Access to Capital

An introduction to CDFI small-business lending, and borrower loan-readiness

Capital: Where can I find it?

A look at the small business capital universe:

- Micro: personal savings and "bootstrapping", lending circles, microloans, friends and family, crowdfunding
- Small to Intermediate: business IDAs/business savings, crowdfunding, loan funds, CDFI's, SBA lenders, equity investors
- Large scale: banks, credit unions, loan funds, CDFI's, SBA lenders, venture capital funds
- Grants

Who is Community LendingWorks?

Community LendingWorks (CLW) is a certified 501(c)(3) nonprofit community development loan fund (CDFI).

Since 2011, CLW has deployed more than $20 million in loans & grants to communities throughout Oregon.

<u>**Current Loan Products:**</u>

- **Business Loans:** (Micro –Small Business): Loans amounts from $1,000 - $100,000
- **Consumer Loans:** (Auto, Personal, Credit Builder): $300 - $30,000

What is a CDFI?

A **Community Development Finance Institution (CDFI)** is a designation given by the **CDFI Fund** to specialized organizations that provide financial services in low-income communities and to people who lack access to financing.

CDFIs are generally:

- mission-driven organizations that inject new sources of capital into neighborhoods/communities that lack access to financing.
- dedicated to delivering responsible, affordable lending to help low-income, low-wealth, and other disadvantaged people and communities join the economic mainstream.
- separated into four main sectors: community development banks, community development credit unions, community development loan funds, and community development venture capital funds

Grant Applications

Are you prepared & ready to apply?

Making sure you're ready to apply!

- Have your business financials up to date
- Have an emergency budget, or updated business plan
- Be prepared to document how the funds will be spent
- Keep taxes and business registration up to date
- Make sure to understand any restrictions before you apply (i.e. allowable business types & what funds can be used for, etc.)

Debt financing: you have the need, but are you loan-ready?

A lender's analysis:

The Five "C's" of Credit:

- Character
- Collateral
- Capital
- Capacity
- Conditions

What is Character?

Character refers to a borrower's reputation and historical record of personal financial matters.

Qualitive and quantitative analysis:

- Credit report – a record of past debt or obligation repayment
- Bank statements – a record of spending patterns
- Educational background – borrower’s devotion to improving business skills through education
- Personal interview – impression of borrower’s honesty, transparency, and reliability

What is Collateral?

Collateral is personal and/or business assets pledged by a borrower to a lender as security for a loan

Typical forms of collateral:

- Inventory
- Accounts receivable
- Equipment
- Pledged savings, vehicle, or a home

Lenders will generally look for a 1:1 Loan-to-Value ratio when determining a maximum loan amount

Depending on the type of collateral offered, Lenders may discount the value of the collateral anywhere from 20% to 80%

What is Capital?

Capital for a business-loan application consists of personal investment into the business, retained earnings (business savings), and other assets controlled by the business owner.

Lenders view capital as an additional means to repay the debt obligation should income or revenue be interrupted while the loan is still in repayment.

What is Capacity?

Capacity is determined by analyzing the number and amount of debt obligations the borrower currently has outstanding, compared to the amount of income or revenue expected each month. Lenders review the company's past cash flow statements to determine how much income is expected from operations.

Most lenders have specific formulas they use to determine whether a borrower's capacity is acceptable. For example, the **debt-to-income ratio** states the borrower's monthly debt as a percentage of their monthly income. A high debt to income ratio is perceived by lenders as high risk.

What are Conditions?

Conditions refer to the terms of the loan itself, as well as any economic conditions that might affect the borrower, especially during the repayment term. Business lenders review conditions such as the strength or weakness of the business, the overall economy, and the purpose of the loan.

Financing for working capital, equipment, or expansion are common reasons listed on business loan applications.

Other considerations

- Who does the company’s books, and how reliable are the financial statements?
- Are the cashflow projections based in reality? Has any market research been done, or is there prior experience that will support the assumptions?
- Are you able to put cash into the transaction (aka, can you put any skin in the game)?
- Do you have a management team, and/or are you working with business advisors?
- Are you patiently working and planning towards obtaining an appropriate amount of financing for your business, or do you need a lot of money, yesterday?
- Do you actively manage your personal credit profile? Do you have any liens, judgements, garnishments, collections, bankruptcies on your credit report?
- Does anyone else own 20% or more of the business? If so, do you have an operating or partnership agreement?
- Do you have someone that you can ask to serve as a guarantor for the loan, if needed?
- Is debt financing appropriate for the business at this time?