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Thank you to our sponsors

Economic & Civic Development Department
224 W. Winton Avenue, Room 110
Hayward, CA 94544

The Economic & Civic Development Department promotes economic development and public/private investment in the unincorporated communities of Alameda County. The Eden Area communities include Ashland, Castro Valley, Cherryland, San Lorenzo & Fairview.

ECD works to…
- Attract new businesses
- Help businesses expand
- Offer small business workshops
- Offer award-winning Food Training Academy
- Provide technical assistance
- Offer one-on-one business counseling
- Attract new investment
- Find the perfect location for your business
- Provide marketing opportunities at signature events
- Be a liaison for property owners and real estate development projects

Phone: (510) 670 6506
Website: www.acgov.org/cda/ecd/
Facebook: @AlamedaCountyECD

EDEN AREA
Unincorporated Alameda County

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Questions To Get Started

- How much money do you have?
- What do you need money for?
- How much money will you need?
- What type of money is best for your business purpose?
Common Uses for Financing

- Start-up Expenses
- Build inventory
- Finance sales
- Permanent Working Capital to bridge product development and Sales gap
- Growth Capital to expand by product lines or territories
- Debt refinancing
There are three primary ways to get funding for your business: Debt/Equity/Crowdfunding

So what’s the difference?
Debt is another word for Loan. Banks provide you a loan and they want your money back.
Equity requires you to give up ownership in your business in exchange for future cash.

The equity provided is called “investment”.
Crowdfunding can be debt, equity or incentives

May or may not involve giving up ownership
Equity vs. Debt Financing Advantages

**Debt Financing**

- Relatively Easy & Quick
- Maintain control & ownership
- Interest & other costs tax deductible

**Equity Financing**

- Unsecured (no collateral)
- Share of financial risk (partners)
- Less pressure to make monthly payments
- May be able to borrow more
- Payback is negotiable
Equity vs. Debt Financing Disadvantages

**Debt Financing**

- Interest Costs Expensive
- Risk of profits not covering repayment
- Must share financial information
- Lender Restrictions & Limitations

**Equity Financing**

- Risk of destroying personal relationships
- Give up part of profits
- Give up part of ownership of business
- Give up some control of business
- Legal restrictions
Equity Financing
Equity Sources

- Family & friends
- Channel partners
- Angels
- Crowdfunding (New but difficult)
People invest in people they know and trust
Your Network

- Your earliest stage capital is most likely to come from friends and family and their personal contacts.
- Everyone you know and everyone they know.
- Ask your Family, Friends and Business Associates about investing.
- Equity commitments can help you get a loan.
- The more equity in place, the “safer” the business will appear to potential lenders, suppliers, landlords, etc.
Channel Partners = Access to Cash

- Companies you buy from and sell to
- Go over your business plan with them
- Probably won’t make a direct investment
- Negotiate for preferable trade credit terms
- Lower deposits, more days before bills are due and/or higher credit lines
- Better terms translate into less cash required
Angel Investors

- High net worth individual investors
- Tend to be early but generally flexible
- All have their own processes
- Who is passionate about your business/product?
Angel Investor sites

- angel.co/food-and-beverages/investors
- Angelfoodnet.org
- Foodangels.co
- Circleup.com
- Many more...
CROWDFUNDING
Crowdfunding

- A relatively new source of finance for startups
  - A Crowdfunding platform can be used to raise money for a campaign (may include startup funding)
  - “Contributors” might not receive ownership, rather they can receive something of value (tickets to events, t-shirts, etc.)
  - Very marketing/social media intensive
- Can also be debt or equity
- Recently, the JOBS Act expanded this concept to provide for money to be raised from investors in exchange for equity ownership
  - Signed into law April 2012
  - Guidelines effective May 2016
Crowdfunding

- Crowdfunding is forecasted to pass venture capital as a source of business funding in the near future.
  - 2014: $16.2 billion worldwide
  - 2015: $34.4 billion worldwide
  - 2020 forecast: $90.0 billion (World Bank)

- 2015 Venture capital: $124 billion
Crowdfunding Platforms

The largest players in the crowdfunding landscape (2013)

- **Rewards**
  - Kickstarter.com
  - Fundable.com
  - Wahooy.com
  - RockThePost.com
  - Indiegogo.com
  - Rockethub.com
  - Pledgemusic.com
  - Causes.com
  - GoFundMe.com
  - Crowdrise.com
  - YouCaring.com

- **Equity**
  - Upstart.com
  - CircleUp.com
  - Crowdfunder.com
  - Wefunder.com

- **Lending**
  - SecondMarket.com
  - Kiva.org
  - Lendingclub.com
  - Prosper.com

- **Donation**
  - Giving for nothing in return

Sites within each Venn section are ordered top-down from highest traffic (US) to least.
Crowdfunding is forecasted to pass venture capital as a source of business funding in the near future.

2014: $16.2 billion worldwide
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2020 forecast: $90.0 billion (World Bank)

2015 Venture capital: $124 billion
Crowdfunding

- Wefunder: $8,648,734 (74%)
- StartEngine: $1,435,488
- NextSeed: $1,289,100
- SeedInvest: $170,000
- Other: $246,075
New Equity Crowdfunding Rules

- SEC Regulation CF was fully effective May 16, 2016.
- Allows small investors, subject to many restrictions.
- Registers broker-dealers and their sites for equity crowdfunding campaigns.
- Allows up to $1 million to be raised in a 12-month period.
- Imposes requirements to perform diligence on the offering companies and limits amounts small investors can put in.
Regulation CF has many requirements before offering securities and ongoing reporting requirements.

- Likely $20,000-40,000+ in fees to make an offering
- Ongoing financial reports

The new administration has stated it will seek ways to lower the costs/red tape for this process to make it easier to raise funds.
Crowdfunding Success Factors

Needed:

- A good story
- A good following (start building that now!)
- A well conceived campaign
- Focus on the campaign daily
Debt Financing

LOAN APPLICATION

APPROVED
What banks are looking for

The 5 C’s of Credit:

1. Coverage - financial forecast
2. Capital - expect to put in at least 20-30% of costs
3. Capacity – experience and good business plan
4. Character – FICO score and story
5. Collateral – any assets to back up the loan?
Character

Lenders are interested in the type of person you are
- They are lending you money & want to be repaid
- Do you honor your agreements?
- Credit reports are the major source of information on character.

Fair Isaac Corporation (FICO)
- Defacto industry standard for financial institutions

Know your FICO score before you start
- creditkarma.com, creditsesame.com, creditera.com
SBA Loan Programs – “The Big 3”

- **SBA Microloan**
  - Working Solutions, Main Street Launch, Opportunity Fund
- **7(a) Business Loan**
  - Many commercial banks
- **504 Certified Development Company (CDC) loan**
## SBA Microloans – at a glance

<table>
<thead>
<tr>
<th><strong>Maximum Loan Amount</strong></th>
<th>$50,000</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Average Loan Amount</strong></td>
<td>$26,000</td>
</tr>
<tr>
<td><strong>Interest Rate</strong></td>
<td>Fixed. Averages 7.9%</td>
</tr>
<tr>
<td><strong>Maximum Loan Term</strong></td>
<td>6 years</td>
</tr>
<tr>
<td><strong>Collateral</strong></td>
<td>Microlender’s own collateral policy</td>
</tr>
<tr>
<td><strong>Use of Proceeds</strong></td>
<td>Working capital, inventory, supplies, &amp; equipment only</td>
</tr>
<tr>
<td><strong>Volume of Loan Activity in SFDO</strong></td>
<td>57 loans for $1.5 million, FY 2014</td>
</tr>
<tr>
<td><strong>Lenders</strong></td>
<td>Non-profit Microlenders approved by SBA</td>
</tr>
<tr>
<td><strong>Special Features</strong></td>
<td>Free technical assistance for the borrower</td>
</tr>
</tbody>
</table>
Microloan Borrower

Characteristics:
- A microenterprise may be a start-up
- Borrower may have had some credit problems in the past
- Borrower is not a viable candidate for a bank loan

Microloan application process:
- SBA resource partners, SCORE & SBDC, can assist borrower with financial projections
- Borrower discusses financing need with the Microlenders that serve borrower’s county
- Borrower submits completed application to Microlender
Microlenders

Many in the area:

- Working Solutions  www.workingsolutions.org
- Main Street Launch (Oakland)  www.mainstreetlaunch.org
- Opportunity Fund opportunityfund.org
- Others

Good Money Guide:  buff.ly/2kb1jFL

- Lot of information about local resources and lenders
## SBA 7(a) Guaranty Loans – at a glance

<table>
<thead>
<tr>
<th><strong>Maximum Loan Amount</strong></th>
<th>$5,000,000</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Average Loan Amount</strong></td>
<td>$490,000</td>
</tr>
<tr>
<td><strong>Interest Rate</strong></td>
<td>Usually Variable. Maximum interest rate is generally Prime + 2.75%</td>
</tr>
<tr>
<td><strong>Maximum Loan Term</strong></td>
<td>10 years (up to 25 years for real estate)</td>
</tr>
<tr>
<td><strong>Collateral</strong></td>
<td>All available collateral (including personal assets) up to loan amount</td>
</tr>
<tr>
<td><strong>Use of Proceeds</strong></td>
<td>Working capital, inventory, equipment, RE, debt repayment, bus. acq., franchise</td>
</tr>
<tr>
<td><strong>Volume of Loan Activity in SFDO</strong></td>
<td>1,713 loans for $813 million, FY 2015</td>
</tr>
<tr>
<td><strong>Lenders</strong></td>
<td>Most banks, some credit unions, and a few “non-bank lenders”</td>
</tr>
<tr>
<td><strong>Special Features</strong></td>
<td>No prepayment penalty unless loan term exceeds 15 years</td>
</tr>
</tbody>
</table>
SBA 7(a) Borrower

Usually an existing business, although startups are eligible:

- For each owner of 20% or more of the business, personal credit must be satisfactory (no recent bankruptcies)
- Personal credit score must meet lender’s minimum requirement.

7(a) loan application process:

- Written business plan is typically required
- SBA resource partners, particularly SBDC, can assist borrower to prepare financial projections
- Borrower contacts 7(a) lenders to discuss financing need
- Lender provides application forms & reviews application for approval prior to submission to SBA
## SBA 504 CDC Loans – at a glance

<table>
<thead>
<tr>
<th>Maximum Loan Amount</th>
<th>$5,000,000 ($5.5M for manufacturers &amp; energy efficiency projects)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average Loan Amount</td>
<td>$869,000</td>
</tr>
<tr>
<td>Interest Rate</td>
<td>Fixed. 4.08% as of August 2016</td>
</tr>
<tr>
<td>Maximum Loan Term</td>
<td>20 years, fully amortizing</td>
</tr>
<tr>
<td>Collateral</td>
<td>2nd D/T on project property</td>
</tr>
<tr>
<td>Use of Proceeds</td>
<td>Only for acquisition or construction of commercial RE, or heavy equipment</td>
</tr>
<tr>
<td>Volume of Loan Activity in SFDO</td>
<td>221 loans for $192 million, FY 2014</td>
</tr>
<tr>
<td>Lenders</td>
<td>Non-profit Certified Development Companies (CDC’s) approved by SBA</td>
</tr>
<tr>
<td>Special Features</td>
<td>SBA loan is 100% guaranteed, may not exceed 40% of project value, &amp; is in 2nd lien position behind a non-guaranteed bank loan. Minimum 10% borrower injection.</td>
</tr>
</tbody>
</table>
504 Borrower

Typically a seasoned business that can demonstrate repayment ability from historical cash flow

- Owners have sufficient personal assets to cover minimum 10% down payment (20% for less proven situations)
- Borrower seeks to avoid the uncertainty of lease renewals and rent increases, and benefit from commercial RE ownership

504 CDC loan application process

- SBA Partner such as the SBDC or real estate broker may introduce borrower to either a 504 CDC, or a bank 1st mortgage lender
- CDC and bank 1st mortgage lender work together to coordinate the dual application process
Non-SBA Loan Programs

Non-SBA loan sources include:

- Conventional Loans (Major Banks)
- Special Funds and Programs
  - Community Advantage (up to $250,000)
  - Green Funds
- Online Direct Lending Platforms
- Peer to Peer Lending
- Other
Peerto Peer Lending

- Arrangement of lending money to unrelated individuals with an intermediary
- Takes place on online “platforms” that facilitate and service the loan
- Typically unsecured loans
- Platforms validate borrower information
- Lenders (individuals) choose to whom they loan funds
- Kiva Zip, Prosper, Lending Club, Funding Circle, others
Peerto Peer Lending

- kiva.org – zero percent loans (great deal!)
- lendingclub.com – average loan is $15,000 @ 13.4%
- prosper.com – average loan is $13,000 @ 13.9%

Many others...
Other Financing Sources

- Credit cards (watch out!)
- Online lenders (watch out!)
- Equipment Leases
- Accounts Receivable Financing
- Trade Credit
Online Lenders

Generally, a bad place to fund your business

- OFTEN VERY EXPENSIVE - can be 40-60% effective interest rates

- If you rely on them for more than a short time, they will devour your profits

- Use them only for very short term needs where you can repay them quickly and you have nowhere else to turn
Courting Bankers/Investors
Build Your Credit

- Obtain an Employee Identification Number (5 minutes)
- Open a business checking account
- Open trade credit (vendors, Office Depot, etc.)
- Pay on time or early!
- Use your business accounts for business expenses
- Open a business credit card (manage carefully)
Build Your Credit

- Make sure your credit and public records are clean as possible - check and correct any errors

- Helpful sites:
  - nav.com, nerdwallet.com, creditkarma.com, creditseame.com

- If you need help to build credit:
  - ccssf.org
  - operationhope.org/oakland
Keep Good Records

- Set up a good record keeping system and maintain it
  - Use Quickbooks, Xero, even an excel sheet
- Don’t hide your income (if you want a loan)
- Keep receipts and contracts handy
Courting the Money

Shop Around!

Find a lender/investor that likes your type and stage of business

This is a “campaign” that will take a lot of time
What else banks look for

- Years in business
- Your Business Plan
- 2 years of monthly financial projections
- Secondary Source of Income
- Personal Guarantee

“Hmmm that is a REALLY good Business Plan!”
What Documents to Bring

- A current Profit and Loss Statement and Projected Cash Flow
- Current Personal Financial Statement
- Itemized Use of Proceeds
- List of Collateral and estimated value.

- Business Plan
- Schedule of Business Debt
- Personal and Business Tax Returns last 3 years
- Copy of leases and all pertinent agreements
Don’t get a “No”

GET:

- A referral
- Qualitative advice on your plan
- Quantitative advice on how to change the numerical assumptions
- Information on the competition
Bootstrap Strategy

Many clients follow this formula:

- Kiva
- Crowdfunding Platform
- Microloan or Larger Loan
Funding with “Specials” Sites

Don’t do it!

Don’t use sites like Groupon, Living Social, Travelzoo. Etc. as a source of funding.

- Can cheapen your brand
- Service issues can arise causing poor reviews
- Not likely to be a “sticky” customer
- Often cuts margins below cost
THANK YOU!