

Start-up Financing

CDC Small Business Finance holds a class the third Tuesday of every month at their offices at 5:30 in the evening on how to acquire financing to start your business. If you are in the beginning stages of business operation and seeking financing, you'll also benefit from attending their seminar.

The following is a general overview of eligibility criteria to qualify for start up business financing. Please attend one of CDC's seminars that they hold the third Tuesday of each month for a complete discussion.

1) Capital Injection of 30% of project cost

The first thing you will need to get a start up business loan is some of your own money to put towards the project costs. As a general rule, you will need to come up with 30% of the total project cost, and you will request financing of 70% of the project. For example, if it will take \$100,000 to start your business, you will need to inject 30% or \$30,000 into the start up costs and you will request financing of 70% or \$70,000. If you have no money of your own to inject into the project, it is not possible to get start up financing through any programs CDC is affiliated with. You must have 30% of the total project costs. Your capital injection can come from your own savings, home equity, or a gift from another person. The equity injection can not be financed elsewhere, it must be either your money or gifted to you. Half of your injection must come directly from your own personal sources.

2) Two years of experience in the industry

Secondly, you will need to have a minimum of two years of experience in the industry in which you are starting the business. For example, if you have managed a tanning salon for three years and now you want to open your own salon, you have the necessary experience to qualify for a loan. It's important to note here that your experience needs to be directly related to the business you are starting. Having managed a tanning salon is not sufficient experience to qualify you to open a women's retail clothing store. If you do not have the required experience, but have identified a manager who has worked in the field for at least two years, this may mitigate the lack of experience on your part.

3) Reasonable credit

Thirdly, the lender will look at the personal credit of all principal owners of the business holding at least 20% ownership in the business. If there are principals owners that do not work in the business, but still own at least 20% of the business, their credit will be reviewed. The lender wants to see that you are current in your existing debt, that you do not have any major derogatory marks on your credit report and that if there are a couple of delinquencies, there is a reasonable explanation as to why they occurred. If you have a bankruptcy from the past, it needs to be 4-6 years old depending on the loan product and your credit must not have any delinquencies since filing.

4) Collateral

Your loan will be secured by your business and personal assets. If you own your home, you should be prepared to pledge it to secure the loan. Otherwise business assets will secure the loan. Items purchased with the loan proceeds can also be used as collateral. The lender likes to get as close to full collateral as possible. This means that they would like the value of your collateral to be equal to or greater than the value of the loan. Not having collateral would not preclude you from qualifying for a loan, but having it strengthens your situation significantly. The higher the loan amount, the more emphasis the lender puts on collateral. Also remember that as a start up business, your loan is already risky, so the more you can strengthen your situation the better.

5) Past income and other sources of income

The lender will also look at your employment and wages for the last few years to ensure that you have historically earned enough money to cover your personal living expenses, as well as looking at any other sources of household income that you have. Other sources of income would include any outside employment, a spouse's employment, child support, disability income or retirement. Any form of income from outside the business would strengthen your situation, as it would show that you are not as dependent on a draw from the business to meet your personal living expenses.

6) Business Plan, projections, assumptions that the projections are based on

You will need to submit a business plan, financial projections and assumptions on which the projections are based. The business plan needs to be complete and thorough and explain what your business will offer, who will operate it and how you will market the company. You should plan on creating monthly projections for one year, then two more years of annualized projections. It is important to include with these projections, the assumptions that they were based on. This can be a one page summary explaining how you arrived at both your income and expense figures.

For a complete discussion and seminar on how to obtain financing for your start up business, please join us on the third Tuesday of each month at 5:30 p.m. at our office, 925 Fort Stockton Dr., San Diego, CA 92103. The seminar lasts about 1- 1 ½ hours and will answer all your questions in regards to start up financing.

Directions: from 5, take Washington Street East. Go up the hill about ¼ mile and make a left on Goldfinch. Make a left into the parking lot immediately before the first stop sign at the corner of Goldfinch and Fort Stockton.

From 163 south, take Washington Street West. Travel about 1 ½ miles on Washington and make a right on Goldfinch. Make a left into the parking lot immediately before the first stop sign at the corner of Goldfinch and Fort Stockton.

FAQ

Q: How much money do I have to inject for a business start-up costing \$100,000?

A: You need to come up with 30% of the total cost to start your business (not the loan request). If it takes \$100,000 to start your business, you will be required to inject \$30,000 (30%), and you will request a loan of \$70,000.

Q: Where can my capital injection come from?

A: Your capital injection can come from your own savings, monies given to you by a friend or family member that you do not have to repay or home equity. You can not finance your capital requirement through other sources (i.e.-on credit cards or through another lending source). At least half of your injection must come from your own sources (savings or home equity). The rest can be gifted or an owner carry back note that is on full stand by.

Q: I have some problems on my credit report from the past, how good does my credit have to be?

A: We want to see that you are presently current in all your debt and that any derogatory marks on your credit report from the past are at least a couple of years old, and that you have a reasonable explanation as to what happened. You must be current in your existing debt to be eligible for one of CDC's loans.

Q: If I have a bankruptcy in the past, am I still eligible?

A: Your bankruptcy must be at least 4-6 years old depending on the loan product and there must not be any late pays, charge offs or collection items on your report since the bankruptcy.

Q: If I don't have any money to put into the start up business, can I still get a loan?

A: Unfortunately not. We want to see that you are willing to risk some of your own money in addition to the money that is being put at risk by the lender.

Q: Can items already purchased be counted as my capital injection?

A: Yes. As long as you have receipts for purchases made and proof of payment, funds already spent in the start up of your business can be considered towards your capital requirement.

Q: If I have no collateral, can I still qualify for a loan?

A: If you are a start up business and have no collateral, you will need to have someone else sign on the loan, guaranteeing repayment. If you have no collateral and no co-signer and are a start up business, it is very difficult to acquire financing through one of our sources. If you are an existing business with positive cash flow, you may be eligible for a loan without collateral or a co-signer.

Q: If I have no experience in the industry, can I still qualify for a loan?

A: If you have identified a manager that is going to work in your business who has at least two years of experience in the industry, you may still be eligible for a loan. If you have no experience and do not have any staff who have experience, you are not eligible for one of our loan products.

Q: Do I need a business plan?

A: If you are a start up business, you will need a business plan. If you are an existing business, you will need to put together a summary of the history and nature of your business. Or if you are expanding your business in some way, you will need to put together an explanation as what your expansion plan is, how this will affect revenue and how you will grow your business.

Q: What documentation will I need when I submit my loan application?

A: You will need all application forms completed, personal and business tax returns for the last three years, financial statements on the business for the last three years, an interim financial statement since your last tax reporting period, and for start-ups, a business plan, projections and assumptions on which the projections are based. If you are a start up business you will not have business tax returns or financial statements.

Q: How long does it take to get funding?

A: Depending on which Community Loan Program you apply for, the time to approval varies, but it generally takes about a month from when you have submitted a complete loan file to get an answer as to whether your loan was approved or not. It takes 1-2 weeks after that to get funded.

Q: If I need help putting together a business plan or need some type of business consulting, where can I go?

A: You can go to any of the below listed organizations for business counseling services at no cost to you.

- 1) SCORE: (619) 557-7272
- 2) Small Business Development Centers (SBDC's)
 - a) Southwestern College in Chula Vista: (619) 482-6391
 - b) Mira Costa College in Oceanside: (760) 795-8740
 - c) Inland Empire: (909) 781-2345
 - d) Santa Ana: (714) 564-5200
 - e) Imperial Valley: (760) 312-9800