

Financing Options for Your Small Business Guide

PROVIDED BY THE ANGELO STATE UNIVERSITY – SMALL BUSINESS DEVELOPMENT CENTER

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This guide contains most known funding options for a small business in the San Angelo area. Use the guide as a “tool kit” and select the funding sources right for your business venture. Keep in mind most small business startups will require you invest personal funds or other assets in the business. For an existing business, you likely have already invested heavily in the business.

The ASU Small Business Development Center assists many small businesses with finding financing for their business through face-to-face advising. Our advising is free and confidential. In addition they conduct a free monthly seminar titled *Financing Options for your Small Business* that discusses financing options available. We hope you find this guide useful. Please contact us for any questions, to set up an advising session, or to attend one of our seminars. Phone 325-942-2098, email sbdc@angelo.edu, or visit our website at www.sbdc.angelo.edu.

LOAN OR DEBT FINANCING

Conventional Lender Loans

Start-up, expansion, lines of credit, equipment, working capital, commercial real estate, business acquisition, and debt consolidation. Visit with your local lender for information. SBDC advisors can offer guidance with understanding the available loan programs through local lenders, and can also assist you with putting together a loan proposal.

SBA Guaranteed Loans (all SBA guaranteed loans are through lenders) guarantee amount to the lender is 75% or 85% depending on the amount. The **7(a) Loan Program** is the standard SBA loan guarantee program. Loans up to \$5 million. Eligible Use of 7(a) Loan Proceeds Include (Non-Exclusive):

- The purchase land or buildings, to cover new construction as well as expansion or conversion of existing facilities
- The purchase of equipment, machinery, furniture, fixtures, supplies, or materials
- Long-term working capital, including the payment of accounts payable and/or the purchase of inventory
- Short-term working capital needs, including seasonal financing, contract performance, construction financing and export production
- Financing against existing inventory and receivable under special conditions
- The refinancing of existing business indebtedness that is not already structured with reasonable terms and conditions
- To purchase an existing business

<http://www.sba.gov/content/use-7a-loan-proceeds>

Quick Reference to SBA Guarantee Loan Programs:

<http://www.sba.gov/sites/default/files/files/Loan%20Chart%20HQ%202011.pdf>

Small Lender Advantage SBA loan guarantee program is designed to accommodate the unique loan processing needs of small community/rural-based lenders by simplifying and streamlining loan application process and procedures, particularly for smaller SBA loans. It is part of a broader SBA initiative to promote the economic development of local communities, particularly those facing the challenges of population loss, economic dislocation, and high unemployment. Loans up to \$350,000.

<http://www.sba.gov/content/rural-business-loans>

SBA Fixed Asset Loan

SBA 504 fixed asset loan program is long-term financing, designed to encourage economic development within a community. It accomplishes this by providing small businesses with long-term, fixed-rate financing to acquire major fixed assets for expansion or modernization. The SBDC can provide you with information on CDC's that provide services to this area. The CDC will team up with a local lender, so you can also visit your local lender for information and interest. SBA 504 can also be used to refinance fixed assets. Loans up to \$5 million.

<http://www.sba.gov/content/cdc504-loan-program>

Special Purpose SBA Loan Programs

CAPLines is an umbrella loan program that helps small businesses meet their short-term and cyclical working-capital needs. It features five lines, each with specific regulations concerning the use of the loan proceeds. Loans up to \$5 million.

<http://www.sba.gov/content/caplines>

SBA Express loan guarantee program gives small business borrowers an accelerated turnaround time for SBA's review. You will receive a response to your application within 36 hours. In addition, lower interest rates are often available to you when you apply through an Express program. Loans up to \$350,000. Guarantee amount is 50%.

<http://www.sba.gov/content/express-pilot-programs>

Patriot Express program is a loan Initiative is designed for veterans and members of the military community wanting to establish or expand small businesses. The SBA and its resource partners are focusing additional efforts on counseling and training to augment this loan initiative, making it more accessible and easy to use. Loans up to \$500,000.

<http://www.sba.gov/content/express-pilot-programs>

Export Express Program offers flexibility and ease of use to both borrowers and lenders. It is the simplest export loan product offered by the SBA and allows participating lenders to use their own forms, procedures and analyses. Any business that has been in operation, although not necessarily in exporting, for at least 12 full months and can demonstrate that the loan proceeds will support its export activity is eligible for Export Express. Loans up to \$500,000.

<http://www.sba.gov/content/export-loan-programs>

Export Working Capital Program (EWCP) SBA provides lenders with up to a 90% guaranty on export loans as a credit enhancement, so that the lenders will make the necessary export working capital available. The SBA delivers its export loan program through a network of SBA Senior International Credit Officers located in U.S. Export Assistance Centers throughout the country. Exporters can apply for EWCP loans in advance of finalizing an export sale or contract. With an approved EWCP loan in place, exporters have greater flexibility in negotiating export payment terms—secure in the assurance that adequate financing will be in place when the export order is won. Loans up to \$5 million.

<http://www.sba.gov/content/export-loan-programs>

International Trade Loan Program offers term loans to businesses that plan to start or continue exporting, or that have been adversely affected by competition from imports. The proceeds of the loan must enable the borrower to be in a better position to compete. Loans up to \$5 million.

<http://www.sba.gov/content/export-loan-programs>

SBA and Ex-Im Bank Co-Guarantee Program is designed to provide small business exporters the ability to obtain larger export working capital loans through the Export Working Capital Program than SBA can support alone. The Co-Guarantee offers flexible terms, low fees and quick processing time.

<http://www.sba.gov/content/export-loan-programs#Export Express Program>

Rural Business Loan Program

Business & Industry Guaranteed Loan Program is maintained by the U.S. Department of Agriculture. Business and industrial loans can be guaranteed in rural cities up to 50,000 in population. Priority is given to applications for loans in rural communities of 25,000 or less. Any legal entity, including individuals, public and private organizations may qualify for this loan. Loan guarantees are limited to a maximum of \$25 million per borrower.

<http://www.rurdev.usda.gov/ne/gbifsht.pdf>

Texas Mezzanine Fund

The Texas Mezzanine Fund (TMF) is for “growth-oriented” small business owners who may not entirely qualify for loans or investments through traditional lending institutions. They will participate with other lenders in providing financing and may take a second lien position on collateral. Loans amounts up to \$500,000. They also fund some stand-alone loans up to \$300,000.

http://www.tmfund.com/media/Loan_Guidelines.pdf

State of Texas Loan Program

Texas Product/Business Fund provides financing to existing technology-focused companies that create products or do business with in the state.

<http://www.texaswideopenforbusiness.com/financial-resources/loan-assistance.html>

Tom Green County Revolving Loan Fund

Eligible borrowers: for profit businesses in Tom Green County. The average loan amounts are \$10,000-\$20,000. Maximum loan amount is \$60,000. Loans may be used to finance land and building cost, machinery and equipment purchases and working capital needs. Contact the Concho Valley Council of Governments for further information 325-944-9666.

www.cvcog.org

Micro Loan Programs

ACCION Texas Micro Loan Program \$500-\$250,000 Loans, such as individual business loans, credit start loans, pronto loans, and lines of credit.

<http://www.acciontexas.org/500-250-000.html>

PeopleFund, another micro loan program, provides flexible loans to small businesses, non-profit organizations, and affordable housing ventures throughout the state of Texas. Small business loan amount: \$5,000 to \$250,000. Interest rate: 7.5% to 15%. Term of note: up to 7 years.

<http://peoplefund.org/loans/>

Loan Exchange Website

Boefly.com is an exchange website matching borrowers and lenders. They match your loan request with compatible lenders for evaluation.

<http://www.boefly.com>

401K Financing

Guidant's iFinance is a small business financing plan that lets you invest your existing IRA or 401(k) funds into launching a business or franchise of your own. The plan states you are not taking a taxable distribution because you are buying stock, as an investment, in your own company. Consult with your CPA for advice when considering this type of financing.

www.guidantfinancial.com/iFinance

Social Lending

Social lending sites, also called peer to peer lending sites, provide borrowers and lenders a marketplace. Social lending sites connect individual lenders and borrowers through a social network that is streamlined, efficient, and legally formatted. The growth and maturity of the social lending industry in the last couple of years has made it a viable alternative to traditional lending or borrowing money from friends or family.

<http://www.money-rates.com/sociallending.htm>

EQUITY OR INVESTOR FINANCING

“Angel” Investor Networks (providing equity financing)

Angel networks are groups of high net worth individuals seeking newly formed businesses to invest their own money. Most are former business owners and managers. They make their investments individually but often work together on conducting their investigation or “due diligence” on a business they are considering for an investment. They may also offer guidance and contacts for the business. In addition, most networks in Texas are part of a loose federation of angel networks called the Texas Angel Network. They often encourage entrepreneurs to present to networks within Texas in order to “fill out” their funding needs. Angel investors typically get their return on investment when the business sells or some other purchase of their shares.

Concho Valley Angel Network (CVAN)-San Angelo

<http://angelsoft.net/angel-group/concho-valley-angel-network>

Central Texas Angel Network (CTAN)–Austin

http://www.centraltexasangelnetwork.com/Entrepreneur_Guest.php

Houston Angel Network (HAN)-Houston

<http://www.houstonangelnetwork.org>

North Texas Angel Network (NTAN)-Dallas

<http://northtexasangels.weebly.com/>

South Texas Angel Network (STAN)-San Antonio

<http://angelsoft.net/angel-group/stan>

Venture Capital

Venture Capital investors differ from angel investors in that they are a firm that invests other people's money in high growth potential firms. Typically they want a large ownership share in the business and a say in the management and direction of the business. They get their return in the same way as angel investors but have usually invested a larger sum of money in the business. They also typically invest in the stages after angel investors when a business is ready to grow substantially. Venture capital firms are in larger cities in Texas such as Austin, Dallas, Houston, etc.

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

http://archive.sba.gov/aboutsba/sbaprograms/inv/esf/inv_sbic_financing.html

Small Business Investment Corporations (SBIC's)

The SBIC Program is one of many financial assistance programs available through the U.S. Small Business Administration. The structure of the program is unique in that SBICs are privately owned and managed investment funds, licensed and regulated by SBA, that use their own capital plus funds borrowed with an SBA guarantee to make equity and debt investments in qualifying small businesses. The U.S. Small Business Administration does not invest directly into small business through the SBIC Program. See the link below for SBIC's in Texas. Also visit the SBA website for more information on SBIC's.

http://archive.sba.gov/idc/groups/public/documents/sba_program_office/inv_sbictx.txt

<http://www.sba.gov/sites/default/files/SBIC%20Program%20Overview.pdf>

State of Texas Equity Programs

Texas Enterprise Fund is used only as a final incentive tool where a single Texas site is competing with another viable out-of-state option. Additionally, the TEF will only be considered to help close a deal that already has significant local support behind it from a prospective Texas community.

<http://www.texaswideopenforbusiness.com/financial-resources/texas-enterprise-fund.html>

The Emerging Technology Fund (ETF) was created by the Texas Legislature to provide Texas with an unparalleled advantage in the commercialization of emerging technologies. ETF grants are commercialization awards: funds to help companies take ideas from concept to development to ready for the marketplace.

<http://www.wtcic.org/#>

<http://governor.state.tx.us/ecodev/etf>

Local Grants and other Business Incentives

Local Economic Development Corporation. The City of San Angelo Development Corporation (COSADC) provides grants and other incentives that are available for buildings, land, equipment, training, site infrastructure, moving expenses, lease subsidies, and other expansion costs. In addition, the Tax Increment Reinvestment Zone Board (TIRZ) may offer tax abatements, facade grants, sales tax rebates, and other fee reductions to qualified businesses.

www.sanangelodevelopment.com/node/370

FACTORING

Factoring (definition taken from Wikipedia) is a financial transaction whereby a business sells its accounts receivable (i.e., invoices) to a third party (called a factor) at a discount in exchange for immediate money with which to finance continued business. Factoring differs from a bank loan in various ways. First, the emphasis is on the value of the receivables (essentially a financial asset), not the firm's credit worthiness. Secondly, factoring is not a loan – it is the purchase of a financial asset (the receivable).

There are many companies in Texas that offer factoring financing.

<http://www.americanfactoring.org/Links.asp>

Program	Maximum Loan Amount	Percent of Guaranty	Use of Proceeds	Maturity	Maximum Interest Rates	Guaranty Fees	Who Qualifies	Benefits to Borrowers
7(a) Loans	\$5 million gross	85% guaranty for loans of \$150,000 or less; 75% guaranty for loans greater than \$150,000 (up to \$3.75 million maximum guaranty)	Term Loan. Expansion/renovation; new construction, purchase land or buildings; purchase equipment, fixtures, lease-hold improvements; working capital; refinance debt for compelling reasons; seasonal line of credit, inventory	Depends on ability to repay. Generally, working capital & machinery & equipment (not to exceed life of equipment) is 5-10 years; real estate is 25 years.	Loans less than 7 years: max. prime + 2.25%; 7 yrs. or more: prime +2.75%; under \$50,000, rates can be higher by 2% for loans of \$25,000 or less; and 1% for loans between \$25,000 and \$50,000. Prepayment penalty for loans with maturities of 15 years or more if prepaid during first 3 years. (5% year 1, 3% year 2 and 1% year 3)	(Fee charged on guaranteed portion of loan only) Maturity: 1 year or less 0.25% guaranty fee; over 1 year: \$150,000 gross amount or less = 2%; 150,001—\$700,000 = 3.0%; over \$700,000 = 3.5%; 3.75% on guaranty portion over \$1 million. Ongoing fee of 0.55%.	Must be a for profit business & meet SBA size standards; show good character, credit, management, and ability to repay. Must be an eligible type of business.	Long-term financing; Improved cash flow; Fixed maturity; No balloons; No prepayment penalty (under 15 years)
SBAExpress	\$350,000 Up to \$1 million temporarily until 09/26/2011	50%	May be used for revolving lines of credit (up to 7 year maturity) or for a term loan (same as 7(a)).	Up to 7 years for Revolving Lines of Credit including term out period. Otherwise, same as 7(a).	Loans \$50,000 or less; prime+ 6.5%; Loans over \$50,000; prime + 4.5%	Same as 7(a)	Same as 7(a)	Fast turnaround; Streamlined process; Easy-to-use line of credit
Patriot Express	\$500,000	Same as 7(a)	Same as SBAExpress	Same as SBAExpress	Same as 7(a)	Same as 7(a)	Same as 7(a). In addition, small business must be owned and controlled by one or more of the following groups: veteran, active-duty military, reservist or National Guard member or a spouse of any of these groups, or a widowed spouse of a service member or veteran who died during service, or of a service-connected disability.	Higher maximum amount and lower maximum interest rate than SBAExpress; Fast turnaround; Streamlined process; Easy-to-use line of credit
CapLines: Standard Asset Based; Small Asset Based ; Contract ; Seasonal; and Builders CAPLines	\$5 million (small asset based limited to \$200,000)	Same as 7(a)	Finance seasonal and/or short term working capital needs; cost to perform; construction costs; advances against existing inventory and receivables; consolidation of short-term debts. May be revolving.	Up to 5 years	Same as 7(a)	Same as 7(a)	Same as 7(a), plus all lenders must execute Form 750 & 750B (short term loans) PLUS Lender Qualification Survey for Standard Asset Based CapLine	Funds short-term working capital Various lines of credit Allows business to obtain contracts Larger in size for business growth Can be used to create current assets Can be used to finance existing current assets
Small /Rural Lender Advantage Loan (S/RLA) Average of 20 or fewer SBA loans annually over the last 3 fiscal years	\$350,000	Same as 7(a)	Same as 7(a)	Same as 7(a)	Same as 7(a)	Same as 7(a)	Same as 7(a)	Same as 7(a) Plus streamlined process
Small Loan Advantage (SLA) Lender must be in Preferred Lender Program (PLP)	\$250,000	Same as 7(a)	Same as 7(a)	Same as 7(a)	Same as 7(a)	Same as 7(a)	Same as 7(a)	Same as 7(a) Plus streamlined process
Community Advantage Mission focused lenders only	\$250,000	Same as 7(a)	Same as 7(a)	Same as 7(a)	Prime plus 4%	Same as 7(a)	Same as 7(a)	Same as 7(a) Plus lenders must be CDFIs, CDCs or micro-lender targeting underserved market

Program	Maximum Loan Amount	Percent of Guaranty	Use of Proceeds	Maturity	Maximum Interest Rates	Guaranty Fees	Who Qualifies	Benefits to Borrowers
International Trade	\$5 million	90% guaranty (up to \$4.5 million maximum guaranty) (Up to \$4 million maximum guaranty for working capital)	International Trade loan must be only for the acquisition of long-term, fixed assets used to produce products for export..	Up to 25 years.	Same as 7(a)	Same as 7(a)	Same as 7(a), plus engaged/ preparing to engage in international trade/adversely affected by competition from imports.	Long-term financing for land and building where assets are used to produce products for export.
Export Working Capital Program	\$5 million	90% guaranty (up to \$4.5 million maximum guaranty)	Short-term, working-capital loans for exporters. May be used for revolving line of credit or for a term loan.	Matched single transaction cycle or generally 1 year for line of credit.. (up to 3 years maximum)	No SBA maximum interest rate cap, but SBA monitors for reasonableness	Same as 7(a)	Same as 7(a), plus need short-term working capital for exporting.	Allows specific financing for exporting without disrupting domestic financing and business plan
Export Express	\$500,000	90% guaranty for loans of \$350,000 or less; 75% guaranty for loans greater than \$350,000	Same as SBAExpress	Same as SBAExpress	Same as SBAExpress	Same as 7(a)	Applicant must demonstrate that loan will enable them to enter a new, or expand in an existing export market. Business must have been in operation for at least 12 months (though not necessarily in exporting).	Fast turnaround; Streamlined process; Easy-to-use line of credit
Dealer Floor Plan	\$5 million maximum \$500,000 minimum	Same as 7(a). 100% advance on both new or used inventory that can be titled	Qualifying small businesses, including boats, automobiles, motorcycles, manufactured homes and RV dealers. Can refinance an existing dealer floor plan.	Minimum 1 year Maximum 5 years	Same as 7(a). Interest paid monthly on outstanding balance	Same as 7(a) with the exception of the extraordinary servicing fee (fee cannot be greater than non-SBA loan fee)	Same as 7(a)	Reasonable financing
504 Loans Provided through Certified Development Companies (CDCs) which are licensed by SBA	504 CDC maximum amount ranges from \$5 million to \$5.5 million, depending on type of business.	Project costs financed as follows: CDC: up to 40% Non-guaranteed financing: Lender: 50% Equity: 10% plus additional 5% if new business and/or 5% if special use property.	Long-term, fixed-asset loans; Lender (non-guaranteed) financing secured by first lien on project assets. CDC loan provided from SBA 100% guaranteed debenture sold to investors at fixed rate secured by 2nd lien. Owner Occupied.	CDC Loan: 10- or 20-year term fixed interest rate. Lender Loan: (unguaranteed) financing may have a shorter term. May be fixed or adjustable interest rate	Fixed rate on 504 Loan established when debenture backing loan is sold. Declining prepayment penalty for 1/2 of term.	.5% fee on lender share, plus CDC may charge up to 1.5% on their share. CDC charges a mthly servicing fee of .625%-1.5% on unpaid balance Ongoing guaranty fee (FY 2011) is 0.749% of principal outstanding. Ongoing fee % does not change during term.	Alternative Size Standard: For-profit businesses that do not exceed \$15 million in tangible net worth, and do not have average net income over \$5 million.	Low down payment - equity (10%-20%) (The equity contribution may be borrowed) Fees can be financed; SBA Portion: Long-term fixed rate Full amortization No balloons
504 Debt Refinance Provided through Certified Development Companies (CDCs) which are licensed by SBA	Same as 504 plus 85% or more of the proceeds must have been used for 504 eligible purposes. No cash out.	Borrowers can finance up to 90% of the current appraised property value, or 100% of the outstanding principal balance, whichever is lower.	Same as 504. SBA will revisit the program and may open it to businesses with balloon payments due after 12/31/2012, or those that can demonstrate strong need in other ways.	Same as 504	Same as 504	Same as 504 with the exception that the ongoing fee is (FY 2011) is 1.043%	Same as 504 for refinance of loan coming due for renewal on or before 12/31/2012. Can not refinance an existing federal government loan.	Business owner may be able to refinance property that is under-collateralized with the addition of cash, other property or other options worked out with lender. Can also finance 504 eligible refinancing costs.
Non-7(a) Loans Microloans Loans through nonprofit lending organizations; technical assistance also provided.	\$50,000	Not applicable	Purchase machinery & equipment, fixtures, leasehold improvements; finance increased receivables; working capital. Cannot be used to repay existing debt.	Shortest term possible, not to exceed 6 years	Negotiable with intermediary. Subject to either 7.75 or 8.5% above intermediary cost of funds.	No guaranty fee	Same as 7(a)	Direct loans from nonprofit intermediary lenders; Fixed-rate financing; Very small loan amounts; Technical assistance available