

Why Do You Need Financing?

- **Research and development**
- **Start-up expenses**
- **Purchase a business**
- **Seasonal working capital**
- **Permanent working capital**
- **Equipment acquisition**
- **Real estate acquisition**
- **Other: _____**

Sources of Capital

Debt Capital

- Money borrowed for the business
- Use of the money is repaid, with interest as “payment” for the use of the loan

Equity Capital

- Money invested by the owner(s)
- Not a debt; nothing to pay back
- Investor(s) get a part of the ownership, and share in the profits or losses

Personal Capital

- Personal funds of the owner(s)
- Any debt borrowed on a personal basis
- Includes savings, second mortgages, personal loans, etc.

Angel Money

- Money received from friends, family, or interested 3rd party
- Document as you would for other debt or equity financing

Fitting the Loan to the Need

Short-term Debt

Used to meet short-term needs:

- **Bullet loan**
- **Seasonal inventory purchases**
- **Line of credit**
- **Accounts receivable financing**

Intermediate Debt

Three to seven years:

- **Permanent working capital loans**
- **Equipment loans**

Long-term Debt

Longer than seven years:

- **Real estate purchases**
- **Initial purchase of a business**

Debt or Equity Considerations

- **Change in ownership**
- **Obligation to repay**
- **Tax considerations**
- **Capital structure**
- **Time required to do it**
- **Cost of obtaining the funds**
- **Personal factors/preferences**
- **Lender and investor reactions**

Other Sources of Financing

- **Home Equity Loans**
 - **Alternative Lenders**
 - **Suppliers**
 - **Customer Deposits**
 - **Credit Cards**
 - **Insurance Companies**
 - **Factoring Companies**
 - **Loan Guarantor**
 - **Loan Brokers**
 - **Grants**
 - **Other:**
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Financing Factors

- 1. The growth potential of your business**
- 2. The risk of your business venture**
- 3. The length of time you need the money**
- 4. The kind of money you need (debt or equity)**
- 5. The amount of interest you can pay (debt) or the amount of ownership you will give up (equity)**
- 6. Profit potential of the business**

Preparing for the Loan Process

Before You Apply for a Loan:

Find a lending institution that regularly lends to microbusinesses

- **What size businesses do they normally lend to?**
- **Do they shy away from making loans within certain industries?**

Check your credit history

- **Are there credit problems you need to clear up?**
- **Do you know how to repair your credit?**
- **Are there credit items you don't know about?**

Get your business records in order

- **Have your business plan ready**
- **Be able to describe your recordkeeping procedures and accounting system**
- **Find out what books and records the lender will want to see, and gather them**

What Lenders Require

- ☐ **Business Loan Application Form**
- ☐ **Complete Business Plan**
- ☐ **Cash Flow Projections**
 - **Monthly for 12 months**
 - **Quarterly or Annual for Years 2 and 3**
- ☐ **Personal Financial Statement**
- ☐ **Personal Tax Returns**
 - **(2 to 3 years)**
- ☐ **Other Documentation (Options)**
 - **Accounts payable aging**
 - **Accounts receivable aging**
 - **Inventory status reports**
 - **Appraisals**

The Cs of Credit

- ◆ **Credit History**
- ◆ **Character**
- ◆ **Capacity**
- ◆ **Collateral**
- ◆ **Conditions**

Tips for Working with Your Banker

- ☐ Deal with a local bank when possible
- ☐ Make an appointment
- ☐ Select a banker you trust
- ☐ Select a banker familiar with your type of business
- ☐ Dress appropriately
- ☐ Ask for advice or clarification of anything you do not understand
- ☐ Develop a long-term relationship
- ☐ Know your needs
- ☐ Present a complete proposal
- ☐ Explain source and uses of the loan
- ☐ Be flexible
- ☐ Be patient
- ☐ Tell the truth
- ☐ Recommend your banker to others

Understanding the Financial Health of Your Business: Ratio Analysis

Current Ratio =

current assets ÷ current liabilities

Example: \$1,000 ÷ \$500 = 2 (or 2:1)

Debt to Equity Ratio =

long-term liabilities ÷ owner's equity

Example: \$5,000 ÷ \$10,000 = .5 (or 1:2)

Net Profit Margin =

net profit ÷ gross revenue from sales

Example: \$1,000 ÷ \$10,000 = .10 or 10%

What do the ratios tell you about the health of your business?

How are ratios used by lending institutions?

Ways to Offer Your Customer Credit

✓ **Credit Cards**

✓ **Checks**

✓ **Credit Terms**

Credit Card Considerations

- 1. Know what equipment you need to process the credit card payment**
- 2. Look for the best merchant account rates (discount rate and transaction fee)**
- 3. Know when deposits will be made to your account**

Check Considerations

- 1. Call the bank on large check amounts**
- 2. Decide on your check acceptance policies**
- 3. Trust your instincts!**
- 4. Know your collection policies/options**