Guide to Small Business Financing

Navigating Lending Options for Your Business

Part One: Borrower Preparation

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About the Coalition for Nonprofit Housing and Economic Development

The Coalition for Nonprofit Housing and Economic Development (CNHED) is a dynamic 501(c)3 organization that advances equitable community economic development solutions in the District of Columbia. The organization's holistic systems-change approach encompasses community-informed budget and policy advocacy, data-driven thought leadership, and needs-based programmatic initiatives in Housing and Homelessness, Workforce Development, and Small and Minority-Owned Business Ecosystem Building.

Since its inception in 2000, CNHED has grown from 55 organizations to nearly 140 today. CNHED's strength is in its convening power, highly successful advocacy, robust communications, and information sharing, and equipping its members with tools and resources for their work. CNHED's organizational members include nonprofit and for-profit affordable housing developers, housing counseling and service agencies, community economic development organizations, workforce and business development entities, lenders, intermediaries, and government agencies. For more information, visit **www.cnhed.org**.

INTRODUCTION

CNHED created the *Guide to Small Business Financing* to help small business owners in Washington, DC, navigate various local lenders (i.e., financial institutions, banks, CDFIs, MFIs) and loan products to find the best financing option for their business. This guide aims to consolidate the wealth of information on lenders and loan products available to support small businesses. In addition, the *Guide to Small Business Financing* provides tips to help small business owners research, compare, and apply for financial resources. While the information contained in this work is helpful for all small business owners, it is specifically designed for first-time borrowers embarking on their search for debt financing.

CNHED's three-part ***Guide to Small Business Financing: Navigating Lending Options for Your Business*** provides valuable information for small business owners that includes:

BORROWER PREPARATION

Guidance on preparing to engage, interact with, and borrow from lenders

LENDER SNAPSHOT

Table comparison of products and offerings from small business lenders in DC

LENDER DIRECTORY

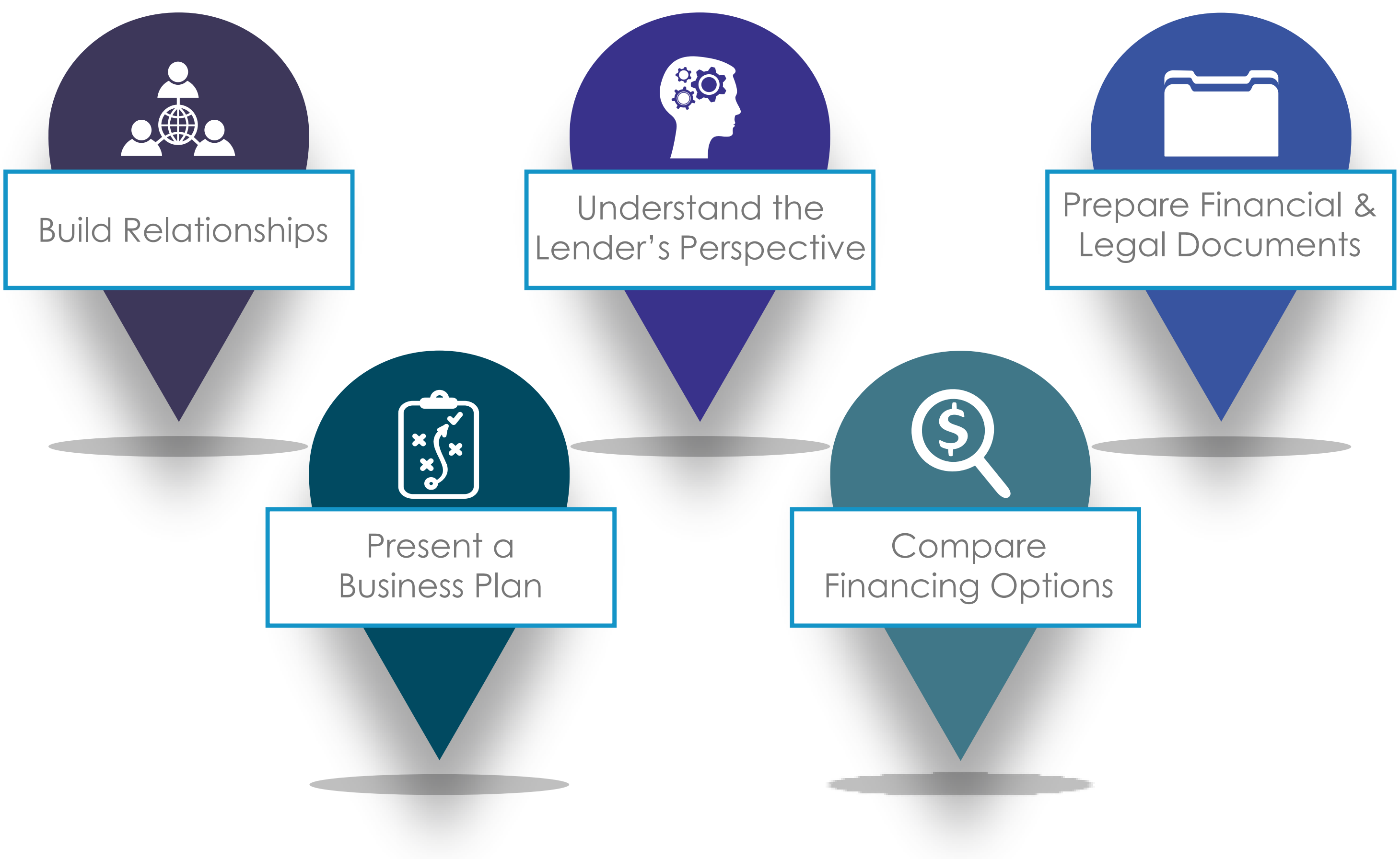
Individual profiles with specific details about various small business lenders in DC

Additional guidance, including a select list of essential resources, links to free tools, training, and technical assistance, is available in the **Appendix**.

BORROWER PREPARATION

Financing a business is a journey. Business owners navigate from one waypoint to the next in search of the right lender[1] with the right financial product.[2] Although many business owners use a variety of sources for funding (e.g., equity, grants, sales revenue), this guide focuses on borrowing capital.

Part One of the guide highlights five key pit stops (or steps) for small business owners on the road to locating the right lender with the right financial product. Whether you're a business owner with a back-office support team, one who has successfully navigated a course on the business borrower's journey, or a new business owner who hasn't yet embarked on the path, reviewing the valuable content in this portion of the guide will ensure that you make informed choices that help you obtain the right financing for your business. Once you've developed a working knowledge of the key points, it's essential to regularly review each step and its associated materials.



1 A **lender** is an entity (i.e., Institution, group, or individual) that makes funds available to a borrower (i.e., business or person) with the expectation that the borrower will repay the funds, usually with interest and/or fees.

2 A **financial product** is an instrument—typically in the form of a contract—used to make investments, borrow, or save money. Financial products are provided to consumers and businesses by financial institutions.

Build Relationships

Relationships are essential for the success of any small business. When asked, the most commonly shared advice from lending officers[3] to small business owners was to establish a relationship with a financial institution long before an urgent need for financing arises. This relationship is essential since lending is often conducted on a case-by-case basis.

By establishing a relationship early on, small business owners have an opportunity to provide additional background on their business and include a personal story about their situation and journey. The loan officer can then provide feedback and guidance on the most relevant financial products. Alternatively, the loan officer may refer the small business owner to a different lender if another institution seems to be a better fit.

Both lending officers and small business owners have a role to play in building a relationship. As a standard, lenders always conduct a thorough investigation of the small business owner and their business before establishing any lending agreement. Similarly, business owners should do their due diligence by researching, identifying, and establishing relationships with lenders that best suit their business needs.

Business owners should be familiar with the small business borrowers bill of rights and prepare a list of questions to ask lending officers. The example questions below provide insight into how lenders manage relationships with customers.[4] One practical tip for business owners is to pay attention to a lending officer's business acumen. If a loan officer is reluctant, impatient, or unable to answer the outlined questions, this may indicate the nature of the relationship moving forward.

How are lending decisions made?

What impact does the local lending officer have on the final decision? What's the maximum amount they can approve?

Are loans serviced locally or sent to a centralized committee elsewhere?

Are loans held or sold?

Are multiple points of contact provided for times when the primary contact is unavailable?

Will the lender explain terminology that you don't understand?

Will the lender explain differences in their financial products and pricing?

What materials can the lender offer to help you understand their lending process?

3 Financial institution staff responsible for small business lending have various titles depending on the institution. These titles include lending officer, loan officer, lending manager, banker, director, and managing director. In this guide, lending officer will be used to distinguish the individual from the lender (i.e., the institution and all that it encompasses including its human resource structure, systems, and policies).

4 For a more comprehensive list of questions to ask lenders in English and Spanish, click here.

It is vital to continue cultivating a relationship with a lending officer after initial financing. Short or small interactions such as keeping in touch with your lending officer by phone or email and proactively sharing news about your business winning an award, reaching a milestone, or launching a new service or product can go a long way in maintaining a relationship.

Other Important Relationships

Aside from lending officers and relevant financial institution staff, other individuals and organizations play an essential role in the growth and success of small businesses. Small business owners will need to interact with many of these organizations and individuals from the beginning. Building lasting relationships with these groups can provide invaluable guidance, mentoring, and services on the journey to business financing.

The **Small Business Borrowers' Bill of Rights** identifies six fundamental financing rights that all small businesses deserve. These are not yet protected by law in most cases, but the small business financing industry is encouraged to join in upholding these:

1. Transparent pricing and terms
2. Non-abusive products
3. Responsible underwriting
4. Fair treatment from brokers and lead generators
5. Inclusive credit access
6. Fair collection practices

DC Government Agencies

DC government agencies provide services such as training, coaching, licensing, taxation, and government contracting. These agencies also offer grants and other financing programs. For a list of agencies, please see the **Appendix**.

Community Business Development Organizations

Like community development corporations, training service providers, and other nonprofit organizations, community business development organizations provide training, technical assistance, coaching, and mentorship.

Accounting Services

Accounting services provide expertise for preparing much of the documentation and paperwork required when seeking financing. Many small business owners are experts in their trade, selling products ,and providing services but may not have expertise in financing and accounting. Identifying this type of back-office support is a critical decision. Paying for these services may be a necessary investment.

Legal Services

Legal services contribute expertise across a range of areas such as compliance, risk, liability, agreements, taxes, business formation, contracting, debt collection, lawsuits, acquisitions, and employee recruitment and management. Paying for legal services can be a necessary, business-saving investment.

Business Peers and Networks

Business peers and networks provide advice, support, and connections to additional resources and other businesses in your industry. Business owners can access even greater peer networks and resources through member-based organizations such as chambers of commerce and associations. Small business owners can also network and establish relationships with peers by attending small business events and connecting with business support organizations.

Investing time and effort into building relationships is an essential part of being a small business owner. Establishing a solid network is paramount to sustaining business longevity. Beyond peers and mentors, local business agencies, organizations, and financial institutions can offer guidance, feedback, and opportunities. The business relationships that small business owners foster can help with preparing subsequent materials outlined in this guide.

Additional resources related to this topic are located in the Appendix.

Understand the Lender's Perspective

Financial institutions have different missions, lending criteria, and financial products for small businesses. Regardless of the type of financial establishment, preparing to engage with any lender involves the same steps. Before lending to a small business, financial institutions conduct a complex risk analysis of the business and owner. Generally, risk assessments are completed on a case-by-case basis. During the risk analysis, most lenders reference the 5 C's of credit as a framework. Small business owners should be familiar with the 5 C's and use them to guide their financing preparation.

Character

Character is reflected by an applicant's credit history and credit score; it includes other factors like business reputation, willingness to share information, integrity, and trustworthiness.

Capacity

Capacity is based on income, financial obligations, ability to pay bills, a company's current debt (secured and unsecured), and a debt-to-income ratio (business and personal). All of these factors are assessed to determine the best financial product and determine if a borrower will have the cash flow to repay a loan.

Capital

Capital is reflected by the borrower's investment into their own business—this indicates the borrower's level of seriousness about their business and assesses whether they have 'skin in the game,' thereby decreasing the chance of default. Some lenders view capital as a guarantee of assets or savings that the lender can claim in case of non-repayment.

Collateral

Collateral provides assurances to a lender. If a borrower defaults on a loan, a lender can repossess collateral (i.e., savings accounts, other financial assets, real estate, or inventory) to cover the loan; this reduces the lender's risk. Although all lenders may not view collateral the same, they will likely ask whether a business owner has collateral to secure a loan.

Conditions

Conditions include measures like the state of the business, industry, and economy—all factors that could affect a business's success. In addition to understanding these conditions, lenders need to know how an owner intends to use the loan, the amount requested, and current market interest rates.

Prepare Financial & Legal Documents

Small business owners are often required to obtain and complete a significant amount of paperwork to access financing from any lender, including legal and financial documents. Business financials are necessary documents for managing a business and also serve as critical documents that lenders require to assess risks and analyze a lending decisions for small business loans.

Additionally, personal financial documentation from the business owner may be required by lenders for a small business loan. Many of these documents are submitted with a loan application. The lender uses these records as a tool to evaluate the 5 C's of credit.

When engaging lenders, small business owners should have the following information outlined below prepared. Even if owners have financial accounting and business management experts who can help prepare these documents quickly, it's essential to be familiar with the business's current status. Owners should be ready to share these documents and information along with any loan application:

Background Checks

Most lenders conduct verifications and/or background checks during their underwriting process,[5] looking at items such as:

- Tax liens on personal and business property, equipment, and vehicles
- Foreclosure history
- Bankruptcy history
- Fraud history
- Owner's immigration status
- Child support payment status
- Criminal records
- Terrorist financing history

There are a variety of legal documents that prove the legality of the business and its operational status such as articles of incorporation, business licenses, commercial leases, franchise agreements, and partnership agreements.

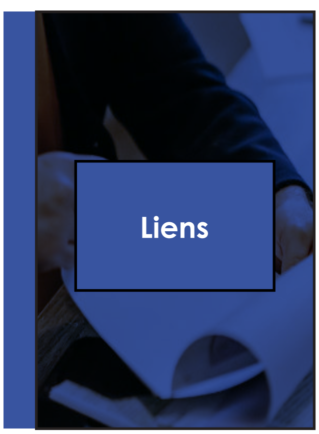
It's important to open a separate business bank account and keep personal and business financials separate. Bank account statements are typically required as part of a loan application. Transactions in checking and savings accounts have an impact on taxes, credit scores, and business cash positions. Opening a business bank account can also be a pathway to establishing a relationship with a financial institution.

5 **Underwriting** is when the lender reviews the application and is often done by a credit committee to determine the risks and benefits of lending to an applicant.

Although the following documents are not always required for submission as part of a loan application, lenders typically verify them as part of their underwriting process, and small business owners should be fully informed and aware of these and be prepared to explain any issues:

Lenders usually check personal and business credit scores to determine interest rates and assess the risk of a borrower's ability to make on-time payments. Small business owners should be aware of both scores. By checking credit score reports for accuracy beforehand, you can prepare to explain historical delinquencies or discrepancies. Credit scores change frequently, and different reporting agencies[6] may report different scores; therefore, it's critical to monitor all credit scores regularly. Correcting inaccurate transactions on a credit report requires time. If your credit score needs improvement, it may be helpful to seek assistance from small business development and support organizations[7] that offer credit building advice and loans.

The federal government requires every business with employees to have workers' compensation, unemployment, and disability insurance. In some instances, small businesses may be legally required to purchase certain types of business insurance. For example, Certified Business Enterprises (CBEs) seeking financing to fulfill services related to government procurement contracts may be required to have business insurance[8] that a lender can verify.



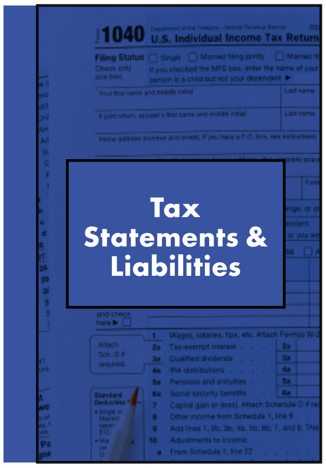
Creditors can establish various lien[9] types against a business owner's personal and business assets or property. Small business owners should be aware of any liens on their assets from existing financing arrangements. A borrower may unknowingly have a lien on their credit report. One way to check for liens is by accessing your reports from the three major credit reporting agencies (though credit reports may not always be accurate). alternatively, a Uniform Commercial Code (UCC) check, which lenders may complete through a paid service, can reveal the presence of liens. Lenders routinely check for liens, consider them in a loan analysis, and place a new lien on business assets as a lending requirement.

6 **USA.gov** provides information on credit reports and scores of the three main credit reporting agencies: Equifax, Experian, and Transunion.

7 **Credit Builders Alliance** offers a list of business development and support organizations.

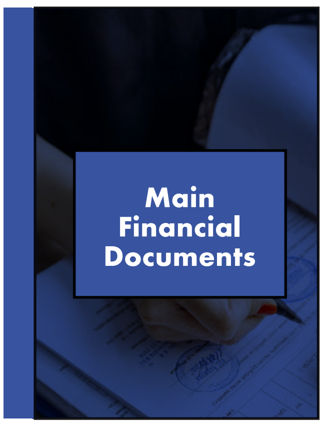
8 US Small Business Administration, **Get Business Insurance** (August 2021)

9 **Liens** are a creditor's legal claim to the collateral pledged as security for a loan. Various liens can be established, including those issued by a creditor, as a legal judgment, or by a tax authority.



Both personal and business taxes will be assessed as part of the loan application. Ensure business taxes are set up correctly from the beginning and tax obligations are met. Small businesses determine their potential tax burden during the formation of the business structure,[10] and it is vital to maximize deductions and minimize tax due (i.e., tax liabilities). When deciding how to correctly structure the business, it's worthwhile to seek expert advice upfront from the **Small Business Development Center (SBDC)**, **Service Corps of Retired Executives (SCORE)**, attorneys, and/or accountants. To remain in good legal standing, the business must meet federal, state, and local tax obligations.

In Washington, DC, a **Certificate of Clean Hands** verifying that neither you nor your business owe DC government money is essential for accessing District funding programs. Local lenders may check your business's status when you apply for a financial product. For this reason, it is critical that you have a repayment schedule in place for any taxes due. Business owners should negotiate a schedule that is realistic and feasible for them.



A business's primary financial documents include a balance sheet, an income statement (i.e., profit/loss statement or P&L), and a cash flow report. Since the three primary financial documents are vital to business operations, business owners should understand them—even if an accountant or bookkeeper has helped prepare them. Together, the three documents provide a comprehensive depiction of a business's operating activities and financial position. Lenders use data from the reports to calculate important financial ratios that provide insight into a business's financial performance and evaluate the business's risk and capacity to repay a loan.

Small business owners may be required to submit additional paperwork such as other existing loan agreements, debt schedule, accounts receivable aging summary, and lease agreements.

Additional resources related to this topic are located in the Appendix.

10 The business structure is the established form of a business entity, such as a sole proprietorship, partnership, limited liability company (LLC), C corporation, S corporation, B corporation, or nonprofit corporation. For guidance see **SBA Choosing a Business Structure**.

Present a Business Plan

Small business owners should be able to tell their company's story—where it began, where it has been, and where it is going. When starting a new business, a business plan is essential. It is a dynamic document that will evolve; it serves as a framework and a road map for your business as it progresses through the stages of growth, noting and forecasting varying financial requirements over time. Business plans are an essential tool for explaining your story to potential investors and lenders. When lenders review your plan, they will look for a solid business idea, a successful track record, and long-term sustainability and growth potential. The plan demonstrates that investing in your business is a wise decision.

Lenders need to understand each business to assess and mitigate their investment risks and determine if it is a good match with their lending mission and the most appropriate financial product. Small business owners can download free and moderately priced business plan templates online, and most include the following elements:

1. Executive summary
2. Company description (i.e., legal form, origination, location, and size)
3. Business leadership, organization, and management team (including the background and experience of the founders)
4. Products and services description
5. Market, sector, and competition analysis
6. Distribution and marketing plan
7. Goals and strategies for implementation and operating plans
8. Financial plan and projections; this includes projected income, expenses, and growth for the life of a loan. (This section is significant as it outlines the need for financing and provides an idea of how a business owner will use the funds.)

Additional resources related to this topic are located in the Appendix.

Compare Financing Options

Small business owners should select a lender by matching the business's financing needs and capacity with the lender's capabilities and mission. When considering a lender, it's crucial to consider branch locality, availability of bank representatives, and the financial institution's service variety. Other key factors contributing to the lender selection process include the business type, status, financing requirements, and an individual's desired level of advice and guidance.

Types of Lenders[11]

Many different types of lenders service small businesses. As a small business owner, you should explore various potential lenders on your journey to determine their lending products, pricing, eligibility requirements, and mission.

Part Two: Lenders Snapshot of the *Guide to Small Business Financing* is a useful reference for starting your research; however, the information presented is not a comprehensive list of all lenders. The snapshot includes national, regional, and community commercial banks, lenders that service Us small Business administration (SBA) lending, Community Development finance Institutions (CDFIs), a microfinance institution (MFI), and a crowdfunding lender.

Part Three: Lenders Directory of this guide provides further information about each lender's products, pricing, eligibility requirements, and unique mission for small business lending.

Banks

Banks are financial institutions licensed to receive deposits and make loans. Community, regional, and national banks participate in small business lending and each has different characteristics in terms of market focus, mission, size of assets, number of branches, menu of financial services, organizational structure, loan authorizing structures, and lending policies.

Credit Unions

Credit Unions are not-for-profit, cooperative financial institutions owned and run by its members. The general premise of the credit union business model involves members pooling money to provide loans, demand deposit accounts (DDAs), and other financial products and services to credit union members.

MFIs

Microfinance Institutions (MFIs) provide financial services to low- income individuals or groups who are typically excluded from traditional banking. MFIs offer small or micro-loans ranging from $500 up to $100,000, and may offer other financial services including savings, micro-insurances, and remittances.

11 For more detailed descriptions of lender types visit **Venturize Understanding Financing Sources**.

CDFIs

Community Development Financial Institutions (CDFIs) are private financial institutions that help disenfranchised groups join the economic mainstream by providing responsible and affordable lending to low-income, low-wealth, and other disadvantaged groups. CDFIs finance community businesses in hard to serve markets, including small businesses, microenterprises, commercial real estate, nonprofit organizations, and affordable housing. While CDFIs are profitable, they are not profit-maximizing. They put community first, not shareholders.

Fintech

Fintech (financial technology) lenders integrate technology (i.e., software and applications) in lending to automate the delivery of financial services, often using algorithms to facilitate the process. The two most common Fintech lending types are:

Debt Crowdfunding

Facilitated by an online platform, debt crowdfunding (also known as peer-to-peer or P2P lending) allows the public to lend money to businesses or individuals. The borrower applies, gets financed, and repays the loan through the platform. In turn, the crowdfunding site distributes the repaid funds back to the persons who loaned the money. Some P2P lending websites match borrowers with investors who lend money to qualifying candidates for a return on investment. These platforms are regulated and managed by both for-profit and not-for-profit entities.

Online Loan Marketplaces

Created by non-bank financial institutions or third parties (sometimes endorsed by bank partnerships), online marketplaces connect investors and businesses through their online platforms. Online loan markets use algorithms to link borrowers and investors, determine applicants' creditworthiness, assign each application a grade, and determine interest rates based on the marketplace lending company's proprietary credit scoring tool. The application information required by marketplace lending is more extensive than that of crowdfunding sites.

Word of Caution!

When shopping for financing, do your due diligence, know your borrower rights, and protect yourself from scams. Be cognizant of potential predatory lenders.

All lenders should be vetted, but prior to borrowing or sharing confidential information with non-traditional lenders, business owners should research the lender and make sure they know the following things:

- Costs of borrowing (interest rates and fees)
- Loan terms
- Regulation status

It may be helpful to seek peer referrals and advice from groups like the Small Business Development Center.

Family & Friends

Borrowing from family and friends is an option. It is prudent to create a written agreement to safeguard individual investments and set a schedule for repayment.

Angel Investors

Typically, an **angel investor** is a wealthy individual who invest in early-stage businesses and startups. They may be interested in a high rate of return, motivated by a desire to support startups, or provide aid to specific entrepreneurs. Angel investors often provide funds in return for an equity stake or debt that converts to equity.

Be careful of cold calls from potential lenders that may have discovered your business through the DC Business Center or other directories, and make sure they are legitimate before sharing any private information with them.

The US Small Business Administration (SBA) advises that small business owners protect themselves from predatory lenders by looking for warning signs. Some predatory lenders impose unfair and abusive terms on borrowers through deception and coercion:

Interest Rates

Beware of rates that are significantly higher than competitors', or fees that are greater than 5% of the loan value.

Fraudulent Practices

A lender should never ask you to lie on paperwork or leave signature boxes blank.

APR & Payment Schedule

Make sure the lender discloses the annual percentage rate (APR) and full payment schedule.

Harassment

Do not feel pressured into taking a loan.

As a well-informed small business owner, you should survey competing offers and consult a financial planner, accountant, or attorney before signing your next loan.

Types of Financial Products

Just as multiple lenders exist for small businesses, various loan types and financial products exist, too. To determine the best financial products, small business owners need to define a few things—like how much financing is required, the purpose of the funds, the best options for funding based on intended use, and the time frame expected for disbursement and re- payment (e.g., short, intermediate, or long-term).

Lenders can advise small business owners about the most relevant financial products after learning about a business's existing financial position and income streams (i.e., equity contributed by the owner, available collateral, existing debt, savings, revenue from sales, and upcoming contracts). Before working with a lending officer to determine the most appropriate financial product, small business owners should prepare to answer the following questions:

How much money is needed?

How will the business the money?

How will the money be repaid?

What will happen if the business owner unable to repay the loan?

When evaluating financial products, small business owners should determine the total payback amount, including the interest expense, various fees (e.g., loan fees, origination fees), and the annual percentage rate (APR). By law, lenders must disclose APRs.

APRs are frequently used to compare loan products within and across financial organizations (factor rates are used in some types of financing). However, the APR alone will not provide a complete picture of borrowed capital. Consumers should be aware that other loan terms impact the entire cost of financing. Fortunately, there are tools online, like the online loan calculators provided by many banks, that can assist with estimating the overall costs of borrowing. Another key consideration is whether a specific financial product requires collateral and what type.

The Small Business Administration (SBA) has programs that provide guarantees to lenders to reduce their risk, enabling credit-worthy startups and existing small businesses to access short- and long-term loans. SBA programs were designed to decrease lending institutions'

Risk and allow business owners who might not otherwise be qualified to receive debt financing. The agency doesn't lend money directly to small business owners; instead, it sets guidelines for loans made by partnering lenders, like banks, CDFIs, and micro-lending institutions. SBA lenders are listed in the Lender Snapshot and Lender Profile Directory of this guide.

Small business owners are generally required to provide collateral for secured loans and lines of credit as assurance in case they are unable to make payments, enabling the lender to gain ownership of the collateral.

DC government has a program that may help small business owners that don't have sufficient collateral.

DC BizCAP Collateral Support Program provides funds for deposit with a specific lender (e.g., bank, credit union, or CDFI) to provide the necessary collateral to cover a borrower's shortfall.

Examples of collateral include real estate (both residential and commercial), vehicles, equipment, and inventory. Lenders will ensure that you own these assets before considering them collateral. The value of collateral will likely be equal to the amount of the loan or line of credit, so it's important to maintain detailed records of the assets' value.

Secured loans backed by collateral may offer better payment terms and lower interest rates. However, there is a risk of loss of assets in case of default, so it's critical to consider the implications and may be a good idea to first seek advice from a financial advisor prior to putting up important collateral, such as a home. Lenders may also require a personal guarantee from the business owner and any co-applicants or guarantors. This means you, and perhaps cooperating partners, friends, or family who secure the loan with you, will need to pledge personal assets as collateral in the event you are unable to repay the loan.

MICROLOANS

Microloans are small loans up to $50,000.

Use case example: Microloans are typically used for working capital, inventory, supplies, furniture, fixtures, and machinery.

TERM LOANS

Term Loans are loans in the form of a lump sum or fixed amount upfront. The loan is repaid using a fixed repayment schedule with either a fixed or variable interest rate and a set maturity date. Term loans can be secured or unsecured. A secured loan is backed by collateral (e.g., property, equipment, or other business assets of value). secured loans typically have lower interest rates than unsecured loans. If a borrower defaults on a secured loan, the lender can seize property to recover the loss.

Use case example: If the need to finance a specific, one-time expense arises, then a term loan is the best option. Depending on the lender, a small business may use cash from a term loan for various reasons such as capital improvements, purchasing fixed assets or equipment, hiring staff, or setting up a new building for production.

Lines of Credit (LOC) are preset limits on borrowing that borrowers can tap into until the limit is reached. In the case of an open LOC, as money is repaid, it can be borrowed again. Typically, interest is paid on the balance while the line is open, which makes it different from a conventional loan that is repaid in fixed installments. Some LOCs use checks (called drafts) to withdraw funds, while others include a type of credit or debit card. LOCs are flexible. Borrowers can request a certain amount, but do not have to use it all, and only owe interest on the amount they draw and use. Repayment is also flexible. For example, the entire outstanding balance can be repaid all at once or with minimum monthly payments. Different types of LOCs offer different interest rates and time limits (e.g., secured, unsecured, HELOCs, short-term).

LINE OF CREDIT (LOC)

Use case example: If funds are needed to cover ongoing operating expenses or to have a reserve for emergencies, then a line of credit is a good option. This short-term funding may be used to support operational expenses like payroll, purchasing supplies, or increasing inventory. However, borrower discipline is critical as LOCs can invite overspending, and misuse could impact credit scores.

Business credit cards are a convenient and flexible financing tool. Instead of using personal credit cards, business credit cards help keep business and personal expenses separate for bookkeeping and tax purposes. Many business credit cards report transaction history to business credit bureaus instead of the personal credit bureaus; this is critical to understanding how to build credit for your business while protecting your non-business credit score. It's important to note, the same consumer protections on consumer credit cards may not always apply to business credit cards, so you must read the fine print. Finally, borrowers should be mindful of their credit use as the interest accrued increases based on the carrying balance, impacting the credit utilization ratio.[12]

BUSINESS CREDIT CARDS

Use case example: Business credit cards are helpful in many ways. They may assist with reporting, expense tracking, and record-keeping. Business credit cards also make it possible to issue multiple cards to employees on the same account. Business credit cards may offer more flexible payment options, higher credit limits, and rewards or other perks compared to personal credit cards. There are some things business owners may not use for a business credit card, such as paying a property lease, payroll, or invoices from certain vendors. Like LOCs, borrower discipline is critical as business credit cards can invite overspending, and misuse could impact credit scores.

Additional resources related to this topic are located in the Appendix.

12 The **credit utilization ratio** is the percentage of a borrower's total utilized credit compared to the borrower's total approved credit, including lines of credit or credit cards—the ratio changes with payments and purchases. Credit reporting agencies use the ratio to calculate a credit score. Higher ratios reflect poorly.

SUMMARY

As described in the introduction, this guide is a concise road map outlining strategies to prepare for the journey to obtaining financing for your small business. CNHED hopes the guidance has helped small business owners see the path forward, comprehend fundamental needs and finance requirements, find strategies to traverse from one point to another, and identify potential hurdles. When seeking funding strategically, small business owners must consider a wide range of possibilities and choices. Regular use of this valuable resource will help you plan and make well-informed decisions on the road to funding.

There are several resources accessible online that go further into the subjects covered in this booklet. CNHED encourages small business owners to conduct additional research, attend training courses, webinars, and network with mentors and peers. The **Appendix** offers links to material that will be useful throughout your business financing journey.

CNHED

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GLOSSARY

Annual percentage rate (APR)

APR represents the yearly cost of a loan, including interest and fees. The total interest amount to be paid is based on the original loan amount (i.e., principal) and represented in percentage form. It is useful to compare different financial products; however, a word of caution: APRs may not be perfectly comparable because lenders can choose what charges to include in their rate calculation.

Credit Report

A credit report is a personal report made by one of the three major credit reporting agencies (i.e., Equifax, Experian, and Transunion), giving your credit history. It typically states if you have any delinquent payments, failure to pay, as well as any bankruptcies, foreclosures, or other legal proceedings. Your credit report typically includes a **FICO score**.

Credit Utilization Ratio

The **credit utilization ratio** shows the percentage of a borrower's total utilized credit compared to the total credit for which they were approved, including lines of credit and/or credit cards. Credit utilization ratios change with payments and purchases and are a factor used by credit reporting agencies to calculate a credit score—higher ratios reflect poorly, while lower ratios are favorable.

Debt Service Coverage Ratio

Lenders use the **debt service coverage ratio** as a key indicator to measure a borrower's ability to repay a loan by looking at the amount of available cash that a borrower can use to repay the loan. Debt service calculation ratios are determined using the following formula:

NET OPERATING INCOME ÷ TOTAL DEBT SERVICE (I.E., PRINCIPAL + INTEREST PAYMENTS TO BE PAID)

Debt-to-Equity Ratio

The **debt-to-equity ratio** is used to determine whether a business has enough assets to cover a loan in case of default. Typically, lenders want businesses to have more assets than debts.

Factor rates

A factor rate is a cost that needs to be repaid on a financial product and is comparable to a flat fee imposed on borrowed funds. Factor rates are expressed as a decimal figure (ranging from 1.1–1.9). The rate is calculated at the start of a lending period and is not adjusted during the life of the loan. Factor rates are more commonly associated with short-term financing products such as working capital advances, accounts receivable financing, and merchant cash advances. Because factor rate financing is often used with short-term funding options, most lenders require a daily or weekly repayment instead of a monthly repayment schedule.

Home Equity Line of Credit (HELOC)

A **HELOC** is the most common type of secured lines of credit. HELOCs are secured by the market value of a home minus the amount owed on it, which becomes the basis for determining the size of the line of credit. Typically, the credit limit is ranges between 75% – 80% of the market value of the home, minus the balance owed on the mortgage.

Invoice Factoring

Also known as accounts receivables factoring, **invoice factoring** is when a business sells its unpaid invoices to a third party (i.e., a factor or factoring company) at a discount. Essentially, the factoring company purchases the outstanding invoices and takes over collections. The factor gives an upfront payment that is typically 85% – 95% of the invoice total. The factor then proceeds with collecting payments, and once the customer has paid the invoice, the factor pays the remaining balance back to the business, less an agreed-upon fee. **Note:** factoring may not make sense if a business owner has good credit, a low debt-to-income ratio, and doesn't need the cash within a week. In this case, a long-term business loan or line of credit would be a better fit because the effective interest rate will be much lower.

Invoice Financing

Invoice financing is a loan from a bank that's based on the value of outstanding invoices. Loan repayments are made like any other loan, and the business still collects payments from customers per usual (i.e., retaining complete control of collections). Invoice factoring is best used when a company needs cash to fund inventory purchases or payroll and has invoices due in less than 90 days from customers with good credit. While the money from the invoices will come eventually, slow-paying customers or extended repayment terms could negatively impact incoming cash flow. Lenders consider how long it takes a business to collect on its accounts receivable and whether customers are paying to assess the risk of extending an invoice financing loan to a company.

Lien

A l**ien** are a creditor's legal claim to the collateral pledged as security for a loan. If the loan is not repaid, the creditor may be able to seize the asset that is the subject of the lien. Various types of liens can be established including by a creditor, legal judgment, or tax authority.

Loan–to–Value (LTV) Ratio

A **loan-to-value ratio** compare the fair-market value of an asset to the amount of the loan that will fund it. This is important for lenders who need to know if the value of the asset will cover the loan repayment if a business defaults and fails to pay. LTV can play a substantial role in the interest rate that a borrower can secure.

Merchant Cash Advance (MCA)

Merchant cash advances involve the sale of future receivables for a set dollar amount and are repaid with a percentage of a business's daily sales receipts. Depending on repayment speed, equivalent APRs may exceed 80% or even rise to triple digits. For example, $50,000 may be granted in exchange for $65,000 in future receipts. In this example, the repayment amount is collected via automatic draws of 10% on daily credit card sales. **Note:** MCAs are generally repaid within 3–18 months.

Secured Loans

Secured loans use tangible assets as collateral. Secured credit refers to loans your business can qualify for by promising collateral, like equipment or real estate. If you default on a secured loan, the collateral and other property can be seized by the lender to satisfy any part of the loan that has not been paid. Loans can also be secured by the lenders applying a blanket lien on your business.

Truth in Lending Act (TILA)

Implemented by the federal Reserve Board through a series of regulations, the **Truth in Lending Act** is a federal law enacted in 1968 to help protect consumers in their dealings with lenders and creditors. TILA requires disclosure of certain information to a borrower before extending credit, such as the APR, terms of the loan, and total costs to the borrower. This information must be conspicuous on documents presented to the borrower before signing.

Underwriting

Underwriting is the process through which a lender decides to take on the financial risk of a borrower in exchange for a fee. Using a mix of automation and human expertise, underwriting involves assessing the degree of risk by evaluating a potential borrower's credit history, financial records, and the value of any collateral offered. Other factors may be considered is a risk analysis depending on the size and purpose of the loan.

Unsecured Loans

Unsecured loans do not require any form of collateral. Lenders grant unsecured loans based on a borrower's creditworthiness rather than a borrower's assets.

For additional definitions and explanation of terms, please refer to any of the following reliable sources: **Venturize.org**, **Fundera.com**, and **Investopedia.com**.

KEY RESOURCES

Build Relationships

DC Government Agencies & Services

Department of Consumer and Regulatory Affairs (DCRA)
First point of contact to set up a business, including registration and licensing services
dcra.dc.gov/page/registration-and-licensing-services-businesses

Department of Insurance, Securities and Banking (DISB)
Regulates financial service providers; provides programs and resources to assist small business owners
disb.dc.gov/service/small-business-resources

Department of Small & Local Business Development (DSLBD)
Central place for small business support information
dslbd.dc.gov

Office of the Deputy Mayor for Planning & Economic Development (DMPED)
Offers business incentives and resources to locate and expand business in DC
incentives.dc.gov

Office of Risk Management (DCORM)
Guidance on risk insurance requirements for certain businesses (e.g., government procurement), workers' compensation, tort liability claims, and risk prevention and safety
orm.dc.gov

Office of Tax and Revenue (OTRC)
Main site for information on business taxes, including the Certificate of Clean Hands
otr.cfo.dc.gov

Training & Technical Support Providers

CNHED Small Biz Help
Network of 18 organizations that offer small business coaching and guidance
cnhed.org/dcsmallbizhelp

DC Citywide Business Calendar
Centralized trainings on business financing and other topics
bit.ly/DCBusinessCalendar

DC Small Business Development Centers (DC–SBDC)
Training workshops, webinars, one–on–one coaching, business consulting, and other information
dcsbdc.org/schedule-appointment

Department of Housing & Community Development (DHCD)
List of small business technical assistance (SBTA) providers on
dhcd.dc.gov/service/small-business-technical-assistance-sbta

Department of Small & Local Business Development: Eventbrite Small Business Trainings & Events
bit.ly/3EcX7DB

Department of Small & Local Business Development: Technical Assistance
One–on–one tech support for DC businesses and resident entrepreneurs
bit.ly/InnoEDbooking

Kauffman Fasttrac
Training courses for entrepreneurs
fasttrac.org

SCORE
Workshops, resources, & mentoring for small businesses
washingtondc.score.org

Small Business Development Center Finder
SBDC search tool
americassbdc.org/find-your-sbdc

Training & Technical Support Providers Continued

Washington DC Economic Partnership (WDCEP)
Workshops and webinar host
wdcep.com/event/2021-dc-bizchat-series

Washington DC Women's Business Center
One-on-one free counseling, trainings, and peer networking events designed to help women start and grow businesses
dcwbc.org

Accounting & Legal Resources

DC Bar Organization: Pro Bono Center
Operates the Small Business Legal Assistance Program to provide legal services via clinics, trainings, and web resources
dcbar.org/pro-bono/free-legal-help/help-for-small- businesses

DSLB: Shop Local DC Directory + Connect Business 2 Business
Search for accounting and legal services in the DC Department of Small & Local Business Development directory
dcbusinesstoolkit.com/businesses

Greater Washington Society of CPAs
A list of certified public accountants (CPAs)
gwscpa.org/public/referral/findcpa.aspx

Legal Aid Society of the District of Columbia
Provides legal aid; while services are not specific to small business, certain practice areas may be relevant for individuals
legalaiddc.org/get-help

SCORE: "Does Your Small Business Need a Lawyer?"
Information about small businesses and legal protection
core.score.org/blog/2014/rieva-lesonsky/does-your-small-business-need-lawyer

Networking Opportunities

Asian Pacific American Chamber of Commerce
Promotes development of Asian American businesses through networking, seminars, procurement fairs, and workshops
apacc.us/index.htm

DC Chamber of Commerce
Washington, DC, business resources— network opportunities and other resources
dcchamber.org

Department of Small & Local Business Development: Calendar of Events
DSLB calendar of events features networking opportunities for small businesses
dcbusinesstoolkit.com/resources?view=calendar

Department of Small & Local Business Development: Resource Kit
Networking and Mentoring for DC Businesses and DC Resident Entrepreneurs
dcbusinesstoolkit.com/resources/networkingmentoring

Eventbrite: Business Networking Events in DC
eventbrite.com/d/dc--washington/business-networking

Greater Washington Black Chamber of Commerce
Promotes Black business growth in DC through facilitated networking, business opportunities, and education
gwbcc.org

Greater Washington Hispanic Chamber of Commerce
Promotes Latino and other minority-owned businesses success via networking, advocacy, education, capital access
gwhcc.org

Prepare Financial & Legal Documents

Personal Credit Reports and Credit Building Assistance

Annual Credit Reports
annualcreditreport.com/index.action

Credit.org: Free Credit Counseling & Online Training
credit.org/services/credit-building

DC Credit Union: Credit Builder Loans
dccreditunion.coop/personal/credit-builder-loan/

EP Federal Credit Union: Credit Builder Program
epfcu.org/loans/credit-builder-program.aspx

Latino Economic Development Center (LEDC): Credit Building Loans
ledcmetro.org/credit_building

Life Asset: Credit Building Loans
lifeasset.org/apply/

Venturize: Credit Score IQ (English & Spanish)
venturize.org/resources/credit-score-iq

Working Credit NFP: Credit Score Basics
workingcredit.org/resources/credit-score-basics/

Business Credit Reports

Dun & Bradstreet: Business Credit Scores and Ratings
dnb.com/products/small-business/check-my-business- credit

Equifax: Credit Reports for Small Business
equifax.com/business/business-credit-reports-small-business

Experian: Small Business Credit Scores
experian.com/small-business/small-business-credit

Nav: Business Credit Scores and Reports
nav.com/business-credit-scores/

Personal Taxes

DC Government Office of Tax & Revenue (OTR)
Free tax preparation assistance
otr.cfo.dc.gov/service/customer-service-center

DC Public Library: Income Tax Help
dclibrary.org/incometax

Capital Area Asset Builders
Free tax prep services in DC
caab.org/en/free-tax-preparation-services

IRS: Information on Tax Payment Plans
irs.gov/payments/online-payment-agreement-application

Business Taxes

DC Government Office of Tax & Revenue (OTR): Certificate of Clean Hands
otr.cfo.dc.gov/page/certificate-clean-hands

DC Government Office of Tax & Revenue (OTR): Business Tax Service Center
otr.cfo.dc.gov/service/business-tax-service-center

IRS Small Business Tax Center (multiple languages)
Small Business and Self-Employed Tax Center
irs.gov/businesses/small-businesses-self-employed

QuickBooks
Solutions for local and federal small business tax payments (as well as payroll, invoicing, and expenses)
quickbooks.intuit.com/r/taxes/small-business-tax-payments/

US Small Business Administration (SBA): Manage Your Business Taxes
sba.gov/business-guide/manage-your-business/pay-taxes

Prepare Financial & Legal Documents Continued

Liens

DC Government Office of Tax and Revenue UCC filings
Read more here, use the link to check lien filings and status.
countyfusion4.kofiletech.us/countyweb/loginDisplay.action?countyname=WashingtonDC

IRS: "The Difference Between a Levy & a Lien"
irs.gov/businesses/small-businesses-self-employed/whats-the-difference-between-a-levy-and-a-lien

IRS: "Understanding a Federal Tax lien & How To Get Rid of a Lien"
irs.gov/businesses/small-businesses-self-employed/understanding-a-federal-tax-lien

Nav: "How UCC filings Can Affect Your Business Credit Scores"
nav.com/blog/ucc-filings-and-business-credit-scores-8189/

WikiHow: "How to Check UCC Filings"
wikihow.com/Check-UCC-Filings

Wolters Kluwer: "The Importance of UCC & tax lien searches"
wolterskluwer.com/en/expert-insights/ucc-and-tax-lien-searches

Financial Statements

CNHED Small Biz Help
Organizations offering training on financial planning
hcnhed.org/dcsmallbizhelp/

DSLBD's Build a Dream Learning Series
Department of Small & Local Business Development basic business financial information
dcbusinesstoolkit.com/resources/build-a-dream-intro-to-lean-canvas-lunch-learn#

DSLBD: Money Management Tools
youtu.be/CxhT7UAYueg

inDinero: "3 Essential Financial Reports for Small Business Bookkeeping"
indinero.com/blog/top-3-financial-reports-for-small-business-bookkeeping

MyOwnBusiness Institute: Accounting & Cash Flow
Free online education
scu.edu/mobi/business-courses/starting-a-business/session-11-accounting-and-cash-flow/

SCORE: Financial Projections
Free online course
score.org/event/simple-steps-starting-your-business-module-4-financial-projections

SCORE: Financial Projections
Downloadable template
score.org/resource/financial-projections-template

WAVE: Free Accounting Software
Accounting software for generating financial reports
waveapps.com/accounting

Present a Business Plan

Business Plan

LivePlan & DC-SBDC
Discount subscription for business planning tools; step-by-step process to follow for creating a business plan
partners.liveplan.com/dc-sbdc

SCORE Business Plan Template
core.org/resource/business-plan-template-startup-business

The Balance Small Business: "Why You Should Write a Business Plan"
thebalancesmb.com/why-write-a-business-plan-2948013

US Small Business Administration: Plan your Business
sba.gov/business-guide/plan-your-business/fund-your- business

US Small Business Administration (SBA): Write Your Business Plan
sba.gov/business-guide/plan-your-business/write-your- business-plan

Compare Financing Options

Business Financing Guide

MyOwnBusiness Institute: Financing Your Business
"Financing Your Business: Evaluating Sources of Capital"
scu.edu/mobi/resources--tools/blog-posts/financing-your-business-evaluating-sources-of-capital/financing-your-business-evaluating-sources-of-capital.html

MyOwnBusiness Institute: "12 Smart Tips for Getting a Small Business Loan"
scu.edu/mobi/resources--tools/blog-posts/12-tips-smart-tips-for-getting-a-small-business-loan/12-smart-tips-for-getting-a-small-business-loan.html

US Small Business Administration (SBA): Business Guide
www.sba.gov/business-guide

US Small Business Administration (SBA): Fund Your Business
sba.gov/business-guide/plan-your-business/fund-your-business

US Small Business Administration (SBA): How to Prepare a loan Proposal
sba.gov/offices/district/nd/fargo/resources/how-prepare-loan-proposal

US Small Business Administration (SBA): Lender Match
Helps match small business owners with potential lenders offering SBA-backed funding.
sba.gov/funding-programs/loans/lender-match

Venturize: Borrowing 101
Financing sources & types of loans (English & Spanish)
venturize.org/access-capital/borrowing-101

Collateral

DISB DC BizCAP: Collateral Support Program
disb.dc.gov/page/dc-bizcap-collateral-support-program

The Balance Small Business: "Collateral for Business Loans"
thebalancesmb.com/collateral-2948115

Consumer Protection

Biz2credit: "Predatory Lending: How Do I Know if My Small Business Loan Officer is Legitimate?"
biz2credit.com/blog/2019/05/29/predatory-lending-how-do-i-know-if-my-small-business-loan-officer-is-legitimate/

Federal Trade Commission (FTC) Consumer Info: "Credit & Loans"
consumer.ftc.gov/topics/credit-and-loans

Investopedia: "Predatory Lending"
investopedia.com/terms/p/predatory_lending.asp

Small Business Borrowers' Bill of Rights
borrowersbillofrights.org/bill-of-rights.html

Calculators

Amortization Schedule: Business loan Calculator
amortization-calc.com/business-loan-calculator/

Bankrate: Small Business Calculators
bankrate.com/calculators/index-of-small-business-calculators.aspx

Innovative Lending Platform Association: Cost of Credit
innovativelending.org/smart-box-model-disclosure-depth/

Small Business Funding: "Interest vs Rate Factor"
smallbusinessfunding.com/interest-vs-rate-factor/

US Small Business Administration (SBA): "Calculate Your Startup Costs"
sba.gov/business-guide/plan-your-business/calculate-your-startup-costs

US Small Business Administration (SBA): "Break-Even Point"
sba.gov/breakevenpointcalculator

Venturize: APR Calculators (English and Spanish)
venturize.org/resources/apr-calculators

Additional Resources

AccessPoint

Free online, self-paced training on a variety of subjects for DC small businesses

accesspointdc.com

Department of Consumer and Regulatory Affairs (DCRA)—online small library

Helpful documents on how to set up a business in DC

dcrasbrc.ecenterdirect.com/documents

DSLBD District Capitalized

Describes financing products and provides guidance and support to small businesses

dslbd.dc.gov/service/district-capitalized

DSLBD District Capitalized

DC Business funding alert (subscription link)

lp.constantcontactpages.com/su/tjd2c8e/DistrictCapitalizedAlerts

DSLBD: Business Toolkit

Helps small businesses find loans & financing assistance

dcbusinesstoolkit.com/resources/finding-loans-and-financing-assistance-to-help-your-dc-business

DSLBD & DISB: DC Capital Connector

Free online referral tool for information and financial health support services

dccapitalconnector.com

Venturize: "Get Loan Ready"

venturize.org/access-capital/get-loan-ready

Venturize: "Loan Application Checklist"

venturize.org/loan-application-checklist