

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

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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

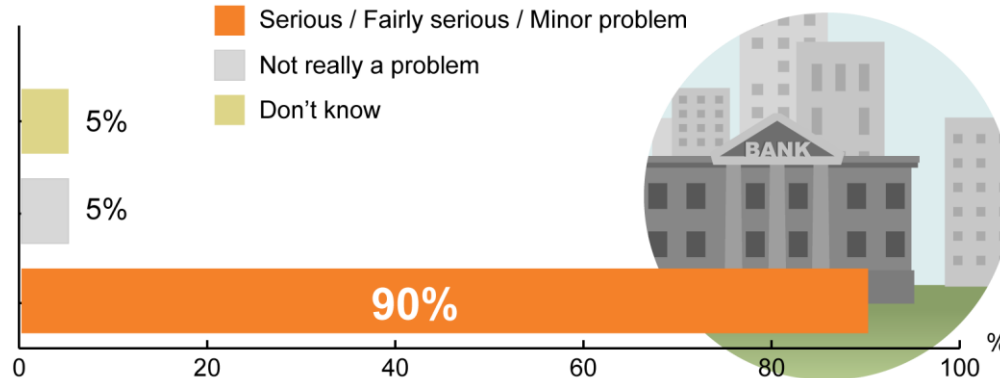
Resources and tools

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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.
- 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



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The good news



Good news!

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



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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

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Background and research

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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



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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?



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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



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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



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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



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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.)



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
- Partners: SCORE, Women's Business Centers, SBDCs
- SmartBiz Loans: 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%

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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
- Independent Community Bankers of America locator: www.icba.org

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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!

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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

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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



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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



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



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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

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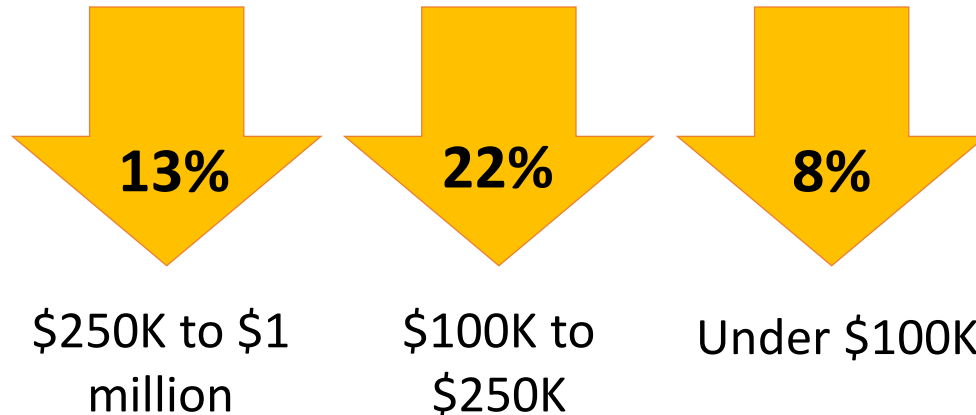
Small business loan brokers

- **Loan brokers are not lenders!** A loan broker is a third-party who “shops” your business to a lender (banks, CDFI, and online companies) for funding.
- Loan brokers earn money from a combination of:
 1. referral fees from the actual lender (banks, CDFI, online companies)
 2. small business owner fees when it’s time to “close the deal”
- Brokers **save time to find financing**, but their fees vary per product that can be predatory.
 - **broker fees are unregulated**; fees can be as high as 20 percent of a loan
 - **brokers may not be transparent about loan terms and fees**; ask upfront about fees and APR
 - **brokers may push higher-cost products** as incentive to get higher fees
 - **brokers may refer owners to online predatory financing** if owners are desperate
- Ask brokers upfront about their fees and what lenders they work with

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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

Resources and tools

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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

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?

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Responsible Business Lending Coalition



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

www.responsiblebusinesslending.org

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Resources



Visit our Small Business Access to Capital Resource Portal:

www.Venturize.org/access-capital

Venturize.org is a free online resource hub for small business owners like you who need help accessing tools and resources to grow their businesses. Venturize offers unbiased information about small business loans, retirement and healthcare.





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How can Venturize help you?



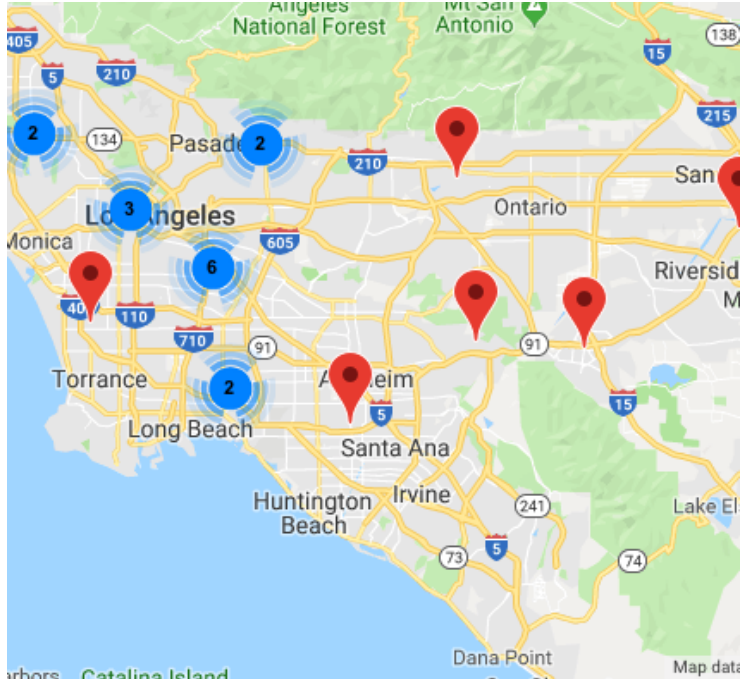
Venturize features a variety of tools and resources to help you:

- 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

Venturize also offers information about how to select the right retirement plan for your business, how to navigate small business healthcare options and much more.

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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.



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Resources



Still need help navigating your options?



lendio



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

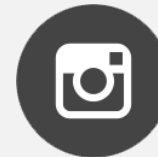
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Questions?



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www.smallbusinessmajority.org

Small Business Access to Capital Resource Portal

www.smallbusinessportal.org/capital

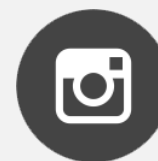
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