DALLAS B.R.A.I.N.

BUSINESS RESOURCE AND INFORMATION NETWORK

Understanding Funding Options

Grants There are almost no grants from city, state or federal government to start a business. Business funding comes from the private sector– either from the business owner, investors or lenders.

Bootstrapping (for Concept Stage and Startup Businesses) This is funding your business with no outside money. You can cash out personal savings, credit cards, home equity, retirement accounts, insurance policies and other property. It also includes strict cash management strategies. In practice, this is often the only source of funding available to startup companies. Funding the business on your own gives you more freedom and teaches you to live within your means early. Excessive credit card debt and liquidating too many personal funds are risks.

Family and Friends (for Concept Stage and Startup Businesses) A personal relationship may lead to easier money and more flexible interest rates and repayment terms. Clarify up front the role family or friend investors want to play in running the business. Seeking family money may encourage you to skip your planning homework and leave risks undiscovered. Think about damage to the relationship from a business failure.

Bank Funding (for Startup and Established Businesses) Banks offer lines of credit (revolving loans) and loans with longer pay back periods (term loans.) You can have a fixed line of credit tied to the equity in your home or other property. Money borrowed from this credit line has to be paid back with interest in twelve months. It is very useful to cover day-to day cash flow needs. Term loans help you buy real estate or equipment to expand your business. Interest rates may be fixed or variable and you may have to make a balloon, or large lump-sum payment, at the end of the loan. The duration of the loan is tied to the life of the property being used as collateral for the loan (between 3 and 20 years.)

To access bank funds you will need good credit, existing assets as collateral, cosigners or other guarantees of repayment, a track record of business success and a reasonable, solid business strategy (with realistic financial forecasts.) It is common, especially in today' economy to be turned down by most banks even if you meet these strict requirements. Having a good relationship with your bank before you seek a loan may help.

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The Small Business Administration (SBA) will sometimes cosign, guaranteeing the bank that it will get its money back if you default. Banks with more experience with SBA lending are more likely to offer an SBA backed loan.

Commercial finance companies (for Established Businesses) often make loans tied to your accounts receivables - money owed you from customers' who's orders have been fulfilled (factoring). These can be easier to get than bank loans and can help meet short term needs. They may, however, jeopardize your standing as a vendor with some clients if the finance company is going to collect directly from your customers.

Vendor financing (for Startup and Existing Businesses) Many suppliers offer financing for equipment purchase or lease. These programs can save money and include upgrade features to keep your equipment current.

Angel investors (for Startup and Established Companies) are wealthy individuals who invest their own money into a business in exchange for a percentage ownership in your company. Each angel or angel network may specialize in one industry and can provide valuable business advice. Recent SBA research showed that, since the 2007 financial crisis, angel investors are more likely to invest in expansions of stable, existing businesses than in startups.

Venture capitalists (for Startup and Established Companies) are professional managers investing funds pooled by institutional or wealthy individual investors. VC firms may focus on key industries and may make you give up much control over running your business. VC firms expect dramatic growth opportunities to offset the risks of their investment.

Microlenders (for Startup and Established Businesses) Several microlenders operate in Dallas. These organizations often combine counseling, business training and small loans to help startups. Terms vary, but most loans are small, only a few thousand dollars. Many microlenders focus on historically underserved markets or populations.

Peer to Peer Lending and Crowdsourcing (for Concept, Startup and Established Businesses) These are relatively new, typically internet-based, funding tools. Peer to Peer loans are between private individuals that do not have a personal relationship. Crowd-sourcing pools funds from many lenders to cover a business funding request. These funds are often early pledges to buy your product. Pooling these pledges up front can help you cover the costs of starting production.

Lean more about funding sources in Dallas at www.TheDallasBRAIN.org

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