



# Access to Capital 101: The Funding Landscape for California Small Businesses

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Northern California Outreach  
Small Business Majority



## About Small Business Majority

- **Small business education and advocacy organization** – founded and run by small business owners. Been in business since 2005.
- **National** – 8 offices in Washington, D.C., California, Colorado, Illinois, Maryland, New York and Virginia
- **Focus on issues of top importance to small businesses** (<100 employees) and the self-employed, including access to capital, workforce, healthcare, retirement, taxes, technology and energy savings; work supported by extensive **research**
- **Venturize** brings resources and education to small business owners in key areas of running and growing a small business

# About Small Business Majority: Our Model

## RESEARCH

Start with extensive research (polling, economic studies) to gauge small business owner views and speak to their bottom line



## EDUCATION

Partner with business groups to hold seminars and roundtables to educate small business owners and get their personal views



## ADVOCACY

Enact change by elevating small business views in public policy debates



## NETWORK

Use real small business voices with lawmakers and the media  
(more than 20,000 earned media hits)



# > Topics of discussion

## **Background and research**

Key questions to ask when seeking funding

The funding landscape:

- Community development financial institutions (CDFIs)
- SBA-backed loans, CalCAP-backed loans
- Community banks & credit unions
- Alternative online lenders

Small Business Borrowers' Bill of Rights

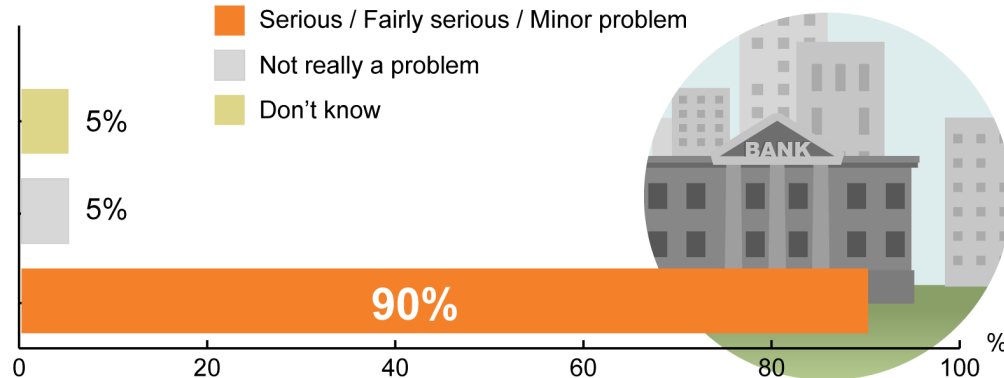
Resources and Tools

# Access to Capital 101

## The dilemma

### Our scientific opinion polling:

90% of small businesses say the availability of credit is a problem



- The availability of capital is crucial for small business startup, survival, and growth.
- Inadequate access to capital continues to be a top issue facing small business
- Small businesses still struggle to access capital post-recession

# Access to Capital 101

## Women and minority owned businesses



- **Women and minority owned firms face significant barriers**
  - Typically smaller in size, start with less capital
  - Lower approval rates for bank loans and at smaller dollar amounts
  - More vulnerable to predatory lending





# Access to Capital 101

## The good news



**Good news!**

There are more funding options available than ever before to help you start and grow your business

# Access to Capital 101

## Sources of funding

Family & friends	Personal savings	Microloans
Personal & Business credit cards	Home equity	Community banks & Credit unions
Venture capital	Equipment financing	Merchant cash advance
Angel investors	Receivables & Purchase order financing	Online cash flow lenders
Economic dev't agencies	Bank loans	Online marketplace lenders
Start up programs, bus. plan competitions	SBA & CalCAP loans (guarantee)	Crowdfunding: Reward & Equity
Grants	Community dev't loan funds (CDFI)	Incubators & accelerators



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# Access to Capital 101

## Important questions to consider



- What do you **need** the money for?
- **How much** money do you need?
- **How long** will it take you to pay it back?
- What is the **current financial shape** of your business?
- **How long** have you been in business?
- **How much** collateral, if any, do you have to put up for the loan?
- **How quickly** do you need the money?
- Are you seeking **debt or equity** financing?



# > Access to Capital 101

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## Access to Capital 101

### Community development financial institutions



- **Community development financial institutions (CDFIs)** offer loans (usually less than \$250k) for entrepreneurs who are typically ineligible for traditional bank loans; may be used for wide range of business purposes
- CDFIs are dedicated to responsible affordable lending to **underserved** entrepreneurs and **low-income** communities
  - Revolving loan funds through private and gov't funding
  - Often provide **in-depth support** that includes mentoring and technical assistance
  - Many CDFIs offer **microloan** programs, loans less than \$50K

# Access to Capital 101

## Community development financial institutions



### + Pros

- Competitive rates
- Great for entrepreneurs unable to secure traditional bank loans
- CDFIs usually offer add'l business technical assistance support

### – Cons

- Smaller value loans may not be sufficient
- Personal collateral and guaranteed often required

## Access to Capital 101

### SBA loan programs (guarantee)

The **U.S. Small Business Administration (SBA)** guarantees a portion of loans to provide incentive for institutions to approve loans to small businesses that are riskier borrowers and not poised to obtain traditional bank loans

- SBA is not a lender, but a **guarantor**
- Loans cover a wide range of uses incl. start-ups, working capital, inventory, real estate, equip, etc.
- Primary programs: 7(a) and 504 Loans
- Programs are also available for **microloans**, disaster relief, export assistance and veteran and military

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## SBA loan programs (cont.)



- SBA Community Advantage Program
  - Provides mission-based lenders like CDFIs access to loan guarantees for up to 85% of loans up to \$250,000
  - Targets small business, for-profit borrowers in underserved markets, offering affordable rates no more than the prime rate+6% (typically ranging between 7-9%)
  - A borrower's qualification is not dependent on the size of their business balance sheet or the amount of collateral
  - Lenders participating in the program have access to SBA's management and technical assistance programs



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## SBA loan programs (cont.)



### + Pros:

- Very competitive rates
- Longer loan terms
- No balloon payments
- Work with SBA lender to gather required documentation; review application checklist

### - Cons:

- Very competitive rates
- Longer loan terms
- No balloon payments
- Work with SBA lender to gather required documentation; review application checklist

### Resources:

- Find an SBA approved-lender near you: [sba.gov/tools/linc](https://sba.gov/tools/linc)
- Partners: SCORE, Women's Business Centers, SBDCs



# Access to Capital 101

## California Capital Access Program (CalCAP)



- CalCAP
  - Commercial loan for California small businesses who are not currently able to qualify for an SBA or traditional loan.
  - Overseen by the CA Treasurer's Office
  - Similar to SBA loan program in that the program guarantees a bank or lender insurance in case of default.
  - Approved for loans of up to \$2.5 million.



# Access to Capital 101

## CalCAP Loan Program (cont.)



### **+ Pros:**

- Competitive rates
- Flexible loan structures
- Experienced lending officers
- No minimum amount required
- No balloon payments

### **- Cons:**

- Matching required for public funds adds difficulty in getting monies to small business owners
- Sometimes unsteady flow of capital

### **Resources:**

- Find an CalCAP approved-lender near you: [treasurer.ca.gov/cpcf/calcap/sb/index.asp](https://treasurer.ca.gov/cpcf/calcap/sb/index.asp)
- Partners: Women's Business Centers, SBDCs

# Access to Capital 101

## Community banks and Credit unions

**Community banks and credit unions** have long been key allies for small business

- Community banks: small, locally owned and operated
  - Primary focus on supporting small business
- Credit unions: nonprofit financial institutions
  - Clients must become members
  - Not all offer small business loans

### Small business loan approval rates in 2014

Big banks	20%
Community banks	50%
Credit unions	43%

# Access to Capital 101

## Community banks and Credit unions (cont.)



### + Pros

- Low interest rates
- Long loan terms (multiyear)
- Commitment to local community
- Great customer service, personal touch

### – Cons

- Long application times
- High hurdles, i.e. in business for 2+ years, good credit, collateral requirements
- Tightly regulated – limited flexibility
- Less range of products and technology than big banks

### Resources:

- National Credit Union Association locator: [ncua.gov](https://www.ncua.gov)
- Independent Community Bankers of America locator: [icba.org](https://www.icba.org)

# Access to Capital 101

## Alternative online lenders

- A new breed of online lenders are innovating small business lending, expanding new options for entrepreneurs
  - Simple, streamlined application process; quick approval and delivery of funds
  - Use of **technology** and new sources of **social data** to assess risk
  - Online lending is largely **unregulated** at this point
  - Typically higher interest rates than banks
- **Not all online lenders are equal** and some mask very high rates



**Small businesses must proceed with caution!**

# Access to Capital 101

## Online marketplace lenders

Online marketplace lenders (peer-to-peer) connect small businesses with institutional and individual investors

- Capital obtained via **term loan**, similar to traditional bank loan – **fixed, multi-year term, stated APR**
- Focused on transparency in pricing and overall process

Examples: Funding Circle,  
Lending Club



## Access to Capital 101

### Online cash flow lenders

- Online cash flow lenders generally offer **short-term** loans, typically used for **working capital**
  - Short-term (6-12 months); high interest (20-50%+)
  - Non-traditional underwriting algorithms incl. social, online data
- Loan payments are made by **daily deductions** of a fixed amount or percent of sales, rather than citing interest rate; **require access** to business bank account or payment systems
- Be cautious of **opaque pricing**, high interest rates

# Access to Capital 101

## Merchant cash advance



A **merchant cash advance (MCA)** provides cash upfront in exchange for a portion of future sales; provider takes a **percentage of credit card/debit sales** daily until the loan, plus a premium, is paid back

- Not technically lenders but credit card payment processors
- **Quick** and **unsecured** funds at a **high price**
- Akin to payday loans for small businesses







## Access to Capital 101

### Merchant cash advance



#### Tips

- MCAs should be a **last resort**
- Be cautious of **deceptive and aggressive sales/advertising**
  - Keywords: Fast cash, no credit score, no collateral needed
- **Proper cash flow planning** is highly recommended
- Carefully review and understand all **fees, terms and penalties**

- In crowdfunding, entrepreneurs **raise funds by reaching out to a large number of people (investors) through an online platform.**
  - Lots of **smaller sums of money** takes the place of one or two large investors
- Entrepreneurs **create an online campaign** about their venture/idea, indicate amount of money they're seeking, what it'll be used for, and what contributors (or investors) will get in return.
  - The best campaigns **inspire people to donate or invest.**
  - Reward vs. Equity crowdfunding



# Access to Capital 101

## Individual Development Accounts



### **What is an Individual Development Account (IDA)?**

- An IDA is a special matched savings program designed to help people save for a specific financial goal, like starting a small business

### **How does an IDA work?**

- The IDA account is a special savings account set up as a joint account between you and the IDA partner agency
- When you save in an IDA, your savings of up to \$2,000 are matched 2:1

### **How do I know if I qualify?**

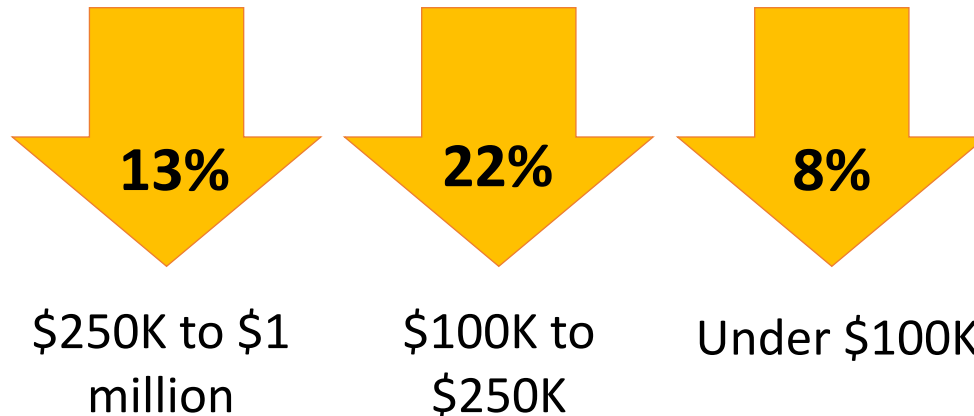
- Eligibility is based on annual household gross income and household net worth, including business assets, retirement savings and cash

For more information, visit **[idaresources.org](http://idaresources.org)**

## Access to Capital 101

### Predatory lending – a growing problem

Since the recession, there has been a **steady decline in small business bank lending**.



- Alternative lenders have stepped in to fill the void through high-cost, short term online funding options (approx. \$3 billion). Operating in a largely unregulated space there has been an increase in predatory small business lending practices.
- Something had to be done to ensure transparency, fairness and accountability in small business financing.

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Small Business Borrowers' Bill of Rights



## SMALL BUSINESS BORROWERS' BILL OF RIGHTS

### The six principles

1. The Right to Transparent Pricing and Terms
2. The Right to Non-Abusive Products
3. The Right to Responsible Underwriting
4. The Right to Fair Treatment from Brokers
5. The Right to Inclusive Credit Access
6. The Right to Fair Collection Practices

[www.responsiblebusinesslending.org](http://www.responsiblebusinesslending.org)

### Checklist for small business owners

BE SURE TO ASK

- ☐ What is the interest rate (or other applicable rate like AIR, APR)?
- ☐ Are there any upfront fees? If so, where do they go?
- ☐ What are the payment amounts and frequency?
- ☐ Are there any prepayment penalties?
- ☐ What is the full cost of the loan over its lifetime?
- ☐ If refinancing, are fees being added to the existing principal?
- ☐ Is the lender imposing deadlines for accepting the loan offer?
- ☐ If going through a broker, are they fully disclosing their fees?



**ASK YOURSELF:** Have you fully assessed your business' financial situation and feel you can reasonably meet the payment terms?

Access to Capital 101

Responsible Business Lending Coalition



**ACCION**



**LendingClub**



The **Responsible Business Lending Coalition** developed the **Small Business Borrowers' Bill of Rights**.

[www.responsiblebusinesslending.org](http://www.responsiblebusinesslending.org)



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## Join Our Network



### Ways to get involved:

- Receive a monthly newsletter
- Letters to the editor/Op-eds
- Regional and state events
- Policy/advocacy updates
- Become a spokesperson!

### Contact:

Bianca Blomquist

Northern California Outreach

[bblomquist@smallbusinessmajority.org](mailto:bblomquist@smallbusinessmajority.org)

(612) 309-0095

### Connect with us!



Small Business Majority



@SmlBizMajority

## Small Business Majority Spokesperson Program

### What is the Spokesperson Program?

- Small Business Majority is dedicated to ensuring **lawmakers and the media hear from real small business owners** on the issues that matter most to small business.
- By joining our Spokesperson Program, you'll have a seat at the table to **advocate for state and national policy issues** that impact the small business community.





Questions?



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Connect with us!



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