

# Access to Capital 101: Funding Options to Start and Grow Your Small Business

August 9th, 2019

**Claudia Moreno**

Southern California Outreach Manager

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, Missouri, and Virginia
- **Focus on issues of top importance to small businesses** (<100 employees) and the self-employed, including access to capital, healthcare, retirement, entrepreneurship, taxes and more; work supported by **extensive research**
- Our **Entrepreneurship Program** 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**

5 C's of Credit

Key questions to ask when seeking funding

The funding landscape:

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

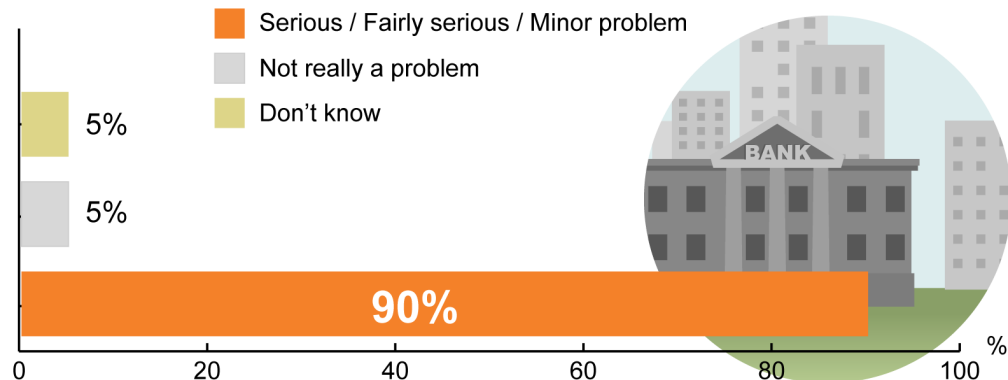
Small Business Borrowers' Bill of Rights

Resources and tools



### 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.
- Only 18% of small businesses ever access a bank loan.
- Small businesses still struggle to access capital post-recession.

- **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 loans (guarantee)	Crowdfunding: Reward & Equity
Grants	Community dev't loan funds (CDFI)	Incubators & accelerators



# > Access to Capital 101

Background and research

## **5 C's of Credit**

Key questions to ask when seeking funding

The funding landscape:

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

Small Business Borrowers' Bill of Rights

Resources and tools

- Lenders often use the **5 Cs of credit** to determine your creditworthiness.
  - Character: Credit history, including repaying debts on time
  - Cash flow: Whether you have revenue to repay the loan
  - Capital: How much of your own money you have invested in your business
  - Collateral: Property or assets that can be pledged as security
  - Conditions: Outside factors that could hit your business, such as industry

Get additional credit resources through our partner: [www.nav.com/sbm](http://www.nav.com/sbm)



# > Access to Capital 101

Background and research

5 C's of Credit

## **Key questions to ask when seeking funding**

The funding landscape:

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

Small Business Borrowers' Bill of Rights

Resources and tools

## 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

Background and research

Key questions to ask when seeking funding

## **The funding landscape:**

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

Small Business Borrowers' Bill of Rights

Resources and tools

## 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

#### Resource:

**Opportunity Finance Network** is a national membership organization of CDFIs across the country. Find a CDFI near you:

[www.venturize.org/mission-driven-lenders-locator-map](http://www.venturize.org/mission-driven-lenders-locator-map)



## 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: **Advantage** and **Grow Loan** (previously known as 7(a) and CDC/504)
- Programs also available for **microloans**, disaster relief, export assistance and veteran and military





## Access to Capital 101

### 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



## Access to Capital 101

### SBA loan programs (cont.)



#### **What you need to know**

- 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: [www.sba.gov/tools/linc](http://www.sba.gov/tools/linc)
- Partners: SCORE, Women's Business Centers, SBDCs
- SmartBiz Loans: [www.smallbusinessportal.org/smartbiz](http://www.smallbusinessportal.org/smartbiz)

## > 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.



**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: [www.ncua.gov](http://www.ncua.gov)
- Independent Community Bankers of America locator: [www.icba.org](http://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



## 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**



# Crowdfunding

- 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?**

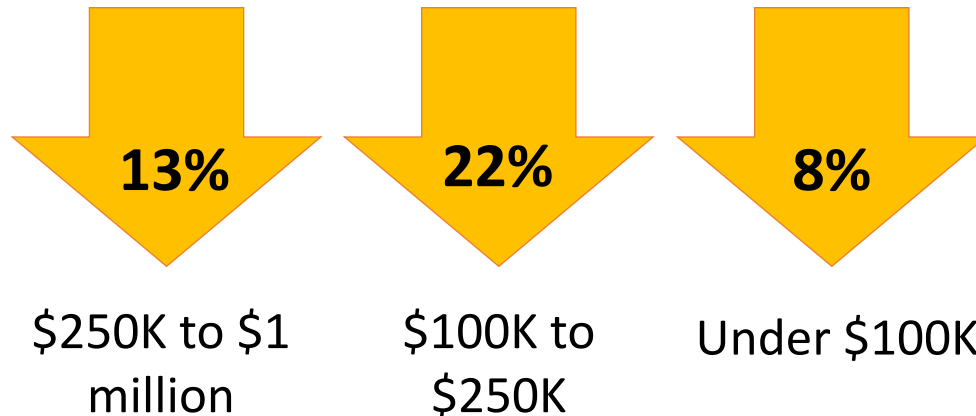
- Eligibility is based on annual household gross income and household net worth, including business assets, retirement savings and cash

For more information, visit [idaresources.org](https://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.

# > Access to Capital 101

Background and research

Key questions to ask when seeking funding

The funding landscape:

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

**Small Business Borrowers' Bill of Rights**

Resources and tools

Access to Capital 101

## 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

## Checklist for small business owners

### Small Business Borrowers' Bill of Rights

#### 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



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

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

# > Access to Capital 101

Background and research

Key questions to ask when seeking funding

The funding landscape:

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

Small Business Borrowers' Bill of Rights

**Resources and tools**



Access to Capital 101

Resources



Powered by Small Business Majority

Visit our Small Business Access to Capital Resource Portal:

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

**Venturize.org** is an educational lending platform that gives small businesses increased access to responsible capital by demystifying the lending landscape and providing resources to help you become loan-ready.





Access to Capital 101

## How can Venturize help you?

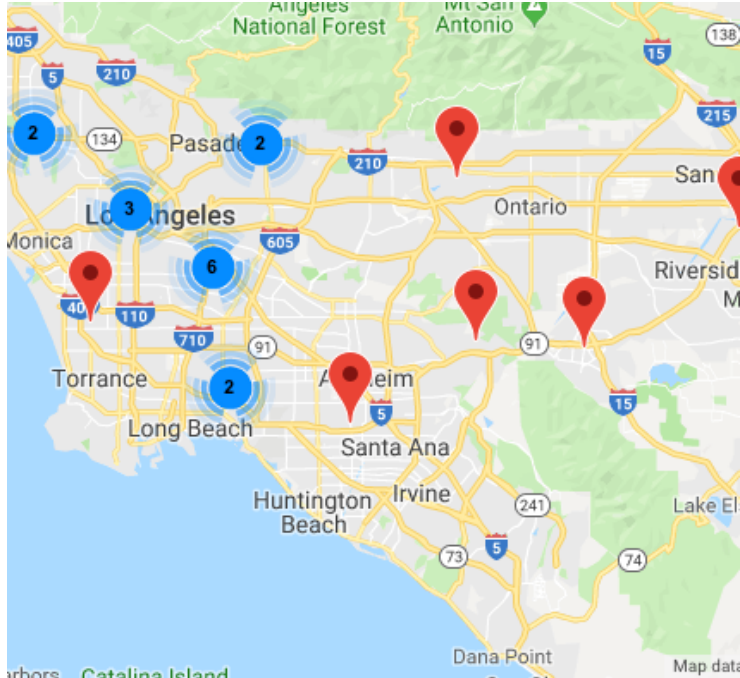


Venturize features a variety of tools and resources to help you:

- Understand the basics of small business lending
- Compare loan options
- Learn about the different types of lenders and loans
- Improve your credit score IQ
- Identify questions to ask potential lenders
- Locate a responsible lender near you

## Access to Capital 101

## Venturize Mapping Tool



- Our locator map highlights groups that offer free or low-cost assistance in understanding loan paperwork requirements or getting financially ready to apply for a loan.
- Entrepreneurs can enter their zip code to find local organizations organized by the category of assistance they provide.



Access to Capital 101

Resources



Still need help navigating your options?



Bonus: they also provide  
**good educational tools  
and resources.**

- Visit lender agnostic marketplaces to **comparison shop** among a wide range of products from a variety of lenders.

# Join Our Network



## ◦ Ways to get involved:

- Receive a monthly newsletter
- Share your small business story for media requests
- Letters to the editor/Op-eds
- Regional and state events
- Free webinars for businesses
- Policy/advocacy updates
- Resources and education

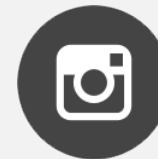
## Connect with us!



Small Business Majority



@SmlBizMajority



smlbizmajority



Questions?



## Claudia Moreno

Southern California Outreach Manager

(909) 816-4236 | [cmoreno@smallbusinessmajority.org](mailto:cmoreno@smallbusinessmajority.org)

**Small Business Majority**

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

**Small Business Access to Capital Resource Portal**

[www.smallbusinessportal.org/capital](http://www.smallbusinessportal.org/capital)

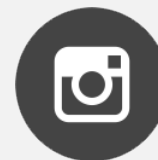
**Connect with us!**



Small Business Majority



@SmlBizMajority



smlbizmajority