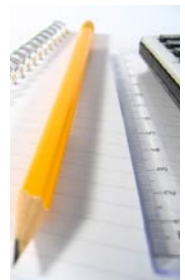




Guide 9: Funding Your New Business



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■ INTRODUCTION

Welcome to the Citibank Small Business information guide series. This is one of ten guides that have been developed just for you, a person who is thinking about starting a small business or who has made the commitment to start one. It is targeted to people who are considering starting a small business as well as to small business owners who want to learn more about successful strategies and skills. Citibank worked with a team of entrepreneurs like you to develop, write, and produce this series. All of us know how important it is to have clear and concise information to make smart business decisions. Our goal is to share experiences about the dynamic, exciting small business community.

Start your new business off on a strong financial footing. Experts agree it's the best strategy for success. In fact, the Small Business Administration reports that “while poor management is cited most frequently as the reason businesses fail, inadequate or ill-timed financing is a close second.” (<http://sba.gov/financing/basics/basics.html>)

There are several reasons funding can be a major challenge for someone planning a small business:

- It can be difficult for an entrepreneur to put a dollar value on a new business idea.
- Some people who are eager to start a new business are not prepared to “talk money.” They either don't know how to or don't want to plan, research, ask for, consider choices, think about, and spend money - that is, business capital.

Relax. You can learn many skills and tools in this Citibank Small Business information guide series that will help you find funding for your new business. The fortunate ones knew that going in. The rest of us learned it along the way. You have an advantage: You can start now to develop or improve your skills and gain the knowledge you need to “talk money.” It can be your most valuable new business asset.



Though funding can be a big challenge, it is essential to your new venture.

This guide, **Funding Your New Business**, will help you to:

- understand the difference between personal and business expenses and the importance of your personal credit rating as a business resource.
- develop financial goals and benchmarks for funding.
- learn about the various types of funding available for new businesses.
- identify reliable sources for new business funding.
- know how to apply for funding.
- be prepared to meet unexpected funding needs.
- establish a banking relationship and develop a strong working partnership with your banking representative.

The good news is that even if talking about money is a new skill for you, the more you do it, the easier it becomes. Try it, and you'll see.

I. Start with a Good Look at Your Personal Finances

There are several important reasons to begin thinking about **Funding Your New Business** with a review of your personal finances:

1. A new business seldom generates enough to replace a regular salary, at least in the beginning. Be sure you can meet your personal expenses with a minimum — or no — contribution from your new business.

✓ **Example:** Harry bought a security system franchise and didn't take a salary for two years. Instead, he used the business income to pay off his investors and upgrade equipment. Within three years, the business was generating excellent profits as well as a healthy income for Harry.

Until that time, the family counted on his wife's healthcare benefits and earnings. All vacations were delayed. Gift-giving was limited to \$25 or less. No dinners out. No major purchases or home repairs, except for crises.



Talking about money may help you become more comfortable in dealing with it.

Notice anything? Harry did not fund his business by tapping out all his savings or maxing out his credit cards. He had started other businesses and knew that those resources could be used for family or business emergencies. Instead, he did his homework before he started his new business, got his funding, and didn't count on luck to make his business profitable. He figured out how much the personal household expenses would be, how they could be kept to a minimum, and how he would spend the income the new business generated until it reached the breakeven point.

For every story you read or hear about someone who “used all my savings and maxed out every credit card” to start a successful new business, there are hundreds of other people who did the same thing ... and after a few years of hard work, they had no savings, no credit, and no business. You can avoid that bad luck story. Maintaining your personal financial health is the key.

2. Your personal credit report is your best reference. For a new business owner, your personal credit report is your business credit report because it is usually your only credit reference. It gives a clear a picture of how you manage your finances, for better or worse. Your credit report will be used by anyone who is considering investing in your new business, either directly as an investor or indirectly as a supplier. Make every effort to be sure it gives a positive picture of your ability to manage money.

If you aren't familiar with what is in a credit report, learn about it now. There are three major credit reporting bureaus (see below) and each of them has information about how you have applied for and used credit. Generally, the information collected by all the credit bureaus is the same, though it might vary slightly. It's best to know what information all three companies have about you to be sure it is correct.

You can get a free copy of your credit report once a year online or order it by phone or mail from www.annualcreditreport.com. You can also purchase reports from each of the credit reporting companies: Equifax (<http://www.equifax.com>), Experian (<http://www.experian.com>) and TransUnion (<http://www.transunion.com>). Also, you can subscribe to a service that gives you regular updates on your credit reports. Refer to each website



Your credit report gives the world a snapshot of how you manage money.

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for details. You can also learn what information is in your credit report and how to correct errors or report fraud and other problems.

It is important that all the information on your credit report is accurate. If there are negative, but true, details on your credit report, be prepared to explain them when you apply for funding. Remember, it's always better to be prepared to discuss credit problems than to be "surprised" by them when you are being reviewed for new business funding.

3. It's essential to keep personal and business funds separate.

This may seem obvious, but you might be surprised at how often mixing personal and business funds becomes a serious issue for small business owners. The best idea, as soon as you decide to move ahead with your business concept, is to set up a separate business bank account (<http://www.citibank.com/us/citibusiness/>). That way, all the costs associated with researching and developing your idea, preparing a business plan, and securing funding can be carefully tracked and paid for with business funds.

Begin with a clear understanding of business expenses. Review the IRS Publication 535 (<http://www.irs.gov>) and refer to the description of business expenses included in your accounting software or consult your accountant. If you start recording and keeping receipts of deductible expenses right from the beginning, you can avoid major problems, such as liability for additional taxes or penalties, in the future.

The following chart gives you some basic guidelines about some typical business expenses.



Mixing personal and business funds can cause unexpected problems.

EXPENSE	
Golf club membership	Keep a careful record of business contacts while at the club. Provide your accountant with a reasonable % of the total cost of membership, plus expenses incurred during business entertaining.
Convention registration	If related to your business, keep programs and other materials that prove that the convention is related to your business. As always, detail and record expenses, keep all receipts, and provide to your accountant.
Magazine subscriptions	Keep receipts. Be prepared to explain purpose, i.e. interior design publications because you are a contractor or home builder.
Internet provider service	If used for business, keep receipts and provide to your accountant.
Home office	It's best to have a separate space and charge your business "rent" for it.
Office furniture	Record as a capital expense. Amortize
New suit for business presentation	Even though you'll use it for business meetings, this is not considered a "business" expense because it is not a garment that is only used for business; it has personal uses as well.
Dinner party for friends	Depends on the purpose (celebrate a new contract, general socializing).
Parking fee during business meeting	Keep receipts on file.
Health care insurance, for you and your family	Generally, this is considered an employment benefit and is deductible as a business expense.
Web site design	Try to negotiate a monthly or extended fee to prevent a huge payout before you know the site works well for your business.



✓ **A Useful Strategy:** Staple an envelope to the top inside edge of a file folder. Mark the flap with the month and year. Put copies of all paid invoices and other expense records in the folder, and small receipts in the envelope. Each month, you'll have a complete file of your business expenses and receipts. It is helpful if you ever have to find a receipt or document deductions.

✓ **The Voice of Experience:** Kristen is a marketing specialist who travels, entertains, and creates information brochures and press releases for her clients. She found that after every business trip, she had receipts that covered only a portion of the money she had spent. Finally, she thought of a clever plan. She uses two wallets – a work wallet and a personal one. She puts all her business credit cards and \$100 cash in the business wallet, and her personal money and cards in the other. She is much more cautious to get receipts when she’s using the business wallet ... and more alert about spending cash for tips, newspapers, and other small items that can really add up. Adapt Kristen’s clever idea for your small business. It’s a money-watch strategy that really works.

The discipline you use to keep personal and business expenses separate will help you to avoid the “trickle out” theory where funds just seem to evaporate ... or projects do not generate the profits they should. Some examples:

- Jerry recorded the time he spent preparing design proposals for new customers. He learned that he spent four hours minimum on each proposal and decided to create some standard proposal formats, including cost and time estimates. He was able to cut proposal development time by half – a cost reduction and a productivity gain.
- Amy limited petty cash to \$50. Every time she needed more, she wrote a check for the amount. By simply recording each \$50, she became more conscious of her spending and less likely to spend without notice.
- Joe uses his business charge card for all purchases. The monthly bill gives him a clear record of his spending and can download transactions into his accounting software to keep his expense records accurate.
- Charley opened his restaurant two years ago and just received a huge bill for city taxes. Fortunately, he had put a percentage of each sale in a tax-escrow account (<http://www.citibank.com/us/citibusiness/banking.htm#5>) and so paying the bill was as simple as writing a check. If he hadn’t started out saving these funds for future taxes, his restaurant may have suffered as a result.



Develop an easy system to keep business and personal money separate.

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Financial discipline saved the day for all of these new business owners. It can do the same for you.

4. Options for how to pay yourself for expenses and salary.

Many small business owners think of themselves as suppliers to their small businesses. Of course, you need to be paid for the items you provide to the business:

- space for a home office
- mileage on the car for business meetings
- electricity, heat, and other utilities
- phone services

One option to consider is paying yourself by business check for any expenses above \$100. For example, if your total mortgage expense is \$2,100 and you use one room of your five-room house for your business, charge the business \$300 rent and pay it with a business check. You might combine the other smaller expenses in one bill for miscellaneous expenses, perhaps \$200. Each month, you would receive \$500 from the business for the use of your home facilities.

Any expenses you have made for the business, such as buying office furniture, can be reimbursed immediately or amortized (paid in segments over time). Again, write yourself a business check with a clear description of the expense.

What about a salary? It all depends on the cash flow your business is generating. Again, your accountant or financial planner can help you estimate a reasonable amount. You have to balance your financial requirements with the business needs for funds. Keep in mind that the less money you take from the business during the start-up phase, the faster your business will reach the breakeven point and the more likely it will be to generate profits.

✓ **The Voice of Experience:** The cost of professional advice is well worth it. Your accountant or financial planner can help you to decide how much salary you should



Don't forget to pay yourself for legitimate contributions to the business.

take from your new business. These experts can also help you plan for tax payments, retirement, and other financial needs.

II. Firm Up the Financial Profile of Your New Business

You already have collected or calculated much of the information you need to develop a financial profile of your new business. As part of this Citibank Small Business series, you have **Developed Your Business Idea (Guide 2)**, **Built a Business Model (Guide 3)**, considered **Financial Management Essentials (Guide 4)**, reviewed **Basic Business Operations (Guide 6)**, and eventually started **Creating a Business Plan that Works for You (Guide 8)**.

Now, it's time to review all of your financial reports and develop a current, realistic financial profile of your business:

- Do your cash flow estimates still seem accurate?
- Can you manage cash flow better in order to reduce your funding needs?
- What is the reality of your breakeven analysis?
- What is the reality of your personal financial statement?
- When will you need funding?
- How will you use the funding? Be specific.
- What is the local business climate like - good, bad, or indifferent? What about the business climate regionally and nationally? Be as realistic and specific as you can; then, update your business plan to reflect the current situation. Example: If there's a sudden downturn in business leases, it can indicate that you could negotiate excellent terms for a longer lease than you initially planned. Or, if a local industry is going through a round of staffing cuts, you could hire experienced workers at a very competitive rate.
- What is the situation for your industry? If there have been new developments in equipment, market demand or other factors, how do they affect your need for funding?



- Is your management team the same or different? How does this affect your needs for funding?

After you have reviewed the financial estimates you have put together, decide on a total amount you need to fund your business. As you set your funding goals and benchmarks, be conservative, but realistic. Visit <http://www.citibank.com/us/citibusiness/> to review financial resources available to small businesses. In addition, visit <http://www.sba.gov> and <http://www.microenterpriseworks.org> for additional information. Use the information from these websites or obtained during a visit to a bank branch to firm up your financial estimates, goals, and benchmarks.

✓ **The Voice of Experience:** Start preparing to make funding proposals as soon as possible. Funding activities usually take longer than estimated. Remember, it's always better, and much more comfortable, to be ahead of the funding crisis curve. The best strategy: Review application or filing requirements; get the needed business registration and tax forms with sufficient time to review and complete them; and submit requests as soon as possible. It is always possible to renegotiate a later start date of a loan or other funding source, but it is usually not possible to get funding at the last minute.

III. Your Bank, Your Business Partner

As a small business owner, you can choose to get the financial services you need from several different sources including a bank, credit union, and savings and loan, as well as private finance, insurance, and investment firms. Some people prefer to work with a single financial services provider, such as Citibank. Others may want to use a combination of resources to meet their business financial needs.

Since the great majority of small businesses use the financial services provided by a commercial bank, it is an excellent source of financial capital.



Prepare your funding proposals and file needed business forms early.

1. Look at Your Financial Services Choices

Banks provide many ways to assist you in getting your start-up off the ground. Just look at this range of banking services. It's likely that you'll need to use many of them.

Banking <ul style="list-style-type: none">- checking- money market- savings/CD- escrow accounts	Cash Management <ul style="list-style-type: none">- account reconciliation- positive pay- lockbox- wire transfers
Credit Cards <ul style="list-style-type: none">- business credit cards	Investments <ul style="list-style-type: none">- sweep services- online investing- 401K- IRA (Individual Retirement Account)- Employee Stock Ownership (ESOP)
Credit <ul style="list-style-type: none">- line of credit- term loans- leasing alternatives- SBA loans- commercial mortgages	Trade <ul style="list-style-type: none">- letters of credit

2. Communication Builds Trust and Respect

However you like to do business, it is important to have a relationship based on mutual trust and respect. Your business banker and other financial resources can help you set priorities and establish a banking plan that works for you now, and as your business grows. They should also be convenient, reliable sources for information and advice.

If you do not have a personal relationship with your banker or other financial services providers, make one immediately. It's a simple process.

- Call or stop by to set up an introductory meeting. Plan on at least 30 minutes.
- Come prepared with your business card and brochure, if available. Also, bring a one-page description of your business and questions you have about



recommended financial services available for a start-up. As appropriate, describe your current personal banking relationships.

- Be ready to take notes as well as answer basic questions about your new business plans. Since this is an introductory session, keep your comments general and get copies of brochures, applications, and other materials related to your type of business.

Consider interviewing several different resources. You might start by learning more about the banking services available to a small business at <http://www.citibank.com/us/citibusiness/>.

IV. Consider Funding Choices

There are many different types of funding and often, many new business owners don't know or realize this. This is a good time to review funding choices because the most successful businesses are built on a solid foundation of capital. It begins with a good understanding of opportunities for **Funding Your New Business**.

1. Types of Capital

Capital is the financial investment, or funding, needed to start a business. There are two basic types of capital used to finance a business – equity and debt. In general, the more equity the owners have in a new business, the easier it is for the business to qualify for debt financing.



<p>EQUITY - funds provided by investors in exchange for ownership in the business including voting rights, dividends, and a share of the profits</p>	<p>DEBT - funds borrowed in exchange for fees, interest, and other payments</p>
<p>Examples: Common stock, preferred stock, convertible stock</p>	<p>Examples: Commercial mortgages, loans, secured or unsecured lines of credit</p>
<p>Advantages - You get the equity from investors or other sources and have the funds available to use as necessary. The more equity funding you have, the more debt funding you can qualify for. If the business succeeds, the value of the equity investment is paid off through increased stock prices, dividends, or profits. If the business fails, the investors lose their equity, and you do not have to pay back their investment.</p> <p>Disadvantages - In exchange for equity funding, you may have to give up a % of ownership, management responsibilities, or long-term profits.</p>	<p>Advantages - Debt funding can be more flexible than equity funding because it can be established as an available credit line and only used as necessary to meet cash flow requirements.</p> <p>Debt funding does not require you to give up ownership, voting, or management rights.</p> <p>Disadvantages - Debt funding costs can rise if the business returns are not meeting projections. It may be difficult to get additional debt funding on short notice.</p> <p>If the business doesn't succeed, you still have to repay the mortgages, loans, credit lines, or other debt funding you received.</p>
<p>High ratio of Equity to Debt: An indicator to seek debt financing</p>	<p>High ratio of Debt to Equity: An indicator to increase equity investment</p>



<p>Sources for Start-Up Companies</p> <ul style="list-style-type: none"> - Personal savings - Family or friends - Angel investors - Venture capitalists - Potential customers - Potential suppliers - Banks that have partnerships with, provide funding for, or are able to direct you to or recommend: <ul style="list-style-type: none"> • Economic Development Organizations • Other community resources that fund and promote small businesses 	<p>Sources for Start-up Companies</p> <p>Business development programs</p> <ul style="list-style-type: none"> - Industry colleagues - Line of credit from suppliers - Banks that have partnerships with, provide funding for, or are able to direct you to or recommend: <ul style="list-style-type: none"> • Microfinance Organizations /and Microlenders <ul style="list-style-type: none"> • AEO (Association of Enterprise Opportunity) http://www.microenterpriseworks.org • Microlending area of SBA site - http://www.sba.gov - Explore financing options for start-ups with your bank
<p>Start-up businesses: Generally not attractive to venture capitalists until after 3-5 years of successful operation.</p>	<p>Start-up businesses: Your personal credit history has a direct impact on the availability of financing for your start-up: Visit http://www.sba.gov/starting_business and section V below.</p>



Keep in mind that funding includes more than money. It's a broad category that covers all the financial and other resources that can be used to launch a new business. All funding is valuable, but some types of funding are more valuable to you than others.

Typically, your choices for start-up capital are not that obvious. Your accountant, financial advisor, banker, and attorney can advise you as to what funding options are most cost-effective and efficient for the type of business you are planning.

V. A Closer Look at Capital Sources

If you have never started a small business before, you may not have experience considering all the advantages and disadvantages of the various sources of capital. Here's brief rundown of some of the major issues to consider. Fill in the chart to add your own thoughts.

It's good to consider all available sources when you are deciding how, when, and where to seek funding.

✓ **An Equity/Debt Reminder:** Review the differences between equity and debt. Some funding sources offer both; some only offer equity or debt.

Funding Sources	Advantages	Disadvantages
Personal savings, 401K, IRA or retirement funds, home equity loan or line of credit	You have access to these funds because of your prudent financial management.	Plan for success, but prepare for failure. This is an old adage that describes exactly how you should think about new business funding. Despite your best efforts, a new business can fail - do everything you can to access the funding resources available for businesses and avoid the stress and tragedy of losing your home or retirement funds as you try to start a new business. There are better and more financially savvy ways to acquire funding.



<p>Family and friends, employees, industry colleagues</p>	<p>Can be an excellent resource, often overlooked by new business owners. May have the financial resources for loans or be able to offer services, facilities, or supplies; may accept deferred payments for rent or wages. Frequently, money is loaned interest-free or at a low interest; a distinct start-up advantage.</p>	<p>May want to be too involved in the day-to-day business decisions or have unrealistic expectations for return on investment. Have your attorney write a contract or Letter of Agreement that describes the funding terms and cancellation policies, if necessary. Be certain to have a signed agreement before accepting funds.</p>
<p>Angel investors</p>	<p>They look for small businesses with high growth potential and strong management teams in an industry they know well. Able to provide financial resources quickly and conveniently. Usually have strong management experience, which can be useful. Typically invest with trusted friends and business associates.</p>	<p>May not want to invest in your type of business or may have very high requirements for "success." Generally interested in an "exit strategy" in five years.</p>
<p>Venture capitalists</p>	<p>Knowledgeable investors who usually have extensive financial resources as well as strong management experience. Very selective in choosing investments and frequently very involved in management of growing companies.</p>	<p>Often not interested in start-ups until they have 3-5 years' experience. Often insist on equity in exchange for funding, as well as decision-making and strict higher-than-average profit performance. May insist on management or strategy changes if business is not performing as expected. Small business owners may not want to relinquish equity or management responsibilities in exchange for funding.</p>



Potential customers	May be in a position to barter or exchange resources. Example, a client may offer you office space in exchange for X hours of work per month. Or, a retailer may be willing to pay upon delivery, pay for shipping, or offer other funding support.	Be sure to have a written agreement about the value of the exchange, as well as the length of the agreement and termination. You wouldn't want your "landlord" to keep your computer as "payment" if he is not happy with your work.
Potential suppliers	Like potential customers, potential suppliers may be eager for you to succeed and offer you space, advertising support, a percentage on sales to new clients, delayed payment terms, or many other funding resources. This is especially true if you have worked with the supplier and have established a good relationship.	Be careful to get paid for the full value of your services. For example, a printer may be willing to give you printing valued at \$3,000 for no cost, but if he wants \$5,000 worth of design work, it's not a good value for you. Also, be sure to have an agreement with the supplier that describes and limits your responsibilities, as well as the other terms of your agreement.
Banks, credit unions, savings and loans, commercial finance companies	A major resource for new business funding that can structure financing to meet specific business needs. May offer demand loans, seasonal lines of credit, loans for purchase of equipment and other debt financing. Also a resource for small business information and advice.	The more start-up equity a small business owner can access, the better choices available for debt financing. Application process may be rigorous and take longer than anticipated.
Microfinance organizations and SBA microlenders	Refer to http://www.sba.gov and http://www.microenterpriseworks.org websites for more information.	Be certain to check any lender's affiliations and local business records before signing a loan or microloan agreement.



✓ **The Voice of Experience:** Always have every funding offer and contract reviewed and approved by your accountant *and* attorney before signing it. Rely on their professional advice to protect your financial and business interests.

VI. The Small Business Administration - Organized to Help

In 2004, almost 581,000 small businesses were started in the U.S. However, almost the same number of businesses closed. What made the difference between those that succeeded and those that did not? In many cases, it was the Small Business Administration (SBA). It is the government agency established to promote, educate, advise, and in some cases, provide or guarantee funding for small businesses.

If you have never heard about the SBA or are not quite sure how it can help you, now is the time to learn all about it. Learn all about the organization and the services they provide at <http://www.sba.gov>.

The Small Business Development Centers

According to its website, the SBDC Program provides up-to-date counseling, training, and technical assistance in all aspects of small business management and assists small businesses with financial, marketing, production, organization, engineering and technical problems, and feasibility studies. It also provides programs and economic development activities that include international trade assistance, technical assistance, procurement assistance, venture capital formation, and rural development. The SBDCs also make special efforts to reach minority members of socially and economically disadvantaged groups, veterans, women, and the disabled. Assistance is provided to both current or potential small business owners. They also provide assistance to small businesses applying for Small Business Innovation and Research (SBIR) grants from federal agencies. Be sure to take advantage of this valuable resource from the SBA.

<http://www.sba.gov/sbdc/>

One of the most important functions of the SBA is providing loan guarantees to help small businesses get funding. Here are the most popular SBA programs:

1. SBA Express Loan Program

SBA Express allows SBA-qualified lenders to offer quick turnaround on a wide variety of SBA 7(a) revolving credit lines and loans, with negotiable interest rates, with or without collateral depending on the size of the loan. Loans made under this program



**Take advantage
of free assistance
from the Small
Business
Administration.**

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generally follow SBA's standards for Size, Use of Proceeds, Type of Business and Availability of Funds. For more information, visit <http://www.sba.gov/financing/lendinvest/sbaexpress.html> or contact your SBA-affiliated banker or local SBA district office.

2. Basic 7(a) Loan Program

This is the most basic, flexible, and used type of SBA loan. These loans help small businesses qualify for financing for which they may not be eligible otherwise. Loans are provided by lenders, such as Citibank, which participate with SBA in making loans under the SBA guidelines:

- the small business applies to the lender for SBA financing
- the lender decides if the applicant qualifies for an SBA-guaranteed loan
- The guaranty is provided to the lender and assures that in the event the borrower does not repay the loan and a default occurs, the government will reimburse the lender for its loss, up to the percentage of the SBA guaranty.
- the borrower remains obligated for the full amount due.

Several key concepts work together to make SBA 7(a) loans effective:

- 1) the applicant must be eligible for a 7(a) loan - must meet SBA size standards, must be for-profit, must not have internal resources (business or personal) to provide financing, and must demonstrate ability to repay the loan
- 2) the loan comes from the commercial bank or other SBA participant, not the government
- 3) if the loan application is not approved, the agency cannot force the lender to grant the loan.

For more information, visit <http://www.sba.gov/financing/sbaloan/7a.htm>.



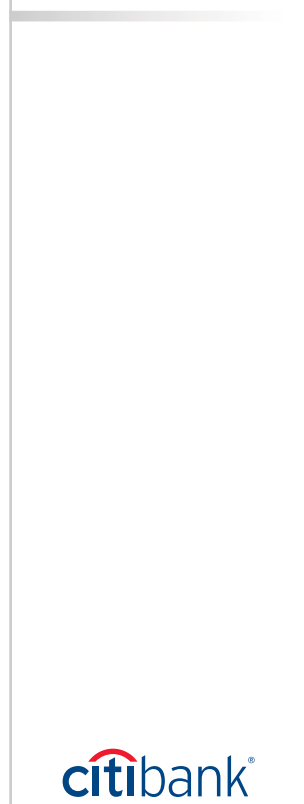
3. Certified Development Company (504) Loans

Long-term, fixed-rate financing to allow small business to make “brick and mortar” purchases of real estate, machinery, or equipment for expansion or modernization. CDC/ 504 loans are delivered through approximately 270 CDC-certified private and non-profit corporations located across the U.S. to meet public policy goals, including:

- Business district revitalization
- Expansion of exports
- Expansion of small businesses owned and controlled by minorities, women and veterans (especially disabled veterans)
- Rural development
- Increasing productivity and competitiveness
- Restructuring because of federally mandated standards or policies or budget cutbacks

CDC/504 loans are larger loans — several hundred thousand dollars to \$4 million — and include three parts: A senior lien from a bank, like Citibank, equal to 50 percent of the project cost; a loan secured with a junior lien from the CDC (guaranteed by SBA) for up to 40 percent of the cost; and at least 10 percent equity provided by the small business that is being helped. CDC 504 loans cannot be used for working capital, inventory, consolidating debt, repaying financing, real estate speculation, or rental properties. Generally, these loans have 10- or 20-year maturities, with interest rates pegged to an increment above the current market rate for 10-year U.S. Treasury issues, as well as 3 percent fees based on the total debt. The fixed rate of CDC 504 loans makes them an excellent funding resource for a small business.

For more information, visit <http://www.sba.gov/financing/sbaload/cdc504.htm> or discuss with your lender.



4. Microloan 7 (m) Loans

These short-term loans allow small businesses and not-for-profit child care centers to borrow up to \$35,000 for working capital or the purchase of inventory, supplies, furniture, fixtures, machinery, or equipment. They cannot be used to pay existing debt or purchase real estate. However, these microloans are an excellent option for small business start-up or expansion. These are available through non-profit organizations that receive funding from banks and other financial institutions. See sections IV and V of this brochure. Example: Community Development Organizations

For more information, visit <http://www.sba.gov/financing/sbaloan/microloans.htm>.

5. Loan Prequalification

This program is designed to help small business applicants have their SBA 7(a) loan applications reviewed and approved for up to \$250,000 before approaching a lender. Here's how:

- 1) The SBA works with intermediaries such as Small Business Development Centers and others that help prospective borrowers develop a business plan and complete a loan application that describes a business which is both eligible and has credit merit. Small Business Development Centers do not charge a fee for this service; other intermediaries do.
- 2) Once the intermediary believes the small business loan application has a chance for approval, it forwards it to the SBA for processing.
- 3) If the SBA decides the application is eligible and the business owner has sufficient credit merit to warrant approval, it issues a commitment letter on behalf of the applicant.
- 4) The commitment letter or pre-qualification describes SBA's willingness to guaranty a loan made by a lender under certain terms and conditions.
- 5) The intermediary helps the borrower locate a lender offering the most competitive rates.



- 6) The borrower then takes the SBA letter and loan application documents to a lender for a decision.

The SBA Loan Prequalification program is a winner for everyone. Small business owners get expert assistance in preparing their loan documents, at no cost. Intermediaries receive funding and other support from SBA for their community service, or fee income from SBA applicants. Banks and other lenders receive well-prepared, complete loan applications to speed up their decision-making process.

Contact your local SBA office — look in the phone book or check <http://www.sba.gov> — to find out if there is an SBA intermediary in your community.

SCORE — 1 for You. Get in touch with Service Corps of Retired Executives — volunteers who provide free online and in-person advice and education for small businesses, <http://www.score.org>.

VII. Know How to Apply for Funding

Now that you know the funding choices available for a small business, consider your most likely choices. Immediately start to prepare your funding plans and requests. The more effort you make to identify and prepare your funding requests, the more likely you are to get the funding you need.

1. What Does the Lender Need to Know? Start Organizing Your Information.

Eventually, you will need to prepare a loan or funding package to describe your small business financial plan. Start now by considering what you will need to have ready and be prepared to explain your business plan and answer these questions with specific details.

- What does your business do?
- What is the financing plan?
- Who are your references, both personal and professional?



**Check out
the SBA Loan
Prequalification
Program to see if
it can help you.**

citibank®

It's smart to bring a printed list that includes at least a couple of personal and professional references. If possible, have letters from these references to attach to your loan application.

Personal references: a relative or close friend

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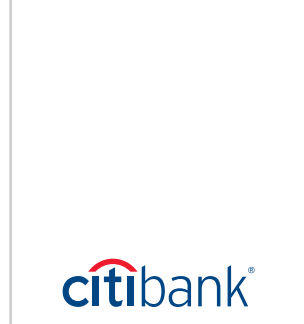
Professional references: your accountant, attorney, business associates, landlord, or other person who can vouch for your reliability in meeting financial obligations.

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- How much funding do you need and how will you pay it back?
- How much business debt do you think you can handle? Be prepared to explain the financial figures on your application and how your equity plus cash flow will enable you to manage the loan payments you will have.
- Are you prepared to meet financial emergencies if:
 - cash flow is slower than you planned?
 - there is less demand for your product or service than you anticipated?

If you answered “yes” to either of these questions, it's time for a quick review of your progress in **Funding Your New Business**. You must assure the lender that you have:

- Looked at, reviewed, and corrected your personal credit reports.
- Compared the differences between equity and debt and considered their funding consequences for a small business.
- Reviewed and updated your financial projections for the business.



- Learned how the Small Business Administration can help you. Also, considered other local and online help.

Now it's time to put all your experiences together to request funding.

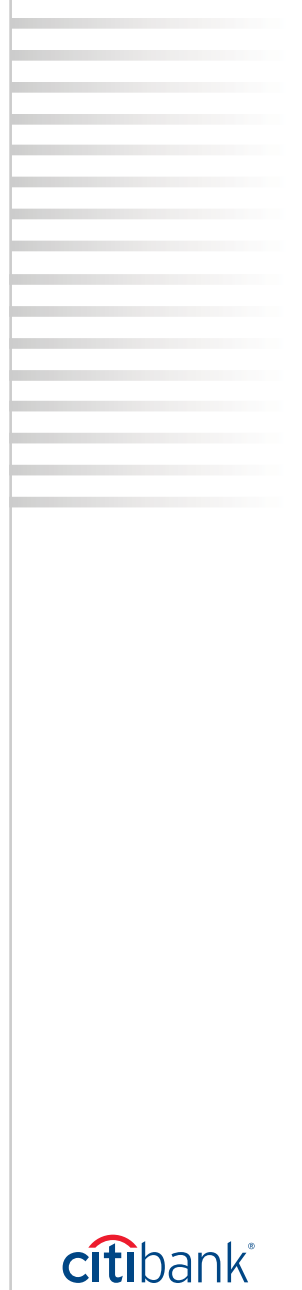
2. Review Potential Funding Resources

Make a detailed list of the debt and equity resources available to you. Be sure to include ones that are unique to your community, such as Empowerment Zones or Redevelopment Programs. Contact the Chamber of Commerce, your local bank, or your accountant for details.

Complete the following charts to summarize your findings:

Debt Financing

Type of Debt	Amount	SBA Guaranty?	Contact Information
Term Loan Qualifications: Advantages/ Disadvantages:			Address: Phone: e-mail:
Line of Credit: Qualifications: Advantages/ Disadvantages:			Address: Phone: e-mail:



<p>Microloan:</p> <p>Qualifications:</p> <p>Advantages/ Disadvantages:</p>			<p>Address:</p> <p>Phone:</p> <p>e-mail:</p>
<p>Mortgage:</p> <p>Qualifications:</p> <p>Advantages/ Disadvantages:</p>			<p>Address:</p> <p>Phone:</p> <p>e-mail:</p>
<p>Other:</p>			<p>Address:</p> <p>Phone:</p> <p>e-mail:</p>
<p>TOTAL</p>			



Equity Funding

What are your likely sources of equity funding?

Equity Funding Source	Type of Funding: cash, service, resources, etc.	Value
Address: Phone: e-mail:		Advantages/ Disadvantages:
Address: Phone: e-mail:		Advantages/ Disadvantages:
Address: Phone: e-mail		Advantages/ Disadvantages:
Address: Phone: e-mail:		Advantages/ Disadvantages:
Address: Phone: e-mail:		Advantages/ Disadvantages:
TOTAL		



3. Create a Debt/Equity Funding Plan.

Once you have reviewed the funding possibilities in your community for your type of new business, create a plan for securing funding.

- Make a list of your first choices for applications or funding requests.
- Complete the necessary applications.
- Have your accountant and attorney review your funding plan and applications.
- Organize your “Funding Package.” That is, put together all the materials and supporting information you need to present to an equity or debt source. Refer back to part 1 of section VII.

4. Follow a Funding Schedule.

Apply to your first choice funding sources. Be sure to keep a careful record of when you applied, appointments, calls, letters, or other contact details.

Example: You may apply for an Empowerment Zone office lease, a Small Business loan for equipment and a line of credit from your bank at the same time. One of these may be approved; the others may not.

Be prepared to submit additional funding applications, if your first or second choices are not approved. Keep your concentration on your goal: To get the funding you need. Think of this start-up phase like a football game — not every play results in a touchdown. The goal is to have all your necessary funding in place when you are ready to start the business.

✓ **An Essential Reminder:** Always have your accountant and attorney review the contract before you agree to any funding offer.

5. Be Prepared to Learn from Rejection.

Many of America’s leading businesses finally took root after a couple of false starts, even failures. While everyone wants to be approved for business debt-financing, sometimes being rejected is the first step to success.



These are some typical reasons that lenders reject funding requests:

- Application is not completed accurately.
- Business plan is incomplete or weak.
- Business concept or description is not compelling or seems unlikely to succeed.
- Financial plan shows that the burn rate (use of capital) is too high; there is not enough potential for growth or the probable return on investment is unsatisfactory.
- Management team seems weak or inexperienced.
- The business plan points to serious, critical risks that have not been considered.
- The lender is not a good source for capital for this type of business.

Keep these important considerations in mind as you complete your application and prepare for your interview with a lender.

Congratulations. Now you're ready, willing, and able to "talk money" and well prepared to locate and qualify for **Funding Your New Business**.

■ **Summary**

This guide gave you strategies to start your new business off on a strong financial footing. You learned the importance of your personal credit rating as a business resource, firmed up the financial profile of your new business, considered funding opportunities, and took a closer look at capital sources. After you selected Your Bank, Your Business Partner, you made financial services choices to meet your new business needs. Your knowledge of SBA and other government and private funding resources will enable you to apply for equity and debt financing. So, what funding strategy will work best for your venture?



Look over these common reasons for loan denial and try to avoid them.

VIII. So, What's Next?

We hope this guide has been helpful. Next, **Guide 10** explores the **Life Cycle of Your New Business: Launch, Grow, Harvest** and gives you an overview of business stages from idea to start-up, through growth and maturity, to next steps. It's a compact and interesting look at the exciting challenges in small business. Be sure to review and use the other guides in this series as you continue your exploration of entrepreneurship.



IX. Glossary

Accounting

a system for documenting, recording and reporting all financial transactions; used to develop a financial profile of the business volume, profits, growth and other measures
To create financial statements

Assets

Anything you own that you own that can be converted to cash to pay debts; usually listed in order of liquidity

Balance Sheet

A financial statement that provides a description of a business's financial position at a specific time, usually the close of an accounting period

Bootstrap

an expression that means "without help" but has been adapted by business to mean starting up a business from scratch or helping to start a new business

Breakeven Analysis

A study to identify the point at which assets exceed debits; a strategy to find out when a business is making a profit because income is larger than spending

Breakeven Point

when assets or revenues exceed liabilities or expenses; the time a business begins to show a profit

Budget

planned spending by categories

Budgeting

the process of planning spending

Burn Rate

the rate at which cash flow is spent by a start-up business; a measure of how fast a new business will run out of cash or meet the breakeven point

Business Plan

a complete view of the business resources, goals, activities, and strategies of a business aimed at producing a profit

Capital

the financial investment needed to start and/or operate a business

Capital Expenditures

spending for equipment, space, and other assets needed to run a business

Cash Flow

how money moves in, through, and out of a business

Cash Flow Statement

shows the actual cash flowing into and out of the business during a defined period, such as a month, quarter or year; a cash flow statement also records the effects of changes in balance sheet accounts

Cash Management

The discipline of using cash most efficiently to have positive cash flow, make a profit, maintain a healthy balance sheet

Charter

a legal document that describes the legal form of the business, how the company will operate within the corporate structure and plans for dissolution of the company, if necessary

Collateral

business assets that can be used to guarantee a loan



Competitive Strategy

the unique value or advantage that a business offers, compared to its competition

Common Stock

These are securities that represent equity ownership in a company. Common shares give an investor voting rights on the election of directors and other issues. They also give the holder a share in a company's profits in the form of a dividend or an increase in the value of stock price.

Convertible Stock

a form of equity that can be exchanged for common stock at a certain price

Cost Structure

how revenue is generated by sales, service fees, advertising, subscription, or contract fees

CPA

the abbreviation for Certified Public Accountant; candidates have to be graduates of an accredited college accounting program, work a certain number of years in a professional accounting capacity, and pass a rigorous examination to certify their capacity, integrity and objectivity in reporting financial data

Credit

access to spending resources based on your promise to pay

Credit Policies

the payment schedule and penalties you establish for your business

Credit Rating (also called a Credit Score)

a number or score based on your history using and paying for credit; a good credit rating is an important asset for personal and business finance

Credit Reporting Companies

Private companies that are in business to collect and report on the financial history of an individual or company. The major companies that report on businesses are Dun & Bradstreet, Equifax, Experian and TransUnion. Each credit reporting company has its own system for collecting data and calculating credit scores. You have the legal right to see the information that is in your credit report. Make it a policy to review the credit reporting company records for your own business, as well as for your suppliers and customers on a regular basis. That way, you can correct errors in your own record and adjust you company credit or payment policies, as necessary, based on the current records of your suppliers or customers.

Current Assets

assets that can be converted into cash within one year of the date of the balance sheet

Current Liabilities

bills or obligations payable within one operating cycle, such as current insurance premium, rent, wages

D & B - Dun & Bradstreet

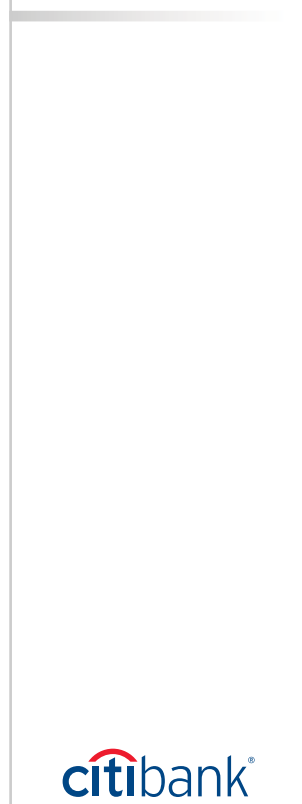
a leading credit reporting company that concentrates on businesses; reports on start-up businesses only after they have operated long enough to have a credit history, about a year

DBA (Doing Business As)

An assumed name used for business, instead of a personal name. A certificate is filed at the city or country registry to use an assumed name. Example: Jane Evans DBA Personal Flower Workshop

Debit

a cost, expense, or depreciation that is charged against assets to establish the current value of an asset or company



Debt/Equity Ratio

Long-term debt divided by stockholder equity; compares assets from creditors to assets from shareholders to measure the financial strength or leverage of a company

Depreciation

the loss of value over time; used to record the value of business assets such as equipment that will eventually need to be replaced

Earnings

income from sales, commissions, rents, and other money-making efforts

Entrepreneur

a person who sets up a new business

Equity

the value of property, equipment, inventory, and other assets minus the outstanding balance due on them; total business assets after liabilities are subtracted

Expenses

costs incurred doing business; examples include wages, insurance, rent, and taxes

Financial Statement

a summary assets and liabilities for a specific period of time

Fixed Assets

also called long-term assets; non-liquid assets that are important to the day-to-day business operations; plants, computers and manufacturing equipment, furniture, and real estate are examples

Fixed Costs

routine business costs that are contracted or agreed to, such as salaries, insurance, lease expenses and utilities

Functional Area

an operating segment of a business, such as manufacturing or sales; functional areas can be separated to provide detailed financial information about where and how profits or losses are being generated within the total business

General Ledger

the “books” of a business; all financial transactions are recorded here

Guarantee

a promise; in business finance, the term refers to the borrower’s promise to pay off a loan in full plus interest.

Income

Earnings from all sources including rents, sales, and interest

Income Statement

also known as a Profit and Loss Statement; a summary of a company’s income minus expenses for a specific time period such as a month, a quarter, or a year

Interest

the amount paid for the use of money; that is, the “rental cost” for using loan funds or credit

Internal Controls

accounting methods designed to promote efficiency, safeguard assets, and discover and avoid fraud or error

Invoice

the bill for products or services provided by a business

Line of Credit (LOC)

a pre-approved amount of credit, often a useful business asset



Liquid Assets

business assets that can be turned into cash quickly, usually within a few months but no longer than a year

Long-term Investments

stocks, bonds, and special savings accounts that are planned to be kept for at least one year

Long-term Liabilities

The outstanding balance due minus the current portion due on major purchases such as business equipment, mortgage, vehicle

Long-term Loan

a loan that matures after one year or more, usually less than seven years. Capital real estate and facilities, manufacturing or other equipment, durable furniture and fixtures, as well as vehicles are often purchased with long-term loans which have monthly payments and maturity dates of 10 to 25 years.

Management Accounting

financial reports created from accounting data to help management make plans and decisions

Maturity

date when the term of an investment ends and the principal and interest are due to investor

Net Worth or Capital

the owner's equity in a business; $\text{assets} = \text{liabilities} + \text{net worth}$

Niche

when used in business, a target opportunity that is well-suited to the situation or audience

Partnership Agreement

a contract that describes the percent ownership of each partner, distribution of profits, financial responsibility for any losses, provisions for a partner's exit and the dissolution of the company

Partnership or Proprietorship

each owner's original investment plus earnings minus withdrawals

Preferred Stock

a stock that shows ownership in a corporation and gives the holder a claim, prior to the claim of common stockholders, on earnings and on assets in the event of liquidation. Most preferred stock pays a fixed dividend and does not provide voting rights.

Principal

the amount of loan, not counting the interest

Profit

revenue minus costs; the money earned by providing customers with a product or service

Profit and Loss Statement

also known as an Income Statement; a summary of a company's income minus expenses for a specific time period such as a month, a quarter, or a year

References

personal or business contacts who will vouch for your professional competence, honesty, or credit-worthiness

Retainer

a fee received on a regular basis, usually monthly or quarterly, for a pre-determined amount of work; usually established for long-term projects or ongoing business relationships, for example, an attorney may be on a retainer basis to be available to answer questions or provide a certain number of hours per month

Return

earnings on investment, often described in a percentage



Service Corps of Retired Executives (SCORE)

a nationwide SBA-sponsored network of over 13,000 volunteer business executives who provide free counseling, workshops and seminars to prospective and current small business owners and executives

Small Business Administration (SBA)

the federal agency established to provide information and education services, loan guarantees, and counseling to promote small business development

SBA Loan

a loan that is provided by a bank or other financial institution and insured by the Small Business Administration

Small Business Development Centers (SBDCs)

SBA-sponsored partnerships among state and local governments, educational centers and the private sector that provide assistance, counseling and training to prospective and existing business owners and their staffs.

Short-term Loan

a loan that matures and has to be paid back within one year.

Small Business Institutes (SBIs)

more than 500 SBA-organized centers on campuses nationwide where students and faculty provide counseling to small business clients.

Supporting Schedules

financial reporting forms used to document expenses, depreciation or other business expenses; often used to explain tax deductions or to detail plans for using a credit line or loan

Target Market

the customers a business is organized to serve

Value Chain

how a business is organized so owners and staff provide value to customers

Value Proposition

the value that is created for the target customer; "the customer problem you are solving"

Venture

a new business



X. Additional Resources

Every day, there are new business opportunities and events that affect the business climate or business strategies. These print and online resources can keep you well-informed.

Websites

American Marketing Association

Industry reports, detailed dictionary of marketing terms, and educational resources
<http://www.marketingpower.com>

Association for Enterprise Opportunity (AEO)

The national association of organizations committed to microenterprise development
<http://www.microenterpriseworks.org>

Business Week magazine

<http://www.businessweek.com>

Citibank

Experienced small business advisors and custom financial resources for cash management, credit card processing, investment, and more; locate offices and learn about business strategies and programs
<http://www.citibank.com/us/citibusiness>

Dun & Bradstreet credit reporting company

<http://www.dnb.com> or 1-800-234-3867

eBay

Information about how to set up an online business
<http://www.ebay.com>

Entrepreneur magazine

Online resources, plus small-business blog
<http://www.entrepreneur.com>

Export-Import Bank of the United States

Provides information and training to promote international trade by small business
<http://www.exim.gov/products/special/smallbus.html>

Fast Company magazine and its Small Business Intelligence Center

Offers a variety of articles, resources, and tools
<http://www.fastcompany.com>

FORBES magazine

<http://www.forbes.com>

FORTUNE Small Business

<http://www.fortune.com/fsb>

INC Magazine

The daily resource for entrepreneurs
<http://www.inc.com>

Kauffman Foundation

Encourages entrepreneurship across America and improves the education of children and youth by focusing its operations and grantmaking on entrepreneurship and education
<http://www.kauffman.org>

The trusted guide for entrepreneurs on the path to high growth

<http://www.eventuring.org/>

National Association for the Self-Employed (NASE)

Supporting the needs of micro-business and the self-employed
<http://www.nase.org>

National Association of Women Business Owners (NAWBO)

Networking and support, education programs, and more
<http://www.nawbo.org>



National Business Association

A not-for-profit association, specifically designed and actively managed to assist the Self-Employed and Small Business Community in achieving their professional goals

<http://www.nationalbusiness.org>

Online Women's Business Center

Helps women to achieve their dreams and improve their communities by helping them start and run successful businesses

<http://www.onlinewbc.gov>

Service Corps of Retired Executives (SCORE)

An organization of volunteers who provide free online and in-person education for small businesses

<http://www.score.org>

Small Business Administration

Strives to maintain and strengthen the nation's economy by aiding, counseling, assisting and protecting the interests of small businesses and by helping families and businesses recover from national disasters.

<http://www.sba.gov> and

<http://www.sba.gov/sbdc/>

Society for Hispanic Professionals

A unique source of opportunity in professional development, educational services, and personal fulfillment for Hispanics

<http://www.nshp.org>

U.S. Department of Labor

The Department of Labor fosters and promotes the welfare of the job seekers, wage earners, and retirees of the United States.

<http://www.dol.gov>

U.S. Patent and Trademark Office

Promotes the progress of science and the useful arts by securing for limited times to inventors the exclusive right to their respective discoveries

<http://www.uspto.gov/>

Young Presidents Club

An educational organization aimed at providing better leadership through education and friendship

<http://www.ypo.org/learning.html>

The Wall Street Journal Center for Entrepreneurs

Contains current stories and extensive resources on trends that affect you and your business

<http://www.startupjournal.com/>

Publications

Minniti, Maria and William D. Bygrave. 2004.

National Entrepreneurship Assessment - United States of America, 2003 Executive Report. Babson College and the Kauffman Foundation.

Mandel, Stan, August 2004. "Educating the Successful Entrepreneur," ViewPoint.



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