

The state of Oklahoma sometimes has **grant money for Native Americans** who plan to open their businesses on tribal territory. If a business owner falls within these parameters, they should contact their local OSBDC office for a contact name for these funds.

Some cities or counties within the state may have **local economic development grant funds**. To determine if a city or county has any such funding, contact city or county offices.

Some **rural development funds** “*may*” be available through agencies such as NODA. To find out what they do or do not have available currently, call (580) 237-4810).

The Community Development Support Authority (CDSA) has the **SEEDS Grant/Loan** for a maximum of \$7,500. To find out about the parameters of their program, call (580) 242-6131.

A majority of people will seek **small business loans** to fund their business. Such loans can come directly from lending institutions, through a government guarantee program, or through private lending sources. There are advantages and disadvantages to each of these sources.

Small Business Loan Sources

Small business loans **directly through lending institutions** can often times have lower interest rates (generally tied to prime rate). Also, when the lender is familiar with the person in question, he or she may find it easier to make the note happen. However, lending power through a direct bank loan

can sometimes be restricted (generally somewhere between one and one-half to two times the borrower’s net worth) and the length of terms on the note may be shorter in duration. Much of this is dependent upon “how” the loan money will be used. For example, loan money used to purchase land or a building - - hard assets - - will often garner longer note terms than money used to purchase tools and equipment or inventory - - soft assets. This will vary between institutions but is generally tighter in nature than terms offered through most government guaranteed loan programs. Additionally, collateral and equity are often very stringent issues with local lending institutions. Collateral requirements must meet - - and more often exceed - - the loan request. Equity requirements may be much more stringent than those of government guarantee programs.

Government guarantee loan programs sometimes have a higher interest rate in order to entice lenders to participate in the programs. On the flip side, these programs generally offer more flexibility in borrowing power (about four times the borrower’s net worth) and longer note terms. Often times, lack of collateral will not be the single deciding factor of guaranteed programs. And while equity is important, it may also not be the single deciding factor.

Small Business Loan Requirements

No matter the type of small business loan, certain factors will almost always be taken into consideration. These include:

Collateral – at least 1:1 which means that if you want \$50,000 in cash, they want \$50,000 worth of collateral.

Equity – 10 to 20% of the loan amount. In other words, if you want \$50,000 in cash, they want somewhere between \$5,000 and \$10,000 worth of investment by you.

Credit – does not have to be spotless, but must be as clean as possible which means no bankruptcies within the last 7 years.

Character – in absence of any other factors, will refer back to credit. This means that an effort must have been made to deal with obligations.

Experience – in the industry and in management

Business Plan – must be complete and provide information in all of the following areas:

Executive Summary
Description of the Business
Market Identification
Competition
Products & Services
Location
Pricing
Marketing Strategy
Needs of the Company
Financial Requirements
Business Resume

It must also include the following financial information:

Personal Financial Statement
Capital Equipment List
Start-Up Expenses
Projected Cash Flow
Forecast of 3 Years’ Earnings

Depending upon the lender, the plan may also have to include:

Profit & Loss Statements
Balance Sheet
Break-Even Analysis

SBA Guaranteed Loans

There are different types of SBA guaranteed loans. Which type of loan is right for the small business in question will be dependent upon the amount of money needed, how the money will be used, and the status of the business’s owners’ credit.

The Micro Loan program does not run through a bank. Instead, it is administered by an entity called REI - - Rural Enterprises Incorporated - - out of Durant, Oklahoma. The program was established for extremely small loans; typically between \$500 and \$35,000. The advantages of the program are that many lending institutions decline doing small business loans under about \$50,000. The Micro Loan program was established to make up that gap. Additionally, in some instances and on some issues, the Micro Loan decision process is more liberal in nature than those of some lending institutions. The major disadvantage to the program is that it is not “user friendly” for certain kinds of small businesses. Issues of concern include the fact that the business never receives the money. It sits in a pot marked for that business. Every purchase out of that pot must be pre-approved before the purchase is made. Next, the program

locks expenses into those identified within the original business plan unless a revised plan is submitted and approved. This could mean that the business pays interest on loan monies that it technically has no access to for spending purposes. It also means that monies are not transferable from category to category (without a revised plan approval). This complicated process can literally tie the hands of some small businesses; making this loan a non viable option.

The **LoDoc Loan** program was established for loan amounts between \$25,000 and \$150,000. It is the most flexible of all SBA loan programs in that it has a quick turnaround time, one page application, and considers all factors (e.g., collateral, equity, character, credit, experience, and business plan) basically on an even scale. Lastly, because it is a derivative of the SBA 7(a) loan program, it has most of the same parameters as that program. Its disadvantages lie in the limited loan request of \$150,000 and that the program was established for “best credit” only.

The **SBA 7(A)** program covers loan amounts between \$150,000 and \$1 million, though at times it may be limited to amounts below \$1 million due to budget constraints. It allows for minor credit issues, has an overall liberal decision process (e.g., lack of collateral or equity is not likely to

be the single deciding factor on a loan), and allows for liberal use of funds for a variety of things such as:

- purchase of machinery
- expansion or renovation
- equipment
- furniture/fixtures
- leasehold improvements
- receivables
- augment working capital
- refinance of existing debt (with compelling reason)
- seasonal lines of credit
- building construction
- purchase of land or buildings

The program’s major disadvantage lies in a more complex application process and a longer response time.

The **504 loan** program is for amounts of \$1 million and above. Its advantage lies in that it requires only a 10% equity injection (as opposed to 20% or more), has a fixed interest rate (generally below market rate), and will allow for the financing of all costs. Additionally collateral is typically assets-financed; leaving other assets free of liens and this program allows the bank to take “first position.” The disadvantages are that the business must have a net worth under \$6 million with net profits under \$2 million, and be “for profit” businesses only. The application process is much more complex - - requiring CDC packaging - - and the turnaround response time can be quite lengthy.

Contrary to a lot of television and newspaper advertisements, **government grants** are not a “dime a dozen.” While it is true that the federal government does often “let” federal funds for business development, those funds are generally filtered through one of two methods.

The first method involves an agency of the federal government (e.g., the Department of Energy, Department of Education, Department of Health & Welfare, etc.). When this method is used it is most often because the government is looking for the development of specific types of business such as environmental protection, energy conservation, new technology, etc. If the business idea in question falls within the parameters of one of those grants - - which are generally research and development in nature - - then it is possible for the company to apply for those monies.

The second method involves making the money available for state application. Sometimes this money is ear marked for specific types of programs like education, child welfare, health, etc. and sometimes it is simply blanket money that can be used to develop any type of small business. The catch with this method is that it generally involves the “matching” of funds (somewhere between 25% and 50%) by the state making application. States that are not willing to match funds are, therefore, automatically eliminated from the application process.

In reality “blanket” federal grant money is very difficult to find and will almost always have some kind of parameters attached (e.g., for Native American owned businesses opened on tribal territory; for minority owned businesses opened within economically depressed areas; etc.) As a rule, do not expect to find “free money” just around the corner.

There are agencies out there like U.S. Grant Resources that claim they can find you “free money.” They charge a fee any where from \$150 to several hundred dollars just to send you their paper work and give you 30 days to find a grant. Supposedly, if you cannot find grant money within that time, they will refund your money. However, be aware of these problems:

1) As of November, 2002, the paper work provided by this agency was inaccurate. For example, REI was listed as a source of grant money in the state of Oklahoma. REI is a “lender” not a grant resource. In fact, all Oklahoma agencies listed in the material provided by U.S. Grant Resources are either lenders or not involved in business development in any way, shape, or form.

2) Even when paperwork is submitted within the 30 day period of time allotted to seek a grant, it may be kicked back over and over until it goes beyond the 30 day grace period. Their response at that time is “sorry, we cannot refund your money because it has been more than 30 days.”

Invest money with these agencies at your own risk!

rates are lower with this option. However, keep in mind that it means that the owner will likely have to have a lot of personal collateral to offer. And some lenders simply won't consider a personal note for a business venture.

A few people are lucky enough to have **family and/or friends** that will lend them the money to finance their business. If this option is open, it may be a good way to go. Often, the terms established by family or friends will be more flexible and the interest rates lower (if any apply at all). However, beware of possible pitfalls. Some family members, and friends, will see their investment as a "right" to be involved in the business. If the business owner welcomes involvement, then it could be a win:win situation for everyone involved. If he or she does not, then it could be a major problem.

Arrangement for family or friends to lend money should be spelled out in a formal contract. All terms and parameters of the relationship should be specified. Make certain that everyone involved understands their role, or lack thereof, with the business. If everyone signs off on the arrangement, then this could be the perfect option to fund a business.

*A spin off of the above idea is to **incorporate the business and sell shares of stock to family and friends.** Different than an out right loan, this option will give the involved individuals voting rights within the company. However, the parameters of how those rights work and how any dividends are paid to stockholders*

still falls within the business owner's control. The key to the successful operation of this funding option is that the business owner must hold the majority of business stock so that the management of the business remains within his or her control.

Some people will opt to **bring in a limited partner** to help fund the business. As a rule such individuals are not interested in the day to day operations of the business. They are simply willing to make an investment on the chance of making money from the business.

*Limited partnerships are governed by state law and, as such, must be spelled out in writing according to the terms established and kept by the Secretary of State's office. For samples of limited partnership agreements, contact your OSBDC counselor (580) 213-3197 or call the **Secretary of State directly at (405) 521-3911.***

Venture capitalists offer another funding source, but business owners should be cautious in the approach of such groups. Many of them are simply out to make money and don't really care how that comes about; which often times involves pushing the original owner out of the business altogether. It is also very important to note that venture capitalists see hundreds of business plans a year. Unless the business has a bang up plan, this is probably not a route to take.

Loan Application Process

The small business loan application process begins with a completed business plan.

Many lenders will not discuss loans with customers who do not have some kind of plan put together. Those who need assistance in writing a plan should contact their OSBDC counselor at (580) 213-3197. She will provide them with a business plan work book. The work book consists of a series of questions and answers that are aimed at identifying all of the information necessary to complete a business plan.

OSBDC counselors are happy to assist in the development of a business plan. However, they can not write the plan from scratch. The business owner must be involved in the development process.

Dependent upon the loan to be used, the small business may be able to get further application assistance from their local lender, through the OSBDC office, or through an identified loan packager. Lenders will likely charge a fee for their assistance in the application process. The OSBDC does not charge any fees for their assistance in the process. Packagers fees range anywhere from \$250 to several thousand dollars, dependent upon the work involved.

Timing for the application process varies from loan program to loan program. As a rule, there is a relatively quick turnaround time for Micro Loan and LoDoc Loans (anywhere from 72 hours to about six weeks). The 7(a) loan program can take a few weeks or as long as six months. The 504 loan, because it is a packaged loan, could take as long as a year to complete.

Raising Capital For Your Business

Funding Methods

There are a number of ways to raise capital for a business. The one ultimately chosen, depends upon the specific needs and limitations of the small business owner.

Some individuals choose to **self-fund** their business by:

- 1) *Using savings,*
- 2) *Borrowing against an insurance policy,*
- 3) *Taking out a mortgage on a home, or by*
- 4) *Taking out a personal loan.*

All of these options are good possibilities, but there are some things that should always be taken into consideration:

*Those who choose to use their life **savings** to finance a business, must be honest in answering this question: "Can I afford to lose everything?" Business managers must keep in mind that they cannot realistically control everything - - the economy, industry,, competition, etc. The possibility exists for every business to fail; no matter how excellent its products or services or how well it is managed. Those that don't realize that risk may be setting themselves up for a hard fall.*

Individuals with families should make certain that they - - and their family members - - understand all the risks involved in the business venture and that the family supports the use of savings. This is not a decision to be taken lightly or jumped into without thorough investigation and thought.

*Much of the same advice goes into decisions about **borrowing against a life insurance policy**; particularly if it is all that a family has to fall back on if something should happen to the person against whose policy the company is borrowing.*

***Taking out a mortgage on a home** can be an excellent way to fund a business. Generally, the interest rates are much lower than with traditional small business loans and can, in some instances, be written off. This may be an option worthy of a second look. However, some of the same factors noted above still apply. One must consider the consequences to the family if the business fails. While it is great to maintain positive thinking, it is important to be realistic as well.*

*Finally, a few people opt to take out a **personal note** for their business rather than applying for a small*

The Northwest Oklahoma SBDC, located in Alva at NWOSU -- with satellite offices at the Enid NWOSU campus and Guymon, Oklahoma, which covers a large portion of Northwest Oklahoma.

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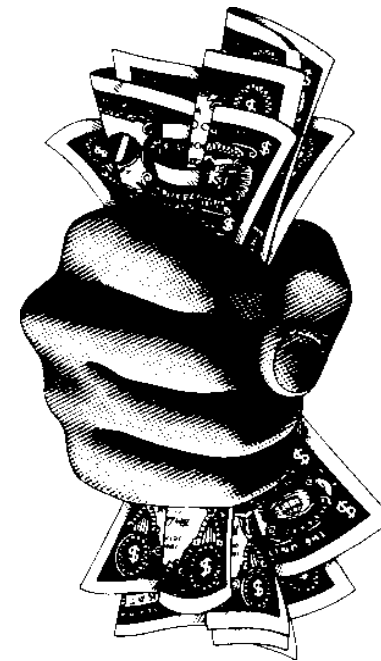
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Starting Your Own Business

Raising Capital



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