CAPITAL CONNECTIONS

Know the Basics: Secure Your Financial Future

In the last 15 years, the Internet has helped make the world a lot more accessible. It also helps provide new opportunities for minority owned businesses to find financial resources that are imperative to the growth and success needed to remain competitive. Although alternative lending offers more options for obtaining access to capital, it is important to keep in mind that these "alternatives" are not government regulated like traditional lending sources. Alternative lending poses greater risks, but enables business owners to secure funding at a lower costs by not having to follow all of the same compliance and regulatory requirements, and to revolutionize—with technology as its principal.

VENTURE CAPITAL (VC)

Like angel investing, venture capital is a type of equity financing that involves giving up a portion of the ownership of business in exchange for money from investors. Venture capital (VC) firms are usually organized as partnerships. They raise money from institutional investors, such as pension funds and endowments, which the VC partners then invest in promising startups. This is a step up from angel investing. VCs can now be found in many areas of the country and a growing number of corporations have created venture investment arms as well, including Google, Dell, General Mills and Walgreens. Some of the biggest names in tech were backed by venture capital, including Google, Facebook and Uber. But overall, a tiny fraction—less than 1%—of all startups receive venture capital funding.

ONLINE MARKETPLACE LENDER

Online marketplace (peer-to-peer) lenders connect borrowers with institutional and individual investors. This type of loan is more akin to a bank loan with fixed, multi-year loan terms and APRs. These lenders strive for transparency in pricing and overall process, and generally offer a better deal for small businesses than MCAs and other online lenders. There are 2 main types of marketplace loans - consumer loans for business use and business loans: consumer loans focus on personal finances and your credit score, while a business loan looks into both personal and your business.

COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS (CDFI)

A community development financial institution (CDFI) is a class of financial institution that caters to and provides assistance to underserved and low-income communities. CDFIs, which are certified by the U.S. Department of the Treasury, can be community banks, credit unions, nonprofit organizations, venture capital funds or loan funds. They typically raise the money they lend through grants, low-interest loans, foundations, the government, or banks looking to satisfy Community Reinvestment Act requirements. CDFIs are very focused on community, targeting their funding to small businesses, microenterprises, nonprofit organizations, commercial real estate, and affordable housing.

CROWDFUNDING

Crowdfunding is a new and evolving fundraising alternative that marries social media and finance. With crowdfunding, entrepreneurs reach out to the "crowd"—typically their friends, customers, supporters and social network—for funding. The idea is that lots of smaller sums of money can take the place of one or two large investors or patrons. Types of crowdfunding include, but are not limited to: market place lending, donation based crowdfunding, reward crowdfunding - both non-equity and equity based.