

***Show me
the money!***



***Do you ever
feel like
you're
'stuck'
financially?***





Purpose:

Commercial Financing Basics

Potential Methods of Commercial Finance

Overview of U.S. Small Business Administration Programs

Quick overview of Alternative Lending Resources



Loan Guaranty





Topics to be discussed:

5 C's of credit

Family, Friendly Funding

Business Plans

Partnerships

What to take to the Bank

Selling equity / shares

SBA Loan Guaranty Program

Venture Capital

Microloans

Angel Investors

Self Financing

Crowd Funding

5 C's of credit

Capacity

Capital

Character

Collateral

Conditions



5 C's of Credit

Capacity:

- the business and guarantors' ability to repay the loan.
Capacity is a derivative of Cash Flow and Margin

Capital:

- business owner's investment into their own company
- a business owner unwilling to invest their own funds in the company will often find banks are unwilling to take the first risk

Character:

- the trustworthiness of candidates for character.
- Factors are: business experience, credit history, references, and education (aka Business Résumé)

5 C's of Credit (cont'd)

Collateral:

- various forms of assets can act as another method of repayment. Collateral could include: equipment, real estate, inventory, accounts receivable, and securities

Conditions:

- a review of the small business credit or loan conditions in terms of use verses consumer activity
- also applies to the external environment that impact a company's ability for repayment (NAICS code)

Each of the five C's are reviewed by lenders / investors for determining credit / financing terms

- One of the most important tasks to obtain a small business loan is preparing a **business plan**.
- The business plan needs to **show the lender that providing you with a small business loan is a mitigated, low-risk proposition**.
- Your business plan must answer the questions a lending institution would ask...

Why do you need the money?

How much money do you need?

- If you are starting a business, this should be included at least in the start-up capital estimate. Accuracy is important, so request enough money to invest wisely.

What are you going to do with the money?

- You will have to provide, in detail, the designated use of every dollar requested.
- A small business loan is often needed for: operations (new employees, marketing, etc.), assets (equipment, real estate, etc.), or to refinance current business debt.



Business Plans (cont'd)

When will you repay the small business loan?

- You will need to convince the lender (with your financial statements and cash flow projections) that you are able to repay the loan through projected long-term profitability of your business.

What will you do if you don't get the loan?

- Let lenders know that rejection will not discourage you from starting or growing your business.
- As a small business owner, you will need a certain degree of fortitude.
- Ask the lender why you didn't get the small business loan. Learn from the answer, move on, and try other lenders.



U.S. Small Business Administration



***This is what happens
when you don't have a
business plan...***

What to take to the bank

Common documentation includes:

- Purpose of loan
- Business history*
- 3 years of business financial statements*
- Schedule of term debts*
- Aging of accounts receivable and payable*
- Projected opening-day balance sheet
- Copy of Lease(s) and / or liens
- Amount of owner investment in business
- Projections of income, expenses & cash flow
- Signed personal financial statements
- Guarantor Business Résumés

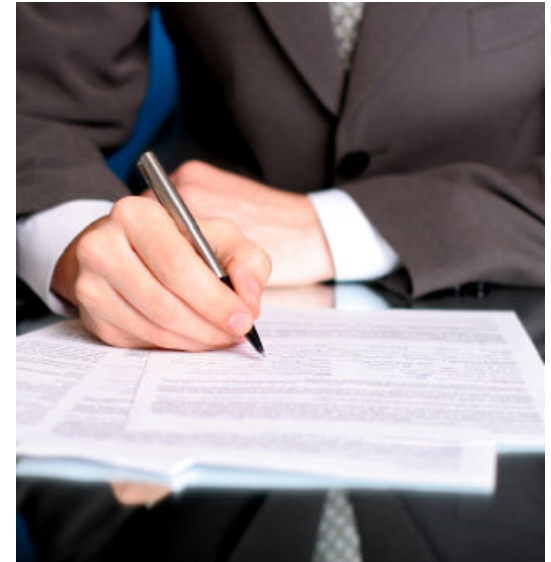


**** for existing businesses***

*****for new businesses***

SBA Loan Guaranty Program

- 10 different loan programs
- 1 microloan program
- Up to \$5 million loan amount
- For start-up &
existing businesses



SBA does not provide:

- **Grants**
- **100% financing**
- **Funding for Illegal Enterprise (Federal)**
- **Gambling**
- **Pass Throughs nor Speculatives**
- **Prurient Nature Industries**
- **Direct business loans** (except for Nationally Declared Disasters)
- **Non-Profits**





How does this process work?

- **Step 1**– Work with SBA and our resource partners to develop a finalized business plan
- **Step 2** – Visit your current lending institution to discuss financing options
- **Step 3** – Lender decides to utilize a traditional loan or seek an SBA guarantee
- **Step 4** - Lender submits request to obtain SBA guarantee
- **Step 5** – If approved, lender works with you on loan closing

7(a) loan guarantees

- Loan Amounts up to \$5M
- 50-90% loan guarantees
- Upfront Guaranty Fees waived up to \$125K
- Long Term Financing
 - Working capital up to 10 years
 - Commercial Real Estate up to 25 years
- Rates : Prime + 2.25% to Prime + 4.75%
- Accessed at any participating bank





SBA Loan Guaranty Program (cont'd)

504 Loan Guaranty Program:

- Long-term, fixed-rate financing (10 & 20 year terms)
- 50/10/40 Split between Bank, Borrower and Certified Development Company (CDC)
- Fixed Assets Only
- Commercial Real Estate
- Less risk for primary lender
- Lower equity requirement for borrower

*10% for Existing Business, 15% for S/U and 20% for Single Purpose Facility

Micro-Loans

- SBA provides loan through non-profit intermediary
- Micro-lender loans of up to \$50,000 to small businesses
- Maturity up to six years
- Interest Rates typically range 8 to 13%
- Technical assistance provided

Micro-Loans can be Used for:

- Machinery, equipment & fixtures
- Leasehold improvements
- Inventory
- Working capital





Self Financing

Personal Finances Can Affect Your Business Finances (check your personal credit history)

Starting a business can be a tremendous strain on your personal finances

It takes time before your new venture turns a profit and provides financial support

Before starting a business, get your personal finances in order

Write a monthly household budget



Family, Friendly Funding

1. Don't be afraid to ask

Practice your “elevator pitch,” and end it by asking for the order.

2. Be passionate about the idea

You are your best marketer!

3. Demonstrate progress and your own “skin in the game”

What would convince you to invest in someone else's idea?

4. Communicate the risks

Be honest about the inherent risks of a startup.

5. Write down the agreement

Get your agreement in writing with witness signatures and respective ‘originals.’



Partnerships

Limited Liability Corporations (LLC)

Startup Costs - LLC startup costs are relatively low

Pooled Resources - Limited partners can be passive members of LLCs and useful for pooling resources to secure credit and raise capital. Partners can also complement each other's skill sets.

Limited Liability for Partners - Limited partners enjoy limited liability for the debts and obligations of the LLC, since they are liable for the extent of their investment in the LLC.

Profit Sharing - The operating agreement outlines profit and loss sharing among partners who receive a share of profits.

Taxation - LLCs are subject to pass-through taxation. While the business files a tax return with the IRS, individual partners, both general and limited, pay the LP's taxes respectively



Selling Equity / Shares

- **Shares** represent ownership in a company
- You can **sell shares** of your company **to raise capital** or sell your business outright.
- **Prepare a valuation report** on your business to determine how the worth of your company shares. This will require a specialized accountant.
- **Explore different options for selling your shares.** Much will depend on the size of your business: If you have a start-up company, the best option for you may be angel investors or venture capital firms (discussed later).
- For established companies, you can sell shares through private placements or get a public listing on an organized stock exchange.
- **Approach potential investors** to sell shares to the highest bidder.
- **Do not sell shares below estimated worth.** If no reasonable price appears, postpone your sale of shares to a later period.



Venture Capital

- Generally not the initial capital raising stage
- Equity investment
- VC is often given a board seat or holds some management influence
- Exit strategy in place, usually after five years
- Seek high earnings growth

More information: www.rockiesventureclub.org/
www.denvergov.org Denver Office of Economic Development
- Denver Capital Matrix

- Informal group of Investing Group
- Angels often have target industries
- Must have the potential for fast growth; not necessarily high-tech
- Very early stage
- Equity financing

More information: www.rockiesventureclub.org/
& <http://eir.dell.com/resources/access-capital/>

4 Basic Methods of Crowd Funding

- **Reward Based** – for non monetary benefits
- **Donation Based** – for philanthropy or sponsorship (taxable earnings write off)
- **Equity Based** – includes revenue and profit-sharing models
- **Debt Based** – P2P lending, P2B lending and social lending



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Questions ?