



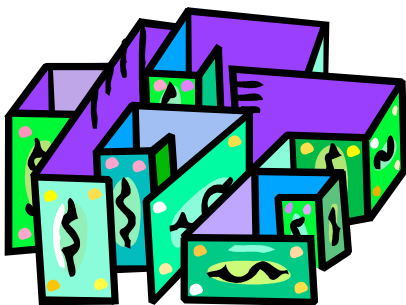
How and where do I get money to start or expand my business?



Getting money for my business:

This is usually one of the most important questions an entrepreneur or business owner has. But before you answer the question “*how and where do I get money for my business,*” it is important to answer the question “*how much money do I need?*” Most entrepreneurs and business owners have a good feel for what they think they need, but it is really important to know exactly how much and why.

The nice thing is that the work you have to do to answer the question “**how much money do I need**” is the same work you need to do to be able to convince someone to give you that money. To get the answer to “*how much money do I need?*” you just need to do a simple math problem. The trouble is, most of us didn’t learn that particular math problem in school - so we don’t know where to start. In the world of entrepreneurs and business owners we answer that question with a **feasibility analysis**. Feasibility is an important part of a **business plan** (you will probably need one of those too, but they aren’t that hard either). Feasibility analysis sounds complicated, but it isn’t. That is where the free SCORE small business counselors come in. Your SCORE counselor will walk you through feasibility and can help you develop a business plan. SCORE counseling can be scheduled through the Craig Moffat Economic Development Partnership (CMEDP) at: cmedp.com, 970-846-2039, or 300 W. 4th St., Craig, CO 81625



What next?

Now that you are done with feasibility, you not only know how much money you need, you know the answer to an even more important question - one that most people are a little scared to ask “*can this business start up or expansion generate enough profit to meet my goals?*” How much profit do you want and need? Well, that’s a personal decision, but you have to ask yourself; is \$10,000 a year enough, or \$20,000 or 60,000? **What are you aiming for?**

Feasibility will tell you the answer to the question “*is the potential profit enough to meet my goals?*” If the answer is yes, then you need to know “*what kind of money do you want.*”

What kind of money is out there?

There are three kind of money (financing) for businesses. One kind of money is called **equity financing**, another is **debt financing**, and the last kind is called **wishful-thinking money**. You are going to be either borrowing or using someone else money. How you pay it back depends on the type of money you are getting.



1. **Debt Financing** – this is where you borrow money by getting a **loan** and then you pay it back through loan payments
2. **Equity Financing** – this is where someone gives your business money and **you give them part ownership (equity) in the business**
3. **Wishful-thinking money** – this is “free” grant money that we have heard stories about. Unfortunately it isn’t real. **Don’t count on getting any of this money because it essentially doesn’t exist.**

So, if wishful-thinking money doesn’t exist and equity financing is extremely difficult to get, we should start by talking about **debt financing**.

Debt financing can also be hard for a small or start-up businesses to access, but it may be your best bet.

This is when your feasibility work starts to pay off. If the feasibility shows your business can pay back the loan, you go looking for a business loan. But if the feasibility shows that the business doesn’t have the ability to pay back the loan, the only way you can get debt financing is if YOU personally are willing to pay back the money your business borrows. **Are you willing to do that?**

Entrepreneurs and business owners often get frustrated with banks and other types of lenders because the businessperson “just knows” the business is a good idea but the lender won’t give him or her money! The businessperson wants to understand “well, why not?!”

Renting Money

Let’s talk about why not for a minute. It helps if you understand that lenders essentially just “rent” money to people or businesses for a particular period of time. They rent money to make a profit and they only make a profit if they get all their money back and some extra (interest and/or fees). They are only going to rent you money to you if they are sure you or your business is going to pay them back. So you use a **feasibility analysis** and **business plan** to try to prove to a lender that your business can pay back the loan.



If you can prove to them that your business or you can pay back their money, they will probably rent it to you. Of course the lender is still probably going to ask you for something of value to **secure** the loan – some collateral. That collateral (like your building or equipment) represents a guarantee for the bank that if you don’t pay them back they have some way of getting back the money they rented to you. The way they do

that is that they sell the things of value that you “put up as collateral” and they keep enough money from the sale of your stuff to cover the money they lost.

So if you have decided that debt financing is best for your business and you have a feasibility analysis and business plan ready, now you can start looking for a lender to give you a loan. Businesses should typically begin with their own bank. You already have a relationship with them so your bank is often the best place to start. But, if your bank can't make the loan don't be afraid to approach other local lending institutions with your feasibility numbers and business plan in hand.



What if I can't get a loan?

Sometimes a business just can't get a typical business loan. So they go looking for other options. There are two kinds of options.

1. Specialty loan (debt financing) programs. (SBA, USDA, CHFA)
2. Equity financing – remember, this is where someone gives your business money and then **you give them part ownership in the business** - you both share in profits (or losses)

Help from the government:

Every business owner or entrepreneur has heard about “some grants or loans from the government” and they often think they can find free money to help their business. Most of that sounds too good to be true and that's because it is too good to be true. But some of what you have heard is accurate.

1. Government help for business: The government won't usually give you free money, but they do offer a lot of help in the form of **access to information, support, and resources**. There are about 5 primary state and federal programs that provide help for businesses.

Federal Government Sources:

SBA: United States Small Business Administration– Your Small Business Resource

- SCORE: Free counseling and resources for small business and entrepreneurs <http://www.score.org/index.html> Service Corps of Retired Executives
- SBDC: Small Business Development Centers <http://www.coloradosbdc.org/> Free counseling and resources for small businesses and entrepreneurs



USDA-RD United States Department of Agriculture – Rural Development

The USDA has a special division called Rural Development and that division has programs to help economic development in rural areas. Moffat County is a rural area; therefore, Moffat County businesses may be eligible for help from USDA. <http://www.rurdev.usda.gov/>

State Government Resources:

- **OEDIT** Colorado Office of Economic Development and International Trade
<http://www.colorado.gov/cs/Satellite?c=Page&cid=1162927366334&pagename=OEDIT%2FOEDITLayout>
- **CHFA:** Colorado Housing and Finance Authority – Their mission is to fund places where people live and work. <http://www.chfainfo.com/>
- **CWC:** Colorado Workforce Center. If you are going to have employees the CWC will be a good resource for you. <http://www.coworkforce.com/EMP/WFCs.asp>

Local Government Resources:

Craig Moffat Economic Development Partnership

Other Resources:

Craig Chamber of Commerce



Information on all of these resources and appointments for small business counseling can be arranged through the Craig Moffat Economic Development Partnership (CMEDP).

2. There are virtually no government grant programs (free money) to help businesses. The very few that are out there are always very specific to the type of business. Examples: renewable energy or biomass fuels. Unfortunately, there are no government grants for starting a new business.
3. **“But I’ve heard the government can help me get money for my business, is that true?”** Yes, in some cases. Government backed financial support for small businesses generally comes in the form of **help getting loans if you just can’t qualify for a typical loan**. There are some good programs out there, but most of them are available to you by **going through your local bank or lenders**. In almost all cases, the government doesn’t loan directly to businesses. How it typically works is that you go to your lender and try to get a loan. If your feasibility and business plan are strong, but the loan is a little too risky for the lender, they might suggest some of these specialty government programs. Generally speaking, in most of these programs the government agency (SBA, USDA, CHFA) guarantees your loan to the bank. **When they guaranty your loan the government basically promises the bank that if you don’t pay back the rented money, the government will pay it (or part of it) back for you.** That makes the loan less risky to the bank, so you may be able to get the loan you need. Sometimes these specialty program loans have a bit higher interest rate.

SBA Finance Programs

SBA Loan Guaranty Programs

- 504 Certified Development Loan Program

The SBA 7(a) program is the most common SBA loan. SBA 7(a) funds may be used to:

- Expand or renovate facilities
- Buy machinery, equipment, fixtures, buildings and land for business
- Finance receivables and increase working capital
- Finance seasonal lines of credit
- Construct commercial buildings.

SBA 7 (a) programs:

- Low Documentation Loan (SBA Low-Doc), a 7 (a) Loan Program
- SBAExpress, a 7(a) Loan Program
- CAPLines, a 7 (a) Program
- Export Working Capital Program (EWCP), a 7 (a) Loan Program
- International Trade Loan (ITL), a 7 (a) Loan Program
- SBA Export Express, a 7 (a) Loan Program

Other SBA Programs

- MicroLoan Program
- Patriot Express Loan Program (current of former military)

USDA – Rural Development (USDA-RD)

Colorado Housing and Finance Authority (CHFA)

Quality Investment Capital (QIC) Program
Quality Agricultural Loan (QAL) Program
Business and Industry II (B&I II)

Direct loan programs

There are a few *direct loan programs* where the government loans directly to the business. *These are typically loans on the real estate (land and buildings) if the business owns and occupies the real estate.*

These are:

- SBA 504
- CHFA Direct
- CHFA Non-Profit Real Estate
- CHFA Rural Development Loan Program

Additional Specialty Programs

Manufacturing Revenue Bond Program
Brownfields Revolving Loan Fund
OEDIT Community Development Block Grant (CDBG)



)

For a more complete understanding of these financing programs please read “*The Colorado Business Resource Guide*” available from the Craig Moffat Economic Development Partnership and the Craig Chamber of Commerce.

If a loan isn't right for you. Finding investors or equity financing



Maybe you really want **equity investment and not a loan**. Maybe you can't convince the lender that either you or your business can pay back a loan. You might then choose to look at equity financing. That's ok, you already have your feasibility numbers and business plan, so you can go looking for equity financing and you have most of what you need to try to convince someone to invest in your business.

When someone invests in your company

You are now asking some really important questions including *how does it work if someone invests money in my business as opposed to loaning it to me?*

There are generally two types of equity financing. Angle investors and venture capitalists.

1. **Angle Investor:** High-net-worth or affluent individuals who invest capital in entrepreneurial ventures with very high-growth potential.
2. **Venture Capital Firms:** An investment firm that manages pools of money from independent investors and institutional investors (think pension funds and insurance companies) it to invest in high-growth potential businesses. VC are often involved in the management of the business to help ensure success.



For more information:

Washington Business Journal: The ABCs of Venture Capital and Angel Investors

<http://www.bizjournals.com/washington/stories/1997/03/17/smallb3.html?t=printable>

If you are looking into this type of financing you must have a very strong feasibility and business plan. Please contact CMEDP to arrange for free small business counseling.

If you are interested in this type of financing you should read this book. <http://www.businessfinance.com/books/VentureCapital.pdf>

Then you can begin to investing possible equity investment opportunities:

Angel Capital Electronic Network (ACE-Net): <http://www.activecapital.org/>

Colorado Capital Alliance: P.O. Box 19169, Boulder, CO 80308-2169, 303-499-9646