

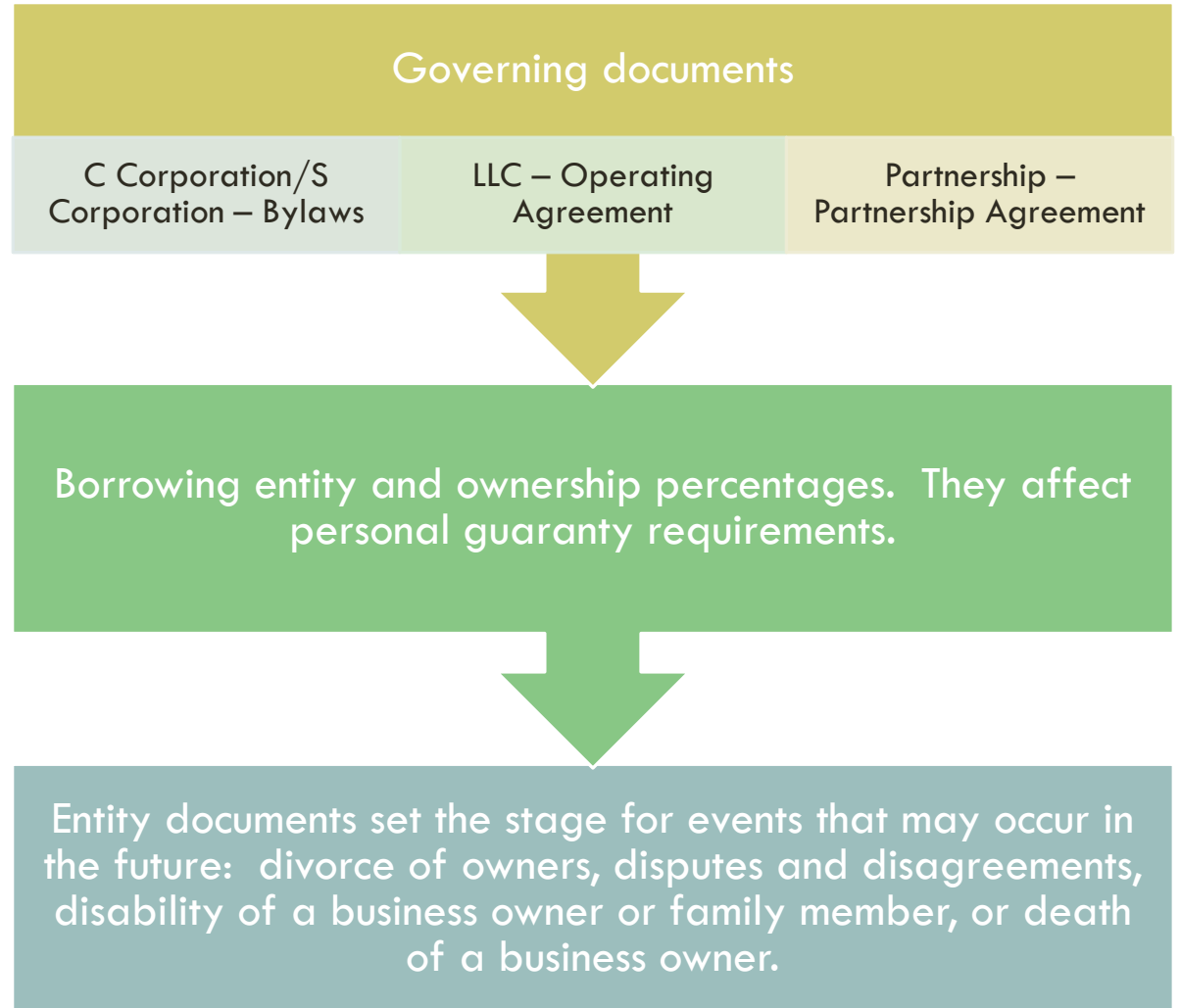
# FINANCING YOUR BUSINESS

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President and CEO  
Pikes Peak National Bank

# FUNDING SOURCES- NEW AND EXISTING BUSINESSES

- Bootstrapping
- Owner Investment
- Friends and Family
- Bank Financing
  - Conventional Commercial Loans
  - SBA Financing
  - Lines of Credit
- Alternative Financing
  - Microlenders
  - Factoring
- Investors/Crowdfunding

# LEGAL ENTITY FORMATION — WHY DOES IT MATTER FOR FUNDING?



- Bootstrapping is a common way for businesses to grow without debt. All profits of the business are reinvested into the business and are not paid out as dividends or draws to the business owner.
- Bootstrapping allows the business to purchase and own business assets unencumbered as they are not used as collateral for financing. The downside may be that the business grows slowly as cash assets must accumulate before inventory or equipment can be purchased.
- Bootstrapping is not for businesses owned by individuals who rely on the business profits to pay their living expenses, such as mortgages, car loans, utilities, etc. Owners of bootstrapped companies generally have other sources of income from which to pay their living expenses.
- As bootstrapped companies grow in revenue, they have an advantageous position when they DO need funding. Their assets are unencumbered and they don't have debt payments that restrict their cash flow.

# BOOTSTRAPPING

Growing your business without  
debt financing



CASH



RETIREMENT  
ACCOUNTS



HOME EQUITY  
FINANCING



CREDIT CARDS



PERSONAL LOANS  
AGAINST  
PERSONAL ASSETS



LIQUIDATION OF  
ASSETS

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# OWNER INVESTMENT

# RETIREMENT ACCOUNTS

- Rollovers for Business Start-ups (ROBS)
- Strict IRS guidelines for set-up and maintenance
- Can be combined with SBA funding or other commercial financing

- Contact:

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**STRUCTURE**

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**OWNERSHIP IN COMPANY?**

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**REPAYMENT TERMS**

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**MAKE SURE ALL AGREEMENTS ARE IN WRITING**

**FRIENDS AND FAMILY INVESTMENT OR FUNDING**

# BANK FINANCING

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CONVENTIONAL AND SBA



# HOW TO CHOOSE A BANK LENDER

- Start where you currently bank.
- Ask other business owners for recommendations.
- Interview three different bankers to discuss your loan request.
- Remember that a loan relationship covers several years.

# COMMERCIAL VS. CONSUMER

## Commercial

- Does not report to credit bureau
- Shorter amortization; not fixed rate
- Annual financial reporting

## Consumer

- Reports to credit bureau
- Fixed rate; long amortization
- Qualify once. No continued financial reporting

# MORE ON COMMERCIAL LOANS



Generally requires a personal guaranty



May have pre-payment penalties



May have covenants that define additional events of default, such as debt service ratio requirements or additional borrowing limitations

Loans made to small businesses through banks and/or Certified Development Companies (CDCs)

Small Business Administration (SBA) provides a partial or full guaranty for the loan, allowing the lender to make concessions on one or more of the 5 Cs of credit.

Provides 2 main programs: the 7a and the 504 loan

## SMALL BUSINESS ADMINISTRATION (SBA) LOANS

Shorter term but fixed rate

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graph TD; A[Shorter term but fixed rate] --> B[For the purchase of equipment, business expansion, purchase of a business, tenant improvement]; B --> C[SBA provides partial or full guaranty to the bank]; C --> D[Bank approves and funds the loan];
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For the purchase of equipment, business expansion, purchase of a business, tenant improvement

SBA provides partial or full guaranty to the bank

Bank approves and funds the loan

## 7A LOAN



For the purchase of commercial real estate or long-term equipment



Set up in two loans: a 1<sup>st</sup> mortgage by the bank and a second mortgage by a CDC for the SBA



Not for investment purposes. Borrower's business must occupy 51% or more of the property.



Can refinance a commercial property into a 504 once property is owned for 2 years.

# 504 LOAN

# MORE ON SBA LOANS

Require a personal guaranty by all signers

Are not for rental or investment properties

Often have pre-payment penalties

Require lower down payments than conventional commercial loans

Often have programs for veterans

Provide longer-term, fixed-rate loan options

Still rely on cash flow as the source of repayment but may be able to rely on projections

# LINES OF CREDIT



Useful to provide capital on the downside of the business cycle; are paid down on the upside of the business cycle



Seasonal businesses and those who work on a contract basis can benefit from a line of credit



Commercial lines are renewed annually and are expected to revolve in accordance with your business cycle



Can be floating or fixed rate, often require collateral



Interest payments are made monthly on principal drawn. Principal payments are made in accordance with the business cycle



# ALTERNATIVE FUNDING

MICROLENDERS  
FACTORING

Are not regulated like banks

May be non-profits

Lend to borrowers possibly turned down by a financial institution

Loans from as small as \$500

Some have attractive veteran loan programs

# MICROLENDERS



**DreamSpring**

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

colorado  
**enterprise fund**

Cory O. Arcarese, Community Lending Officer, 719.374.8303  
[cory@coloradoenterprisefund.org](mailto:cory@coloradoenterprisefund.org)



**COLORADO**  
**LENDING SOURCE**

Danielle Westblade, Senior Loan Officer 303.260.5109



Business sells its accounts receivable to a lender (factor). The lender then collects the invoice.



Ideal for businesses that generate commercial invoices and can benefit from reducing the time that invoices are outstanding.



The creditworthiness of your customers can be more important than your creditworthiness in these transactions.



Local banking options: 5 Star Bank



Local non-banking options: TCI Business Capital

# FACTORING

Generally used in high growth companies with little tangible assets and with products/services in the R/D stage

Investor will generally take a percentage of ownership in the company in return for cash investment

Can be a positive – some investors have connections that are invaluable to the growth of the company

Many investors are looking for an exit at some pre-defined point in time.

Local resources: High Altitude Investors: [www.highaltitudeinvestors.com](http://www.highaltitudeinvestors.com)

Rockies Venture Club: [www.rockiesventureclub.wildapricot.org](http://www.rockiesventureclub.wildapricot.org)

Rocky Mountain Venture Capital Association: [www.rockymountainvca.com](http://www.rockymountainvca.com)

# INVESTORS

# CROWDFUNDING

Kickstarter, Gofundme, Indiegogo are examples of crowdfunding websites.

Best used for companies with a product that needs to be pre-sold.

Investors generally provide money in return for rewards, often in the form of product.

Investors do not have ownership in the company.

Contact:

Ray Burrasca, Colorado Crowdfunding, [rburrasca@coloradocrowdfunding.org](mailto:rburrasca@coloradocrowdfunding.org)

# NON-PROFIT FUNDING

Colorado Nonprofit Association, [www.coloradononprofits.org](http://www.coloradononprofits.org)

Robert Hilbert Nonprofit Resource Center, Pikes Peak Library District, [ppld.org/nrc](http://ppld.org/nrc),  
Tammy Sayles, [tsayles@ppld.org](mailto:tsayles@ppld.org).



Business Plans



Collateral



Owner's Equity



Outside Source  
of Income

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**FINAL  
THOUGHTS**



# THANK YOU!

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