

# THE CAPITAL NETWORK

## Funding Options to Grow Your Business

October 13, 2016

The MBDA Minneapolis Business Center  
Small Business Majority  
Funding Circle



### FEATURE SPEAKERS INCLUDE:



**Where Businesses Come to Grow!**  
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# **MBDA Minneapolis Business Center**

(Metropolitan Economic Development Association)

# What do we need to get Capital?

1. We need competent financial statements whether this a new start-up or existing business.
2. We collect all tax returns for both business and personal on file an update on a regular basis in our Capital Access File. This information should be collected on clients before they move to access any capital source.
3. We analyze these statements and financial performance and after examination we have developed a strength and weakness tests to determine the method to best obtain capital.

# Preparation to find Capital

- **Minneapolis MBDA Business Center** takes the approach and prepares all its clients to present a package to a Bank to get credit. We prepare a full loan package with all forms that would get a bank loan approved regardless of financial status. Ex: (PFS, 912, PFS, three year taxes etc.)
- This concept prepares clients with a reality check on how their business stacks up to banking standards. We analyze the strengths and weakness of the package and mitigate deal breakers.

# What do we use for options

1. We look to Community Bank relationships locally, we have established in advance what banks fit the criteria of our client. (Who does SBA loan, Small Business etc.) We meet with these banks in advance and form a mutual collaboration and how we can do business together. We learn their underwriting. (Every bank has a specialty in lending, find it and use it to your advantage)
2. We are a CDFI and offer eleven sources of other funding. We look to State Funds, Federal Funds, CDFI, Grants, and Foundation funds in the form of loans. We use companion loan funding to get Banks to do deals. Find alternative sources of capital for your centers. Set up a Funding Plan.

## What do we use for options (cont'd)

3. We look to other CDFIs who may have funding available in the State or Geographical area, dependent upon the amount this may be a Micro Lender, or handles larger loans, does real-estate, etc. (Use participation agreements with banks, CDFIs, and other sources to develop a program to maximize leverage of your dollars.) 5 to 1 goal
4. We look for and talk to other CDFIs that may be a SBA Community Advantage Lender, SBA Micro Lender)
5. We look to National Level CDFIs an/or SBA companies that specialize in SBA 7a with similar or like missions. (CRF) Community Reinvestment Fund (Example of one, several others do similar work)



## What do we use for options (cont'd)

6. Upon identifying what sources that are available that may fit the needs of the client we ( Meda/ Minneapolis MBDA Business Center ) makes the contact with the lender. We submit a full lending package with our request for capital complete with a structure and suggestions in full credit write up. (SBA loan, term loan, revolving line of credit, etc.)We assist in helping fill out all applications.
7. We determine other ways to strengthen the file if we get denied, (Cosigners, ownership changes, private equity, etc.) We do not shot gun requests. Use clients current banking relationship.

## Assign some timelines

- Applying or preparing your clients in advance will allow your clients the ability to find capital in advance of a crisis. Know your clients timeline.
- Short-term deadlines and the need for quick turn-around will be expensive be prepared to pay.
- If you are at a crisis situation or the need is short term internet lenders are not a bad option.
- However as in the above process you need to know who you are dealing with, establish a relationship and know your lender. Remember your client expects you to help them and being able to recommend an internet lender makes sense if used properly.



# Why know your internet lender

- Can get short term loan capital and work to get to a better place and move at a later date.
- Solves a problem in a crisis to stay in business.
- Normally rates are higher but will not report on personal credit. This is a better alternative to Personal Credit Card debt.
- Internet lenders have a place in your capital plan, but if your ACCESS to Capital only has one source you need to make changes.

# Key points to take with you

- **Preparation is 80% of the battle to get capital**
  - Get clients to give you information in advance of the need.
  - Establish your capital sources today, not when in a crisis
  - Put yourself in a position of strength, (loan package, mitigating weaknesses.)
  - Remember sometimes saying **no** is the best answer to a small business owner who is not prepared to pay back the debt.
- **Everyday try to find another source of capital**



**Small Business Majority**

## Topics of discussion

- 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
  - Crowdfunding
- Small Business Borrowers' Bill of Rights
- Resources and tools
- Q&A

# What happened to small business bank lending?

- Small business **bank lending is down 20%** since before the Great Recession
- Banks are more **risk averse** – strict underwriting standards
- Small business **loans are riskier** than large business loans; Costly to write smaller \$ loans
- **Consolidation** of community banks
- Small businesses were hit hard by the Great Recession; suffer from devalued collateral, damaged credit scores and reduced cash flow making them **less credit worthy** by today's lending standards



# 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





## The good news

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



# Sources of funding: traditional and alternative

Family & friends	Personal savings	Microloans
Personal & Business credit cards and lines of credit	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	Crowdfunding: Reward & Equity
Grants	Community dev't loan funds (CDFI)	Incubators & accelerators

## 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?



## Debt vs. equity financing

- **Debt financing** is money you pay back, usually with interest, over a set time period with specific terms.
  - Examples: Bank loans, Credit cards
- **Equity financing** involves giving up a portion of the ownership of business in exchange for money from equity investors; equity investors become part owner of the company.
  - Examples: Angel investors, Venture capitalists

## 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

## SBA loan programs (guarantee)

The **U.S. Small Business Administration (SBA)** loans for institutions to approve loans to small businesses who are riskier borrowers and not poised to obtain traditional bank loans

- SBA is not a lender, but a **guarantor of loans to the intermediary lenders (banks, microlending institutions)**
- Loans cover a wide range of uses incl. start-ups, working capital, inventory, real estate, equip, etc.
- Primary programs: **7(a), CDC/504**
- Programs also available for **microloans under \$50K, SBA Express Loan program**, disaster relief, export assistance and veteran and military



## 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 a **SBA approved lender near you:** [www.sba.gov/tools/linc](http://www.sba.gov/tools/linc)
- SBA resource partners: SCORE, Women's Business Centers, Small Business Development Centers

## Community banks and credit unions

Small **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: **not-for-profit** 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%

## 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; Have **alternative payment structures**
  - Online lending is largely **unregulated** at this point
  - Typically higher interest rates than banks
- **Not all online lenders are equal** and some players mask very high rates



## 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



## 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

## Merchant cash advance

A **merchant cash advance** (MCA) provides cash up-front 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**
- Payday loans for small businesses





# Merchant cash advance

## Tips

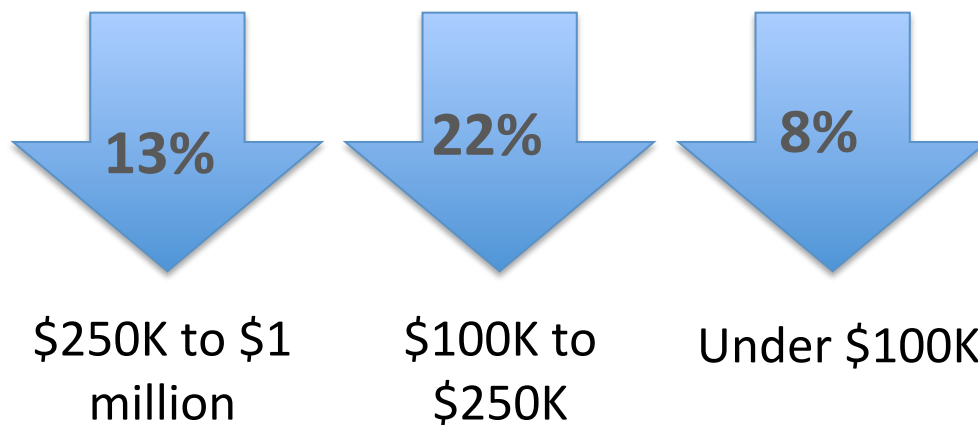
- MCAs should be a **last resort**
- Be cautious of **deceptive and aggressive sales/advertising**
  - Keywords: Fast cash, no credit score, no collateral needed
- **Proper cash flow planning** is highly recommended
- Carefully review and understand all **fees, terms** and **penalties**

# 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.**
- **2 Types: Reward vs. Equity crowdfunding**

## Predatory lending – 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



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



## The six principles



# SMALL BUSINESS BORROWERS' BILL OF RIGHTS

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)



# BBOR 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?

## The Responsible Business Lending Coalition developed the BBOR:



We are actively encouraging others to sign on to the BBOR:

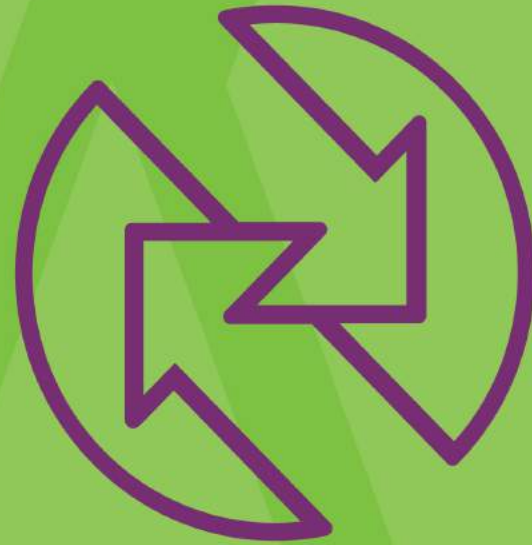
- **Signatories:** These lenders, brokers and marketplaces have taken a stand for small businesses by attesting that they abide by the Borrowers' Bill of Rights.
- **Endorsers:** These organizations care deeply about responsible business lending and actively support the Borrowers' Bill of Rights.



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







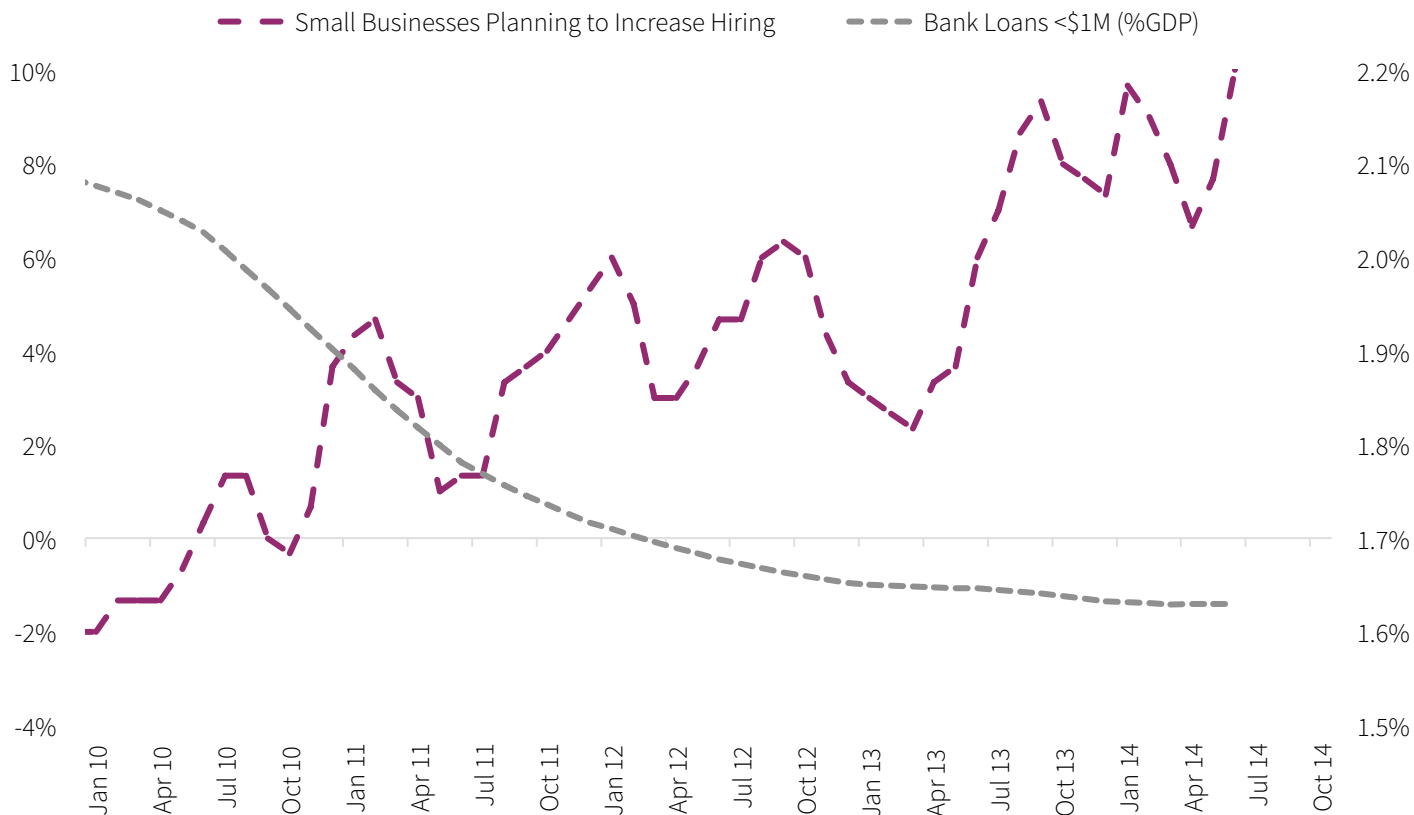
**Funding Circle**

# Who is Funding Circle?

- Funding Circle is the leading global marketplace for small business loans
- We've helped 50,000 investors lend over \$2.5B to 15,000 small businesses globally since 2010
- The banking system is broken, so we're building a better one
- Affordable small business term loans with rates starting at 5.49%
- Fast + simple application process with funding in 7-10 days
- 600 employees across San Francisco, London, Berlin, Amsterdam, and Madrid
- Our mission: to build a better financial world



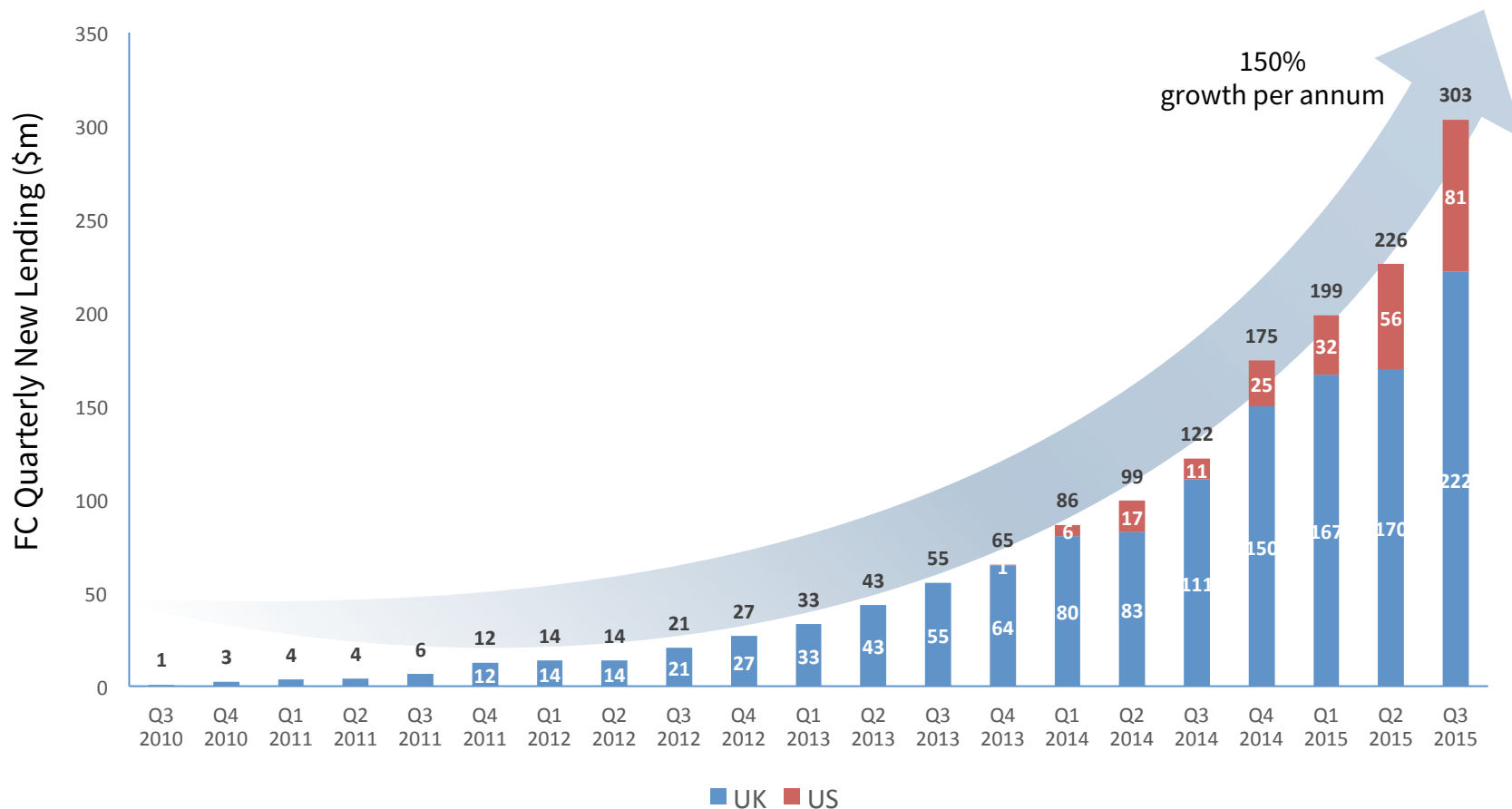
# U.S. banks have significantly reduced their lending to small businesses...



Source: NFIB and FDIC data

## THE CAPITAL NETWORK: Funding Options to Grow Your Business

...And so Funding Circle has come to their aid, with over \$2.5 billion lent to 15,000+ businesses globally



Source: Funding Circle; Used USD/GDP FX of 1.52

## Why do small businesses choose Funding Circle?

### We know small business

- Founded by small business owners for small business owners
- Our platform that provides a seamless, simple user experience
  - Web-based and intuitive for the modern small business owner, with responsive customer support
  - Human underwriting provides exceptional borrower experience and superior credit results
- Proven business model that is very well capitalized
- Fast, transparent, fair access to capital

### What do we offer?

- 1, 2, 3, 4 and 5 year terms
- Interest rates starting at 5.49%
- 1.49% to 4.99% Origination Fee
- Loan sizes from \$25,000 to \$500,000
- Monthly principal and interest payments
- No pre-payment penalty

THE CAPITAL NETWORK: Funding Options to Grow Your Business

Funding Circle works closely with our partners to better serve small businesses



SMALL BUSINESS



**Where Businesses Come to Grow!**

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# We hold ourselves to high standards—whether they be industry-set, government-set, or self-set

## Industry Standards

- ***Co-author of the Small Business Borrowers' Bill of Rights***, with the aim of setting the first-ever gold standard for responsible business lending practices
- ***Founding member of the Marketplace Lending Association***, to support responsible growth of marketplace lending

## Government Standards

- ***No single regulator – instead, many with some level of oversight:***
  - State laws and agencies (licenses, interest rate limits)
  - FTC (Fair lending, UDAAP)
  - CFPB (in a limited sense)
  - Treasury Department (OFAC, FinCEN)
  - SEC, FINRA

## Funding Circle Standards

- We've worked hard over the past five years to build a marketplace that has helped set ***the industry standard for transparent and responsible lending***
- We provide ***educational info for small business owners on our Resource Center*** (<https://www.fundingcircle.com/us/resources/>) including topics like ***how to avoid overpaying for a loan, considerations when expanding your business, what is underwriting***, and more.



# What to expect from your lender

- They're ***able to provide you an APR***, or annualized interest rate, which will tell you the cost of the loan in one year (including fees)
- ***You're able to tell whether there's a penalty for paying off the loan early*** – “prepayment penalties” are not always transparently disclosed
- If taking out a new loan with an existing lender, any new fixed charges (e.g., an origination fee) should only be calculated based on the additional capital you received (i.e., ***they won't “double dip”***)
- They ***won't encourage you to “stack”*** credit products, which can lead to a debt trap
- They ***won't try to upsell you on a much bigger loan*** than you actually need – they'll encourage right-sized financing

**Q & A**

# **Thank you!**

**For more information please visit  
[www.MBDA.gov](http://www.MBDA.gov)**

THE CAPITAL NETWORK: Funding Options to Grow Your Business

# Contact Minneapolis MBDA Business Center



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# Contact Small Business Majority



**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)

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**Funding Circle**

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