreamspring** (<https://www.dreamspring.org/>)

Loans from \$200 up - flexible credit requirements



# SOURCES OF FUNDING



# FINANCING FROM THE BALANCE SHEET



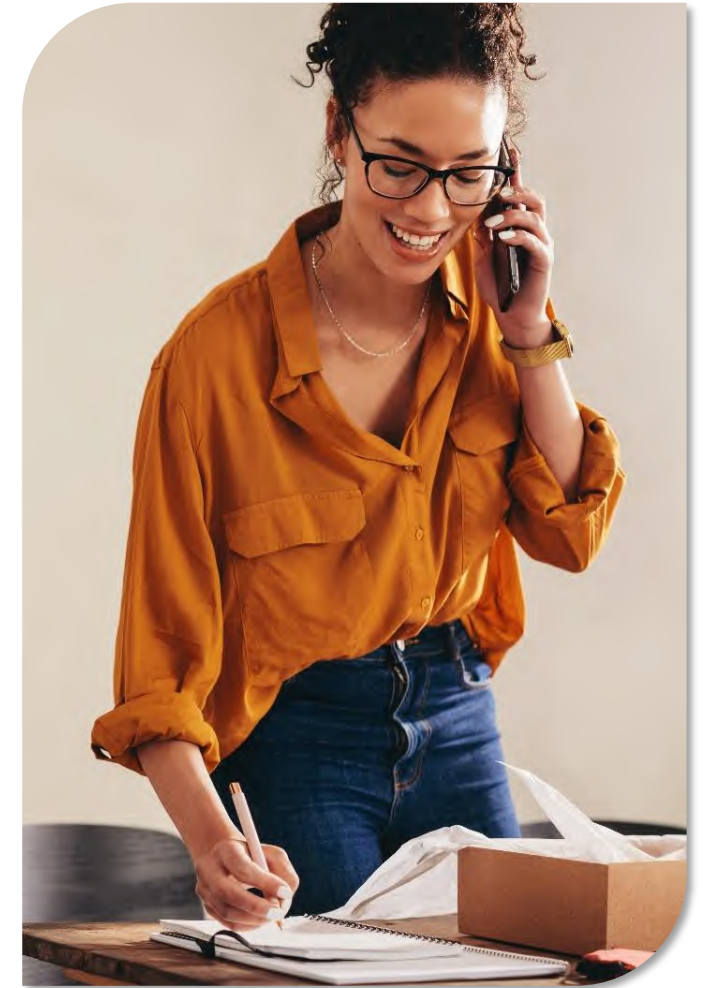
If you are already in business, you may be able to secure financing based on the value of assets owned by your business or the value of the items for which you are using the loan to buy.

- Accounts receivable financing/factoring
- Line of credit
- Equipment leasing
- Business Assets
- Conditional sales contract

# WHAT LENDERS LOOK FOR

## Lenders and banks look for:

- Good credit
- Management expertise and commitment
- Feasible business plan (not required)
- Adequate owner equity
- Sufficient collateral
- CASH FLOW IS KING!



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

- 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
- Personal 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?

# 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

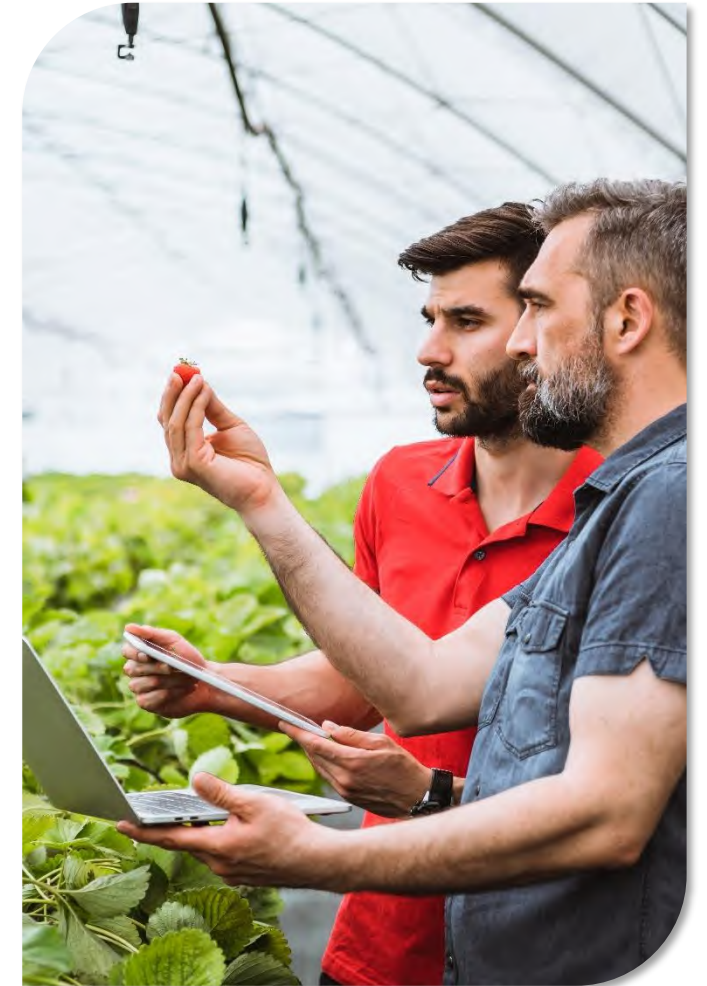


- Is your company able to repay the amount borrowed?
- How soon can you generate positive cash flow?
- When will you show a profit?
- How large will the profit be?
- Can the profit be sustained?

# COLLATERAL

## Additional Forms of Security:

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



# CAPITAL

- The money you have personally invested
- Your ability to generate profits and retain the profit in the business in order to grow the owner's equity.



# CONDITIONS



## Terms of loan:

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

**Local economic climate of industry**

**Local economic climate of business**

# 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

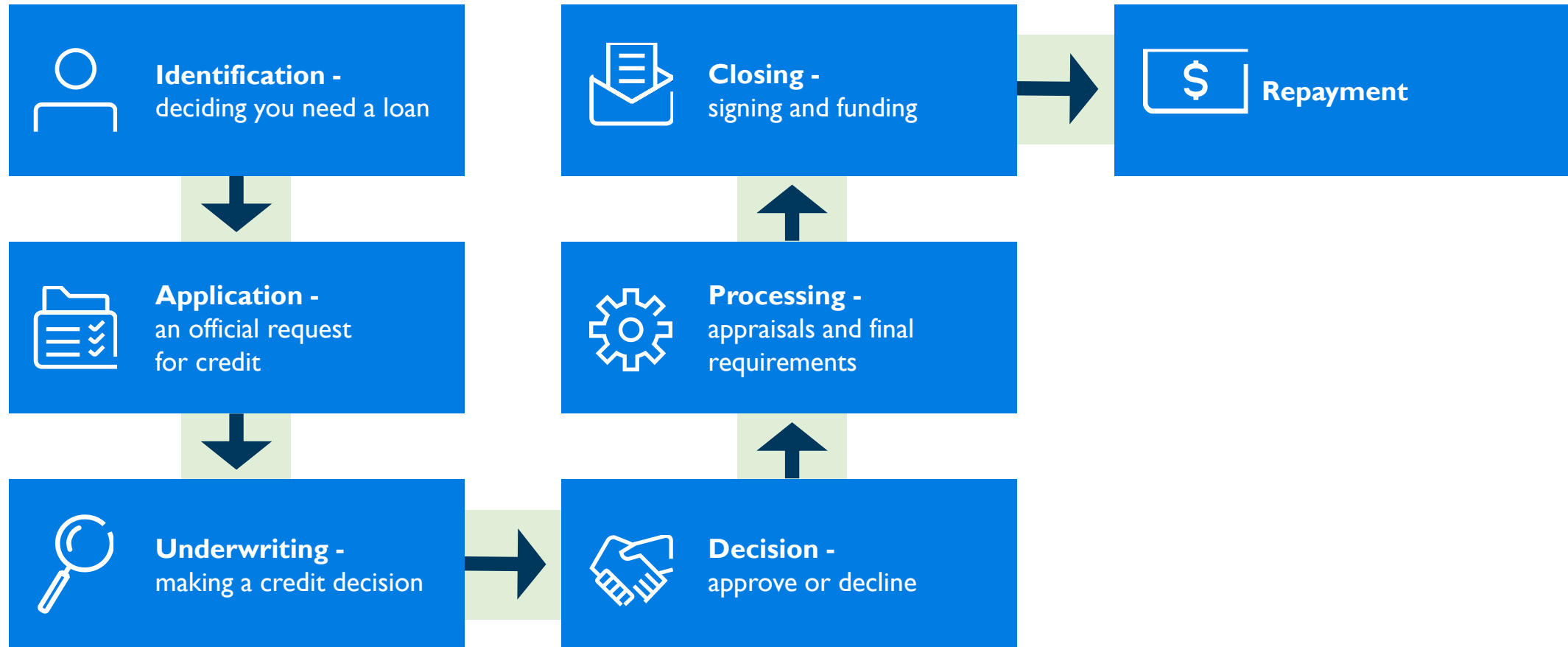
**A FICO score of 700 or greater is desirable.**

**Every financial institution have different requirements.**

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



# THE BORROWING PROCESS



# KEY POINTS ABOUT BORROWING

**You can put your small business in the best position to get the funds you need to sustain and grow your business by understanding the following:**

- 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.

# NEXT STEPS AFTER A FINANCING DECISION

## 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.

# CROWDFUNDING

## What is Crowdfunding?

- An alternative method for raising financing for a business idea that gives business owners access to a broad swath of potentially interested investors via the Internet.
- Crowdfunding has been around for a few years in the form of small donations for arts and social projects, in return for token rewards such as t-shirts or dinner with the founders.

*Sources: [nlcfa.org](http://nlcfa.org), [startupexemption.com](http://startupexemption.com), [opportunity.org](http://opportunity.org)*

# COMMON TYPES OF CROWDFUNDING

## **Rewards-Based:**

- The business owner gives specific rewards to those who fund them.
- An entrepreneur wants to create a new widget but doesn't have the funding. They essentially ask the investor to pre-buy the widget, which they will receive once it is created.

## **Equity-based or investing:**

- Individuals who fund you receive equity in your business and become shareholders

Sources: [nlcfa.org](http://nlcfa.org), [startupexemption.com](http://startupexemption.com), [opportunity.org](http://opportunity.org), [sba.gov](http://sba.gov), [crowdraiser.com](http://crowdraiser.com), [businessnewsdaily.com](http://businessnewsdaily.com)

# CROWDFUNDING-SOME EXAMPLE SITES

## MicroFinance

Kiva: (as small as \$25 loans by individual lenders); <https://www.kiva.org/>

KC Bizcare (KCMO) is working on a connection from their website: <https://bizcare.kcmo.gov>

## Equity-based

Fundable: <https://www.fundable.com/>

WeFunder: <https://wefunder.com/>

## For Profit/Rewards-based:

KickStarter: <https://www.kickstarter.com/>

Indiegogo: <https://www.indiegogo.com/>

## Non-Profit/Personal Charitable Causes (Donation-based Crowdfunding)

GoFundMe: <https://www.gofundme.com/>

Mightycause: <https://www.mightycause.com/>

Sources: <https://www.investopedia.com/best-crowdfunding-platforms-5079933>;

<https://www.gofundme.com/c/blog/top-crowdfunding-sites>