

## Obtaining Small Business Financing

### Typical Requirements to Obtain a Bank Loan

- Credit Score of 700 or above.
- Cash flow sufficient to make loan payments from day “1”.
- Collateral sufficient to cover entire loan.
- Obtaining a loan for 100% of capital needs is usually not possible. Lenders usually required borrowers to have some personal or other source of cash to cover at least 25% or more of the total need.
- Loans usually must be for business equipment, inventories and operating expenses. Loans to cover loss of income are not available.

### Alternative Sources to Obtain Financing

Many small start-ups and existing businesses may be unable to meet the above bank requirements in light of today’s credit crunch.

**Community Based Lenders** – Non-profit, independently financed, private or public organizations, which often make loans to small businesses or entrepreneurs who do not qualify for traditional commercial bank loans. SCORE networks with several of these groups. These loans are often called “Character Loans” because they do not require strict credit, cash flow or collateral requirements.

A start up business should have the following to obtain a loan from one of the above lenders:

- Counseling and a referral from SCORE is very beneficial.
- A business plan.
- The business must be located in or near your local community

### Other Ideas to Help You Get Financing

1. **Stick close to home.** Using some of your own savings; gifts or loans from family, relatives, friends or business associates. Personal or business credit cards can also be used but make sure you understand the interest cost of this type of financing.
2. **Consider looking for a partner with money.** This is one of the most overlooked sources of money. Many small businesses resist this approach because they want to own 100% of the business. However, it is better to own 50% of a growing successful business than 100% of a business that never gets started. Funding sources can come from
  - A supplier
  - A partner
  - A venture capitalist
  - A private equity dealer

- A private offering
- A private investor
- An “Angel” investor

3. **Finding a Guarantor or Co-Borrower for obtaining a loan.** This works well when a family member or close friend is reluctant to give you cash up front but they think you have a good idea for a business and a good chance to succeed. They may be willing to either guarantee a loan or co-sign for a loan.

## SBA Loans

- The SBA does not lend money. It provides guarantees to a bank that if a person does not repay a loan the SBA will pay a major percentage of the loan back to the bank.
- All banks can make SBA guaranteed loans but most have restrictions on what types of loans they are willing to make.
- The SBA only wants to guarantee loans to people who are likely to repay the loan.
- All SBA loans are made to individuals for a business. The individual is personally liable to repay the loan.

Before going out looking for money remember these three tips

1. **When you need a loan establish a personal relationship.** Loans are about trust, and trust starts with familiarity. Invite your lender to your place of business. Impress the lender with your product samples or services. Take advantage of their experience and contacts by asking for help on non-banking issues. Ask him to join your informal business advisory board. You may even learn more about your business from your lender.
2. **Know your numbers.** Every business loan has terms and conditions. Be sure you understand them. Learn about a balance sheet, a profit and loss statement and cash flow projections.
3. **Sweeten the deal.** What lenders want even more than your loan are new customers. Ask about the lender’s other products and services. If you are pleased with the lender’s products and services refer family and friends to do business with the lender company.

Whatever you do:

- Don’t fool yourself. Know your weaknesses.
- Know your break-even point.
- If you are bad with numbers hire a good bookkeeper or accountant.
- Do not bankrupt your business because you are too proud to admit that you need help.

What should you say when you meet with a lender.

1. Describe your background, experience and education.
2. Stick to the facts. Be truthful with the lender. Confidence in your ability and integrity is very important.
3. State how much money you require. Never ask “how much can I get?”
4. Outline what you plan to do with the money. Using the cash to replace lost income is not a valid reason for a loan.
5. Define how the business will generate the cash flow required to pay back the bank loan.
6. Tell the lender how much of your own money you are investing in the business. Most lenders require your share to be 25-30% which includes investments you have already made.

### Guerrilla Financing

To find money to finance your business you must consider every possible choice available. It is called “Guerrilla Financing.” The more you know about your business, the more options are available. Remember, both lenders and investors look for the same thing in a business – VALUE. Projected earnings and even management skills are considered part of this value

### Crowdfunding Sites for Social Entrepreneurs

If money is the only thing stopping you from doing something good in the world, stop waiting and start doing some good! Nothing better symbolizes entrepreneurship than fundraising. Social entrepreneurs are no different. Today, there are a host of online resources for crowdfunding that social entrepreneurs can use to fund their projects, films, books, and social ventures.

Today, [Kickstarter.com](http://Kickstarter.com): Kickstarter is the 800 pound gorilla in crowdfunding, originally designed and built for creative arts, many technology entrepreneurs now use the site, some reporting to have raised millions of dollars. The Kickstarter funding model is an all-or-nothing model. You set a goal for your raise; if your raise exceeds the goal, you keep all the money, otherwise your supporters don't pay and you don't get anything. This protects supporters from some of the risk of your running out of money before your project is completed.

[StartSomeGood.com](http://StartSomeGood.com): StartSomeGood is great for early-stage social good projects that are not (yet) 501(c)(3) registered nonprofits. StartSomeGood uses a unique “tipping point” model for fundraising, allowing you to set a funding goal and a lower “tipping point” at which your project can minimally proceed and where you will collect the money you raise.

[Indiegogo.com](http://Indiegogo.com): Indiegogo allows you to raise money for absolutely anything, using an optional “keep what you raise” model with higher fees or pay less to use an all-or-nothing funding approach.

[RocketHub.com](http://RocketHub.com): RocketHub is also a broad platform targeting “artists, scientists, entrepreneurs, and philanthropists” on their site, using a keep-what-you-raise model that rewards you for hitting your funding goal (or penalizes you for failing to hit it).

All of these sites are making great things happen for real people every day, advancing the arts, entrepreneurship and philanthropy in myriad ways. Check them and others all out and decide which one is the best for you.

**What SCORE will help you do:**

A SCORE mentor can help you accomplish the following 5 steps to obtaining financing for your business:

- Step 1 – Evaluate your business assets or value.
- Step 2 – Match your business to the best money sources available.
- Step 3 – Suggest non-cash solutions to get things to you need.
- Step 4 – Help you develop a strong presentation to the lender or investor.
- Step 5 - Refine your Business Plan.