Your Business - Start Smart: Financing Your Business

[00:00:05] [upbeat piano solo begins and fades to background music] **Podcast Announcer:** Welcome to The Seattle Public Library's podcasts of author readings and library events, a series of readings, performances, lectures, and discussions. Library podcasts are brought to you by The Seattle Public Library and Foundation. To learn more about our programs and podcasts, visit our website at: www.spl.org. To learn how you can help the Library Foundation support The Seattle Public Library, go to: foundation.spl.org. [background music fades to silence]

[00:00:40] **Jay:** Hello, Everyone. Good evening. My name is Jay Lyman and I am a librarian here at The Seattle Public Library. I want to welcome you all here this evening. Thank you for coming out. And we have a fun event—evening. We have a great panel. I've got a little information I want to share with you first. I want to—I'm going to say a few words about libraries and how libraries can help. I also have—I have something for you. So, this evening, I have some Skype vouchers that we got from Microsoft. So, if you want one of these—Skype, of course, is a free service, but they have additional things—so, we've got—the library has collected these. So, if you want one, come see me after the event and I'll be happy to give you one of those. Also, we have some other interesting events coming up that I'll share with you. Let me go through the run-of-show first—and I'll share some things about the library, too. So, I'm Jay, and I'm your librarian tonight. And so, I'm doing the first part. Then Mimi from the SBA is going to stand up and say a few words about the SBA and all the great things that happen there. And then we have our financing panel—we'll go into that. And that's the bulk of the evening here. The library can help you be successful in your business, too. And if you've been to one of these programs before or heard me talk, you probably have heard me talk about two ways that the library can help.

[00:02:07] **Jay:** And so those two ways are that we answer questions. We answer questions in a lot of different ways—on the phone, in person, via chat, email. There's a lot of different ways to get in touch with us. Up here on the slide, here, there are two websites—one for King County and one for Seattle Public Library, just because those are the two nearest library systems. But if you go to our website, then you can get links to all those ways to get in touch with us. So, we answer questions on all kinds of things, including financing. The other way that the library can help you be successful in business, is that we buy tools for you to use. And we buy, of course—books. And I have a selection of books on financing, and various kinds of other startup books, here, which you can check out from the library. Or—but we also buy a lot of electronic things. And I typically—at some of these—I do a little demo of *ReferenceUSA* to show you how to do some—to sort of illustrate some of those. I'm not going to do that tonight, but I'm going to—just mainly because I want to get into the great content that we have planned for you. But if you ever want some of that, I do have some programs that are upcoming where we can walk you through the—how-to-do-market-research using free library tools.

[00:03:22] **Jay:** So, that's another program that we have coming up later on this month and next month as well. Some of those electronic tools—you need a library card and a PIN number to access them from home, and that's just because we buy these things from vendors who don't want us to share it on our website and then get out to the entire world. So, you have to use your library card and your PIN number to get into them. And so different library—it's based on where you live, work, go to school—and different library systems have different tools, which is great because you can double-dip. So, The Seattle Public Library has some interesting things. And we—through a reciprocal agreement with King County—if you live in Bellevue, or something, you can get into their tools as well, which is pretty great. I was racking my brain and I was thinking of—I could share a lot of information with you in ways that the library could help on planning a business, because that's one of the big pieces that we help people with. When you're doing that business plan, the market research aspect is a really big piece to helping you create that plan, so we can really help in that way. When it comes to the financing part, there are some things that we can help with. So, let's say you're looking for other information about funding a business—you want to find things about the financial health of banks. Now, that's not, like— how great their customer service is, or anything like that—but there's some rating systems that the King County systems subscribe to, as well as that we subscribe to—the Kroll Ratings of financial institutions.

[00:04:54] **Jay:** So that might be an interesting, useful piece of information. The other thing we might do is we might provide referrals to groups like those represented here in the panel. So, if you're trying to find out who you should be talking to, that's a way that the library can be useful. We also might be able to refer you to other information sources—so—like the Foster Business Library, the SBA, Department of Financial Institutions—they all have useful information in these—about financing. And these links that are here in the slide are—will link you out right to those parts of those websites. Another question that I get is—How did other successful companies find funding? So—I'm trying to replicate my model of my company off of how this company did it. One really useful resource for us for that is *Business Insights: Global*. This is an electronic resource that we have, and it has company histories which tell that story of how different large, successful companies structure themselves and then went after things early on as well as later and—in their history. We might have historical business news where we could go search *The Seattle Times*, or things, for information about—that came out in the news about funding of companies. Or—I put up there—don't overlook the company's website because often their investor relations site has information that can tell that story.

[00:06:27] **Jay:** Other things—this starts to get into that area of—I need data from my business plan. But market trends, first research industry reports—we've got financial ratios. I'm happy to report that we have an electronic version of *RMA*, which are these financial ratios that help you compare your proposed financial situation to that of companies in the industry—operating in that industry you're trying to get in. Competition—you can find your lists of companies that do various things through *ReferenceUSA*, or the King County system has a great tool called *Mergent Intellect* that does that. And then, of course, customer demographics so—How much do people spend on pet supplies in

Seattle? Or—How much do people spend on alimony fees? Or whatever it might be—that—there's tools like *SimplyMap* or *DemographicsNow* which can answer those kinds of questions. And then, I've got many useful resources so, because there's a lot of other things, I know you'll—when you go down this journey of—you may have questions, and just remember that we're there and we might be able to help you creatively problem-solve your information needs. And, of course, you don't need to remember anything that I just said because you can come and ask me. Without—so that brings to the end of what I was going to say, and so I'm going to invite Mimi Hetzel from the SBA up and she's going to talk to you about the SBA and what all that they have to offer.

[00:08:00] **Mimi:** Hi, Everyone. Welcome. My name is Mimi Hetzel and I'm with the U.S. Small Business Administration. It's great to see you all. So, we have a packed night for you tonight. We're here to talk about financing. So how many of you here have already started business—or have already started a business—are already in business, have an ongoing concern? Couple people? OK. How many are thinking about starting a business—are just starting out and don't know what to do and looking for some— OK. Good. All right. You're in the right place. All of you are in the right place. Great. Before I get started, I need to mention a couple of things—November is just around the corner, and so it's open season for enrollment into health care. So, I put some flyers out there on the Affordable Care Act. So, a little bit about the SBA—

[00:08:57] **Mimi:** we are dedicated to small business owners—and those who would like to be small business owners—start, grow, and succeed in their business ventures. Small businesses are vital to our nation's economic health. We know that small businesses create currently two out of three net new jobs and account for nearly half of America's overall employment. The Seattle District covers most of Washington and Northern Idaho and is one of many district offices across the U.S. We help entrepreneurs with what we call the three “C”s: capital, contracting and counseling. And tonight, we're addressing capital. Through our district office, an extensive network of resource partners, SBA offers hands-on training, mentoring, and expert advice tailored to your needs. Business counseling through our resource partners is free, confidential, and unlimited. We hold monthly briefings at our Seattle downtown office and our Spokane branch office on many topics, including how to obtain an SBA guaranteed loan and how to contract with the government. And I provided you with some—a flier of the workshops that we're offering for November. Our Online Learning Center at sba.gov is also available around the clock so you can explore our tools and take free training courses at your convenience. Every large business started as a small company, and we've helped some of the most recognizable brands along their journey to success—FedEx, Apple, AOL, Ben & Jerry's, Nike, Chobani, and JetBlue Airways, just to name a few. Locally, we've helped Mud Bay Pet Supply Store, Cougar Mountain Cookie Company, KuKuRuZa Gourmet Popcorn, Janell's Gluten Free Foods, and Top Pot Donuts. Do those sound familiar? Yeah? OK. SBA is poised to help at any stage of your business from writing a business plan, to securing working capital, to exporting your products overseas. SBA stands for more than the Small Business Administration; it also stands for: smart, bold, and accessible. Stay connected to us at sba.gov/wa. We are your small business resource. I'm going to close right there and just go ahead and move on to our panel.

[00:11:32] **Mimi:** We've got a wonderful array of financing experts here that are going to talk about the different products and services that they offer. So, I think what I'll do is start on the other end with Jamie Sherbondy. And I want to let you all introduce yourselves and talk about what your organization does, what your limits are for your dollar values for what you provide, and also, maybe, talk about a project that you're currently working on that sort of exemplifies what you're—what you do. So, let's start with Jamie. Thank you for coming.

[00:12:12] **Jamie:** Hello my name is Jamie Sherbondy and I work at Evergreen Business Capital. We are a Certified Development Company, and that is a designation that we get from the SBA to underwrite and service SB 504 loans. So, the 504 loan is a loan that we will partner with a lender so that you can buy, generally, a very large either piece of equipment or a building for you to operate your business out of. The lender will generally take about 50% of the loan; we'll take about 40%. We pair up together and it will offer you a financing solution that you may not be able to qualify otherwise, generally, because you don't have either enough of a down payment or you need to use the cash that you have towards working capital versus making a down payment for a loan. We've been a CDC for about 35 years. We've been doing the 504 program for 35 years. We've also recently expanded into a different SBA program called Community Advantage, which is a 7(a) product which essentially does everything but real estate. So, it's your working capital, it's your inventory purchases, your debt refinance, and things that the 504 loan can't do. We also have the USDA World Loan Fund that targets underserved rural communities for business financing. So—and I administer the community advantage and the USDA World Loan Fund for Evergreen.

[00:13:30] **Mimi:** So, is there a project that you're working on that kind of—is sort of an example of how you've helped people with their businesses?

[00:13:38] **Jamie:** Well, I'll say that the last one that we funded was for $26,000.

[00:13:45] **Jamie:** It was one that a bank—or multiple banks in the Spokane area declined because the loan amount was too small, and the credit profile of the borrower was too weak. So, they weren't willing to do 100% financing for $26,000 to buy equipment. And the Community Advantage program, in particular, is a little different than a standard 7(a) program that you can get from a bank because we are there intentionally to take more risk and lend where other lenders may not, even with the mitigation of an SBA guarantee. So that's probably one of the weird ones that we've done lately.

[00:14:22] **Mimi:** Thanks.

[00:14:23] **Mimi:** I think—Paul, we'll start—we'll go to you next. If you don't mind talking a little bit about what the 7(a) loan—we heard “7(a),” that SBA guaranteed loan program—if you can also talk about that as well.

[00:14:37] **Paul:** Sure. My name is Paul Sabado. I'm with Kitsap Bank. And there are a number of banks in the community that provide SBA loan services for you. So, you could look at the banks—you can call the SBA and they'll direct you to different banks in the area. We've been involved with

SBA financing for many, many years. Kitsap Bank is about 106 years old. So, it's been around a long time—that most of the banking that from Kitsap Bank has been over on the peninsula side. But in the last five years or so, we have been working our way through Pierce County, and now into King County, also. So that's a little bit about the bank. The SBA programs—it is a little bit humorous sometimes when you think about government programs because they have this alphabet soup kind of mentality of what they name everything. The 504 program that Jamie was just talking about is one of the mainstays of the SBA programs. The other one is the 7(a) program. Why they call it that, who knows or who cares? But it just is a way of designating the type of program that they are using.

[00:16:01] **Paul:** The 7(a) program basically gives a guarantee to the bank to help the bank make more loans to borrowers who may have some sort of shortfall in the regular things that we would be looking at from a banking standpoint.

[00:16:21] **Paul:** So we are able to stretch a little bit further to businesses that are either just new—and new is considered within two years—so that they're newer on the spectrum or they may not have as much capital as in a regular banking situation that we look at.

[00:16:43] **Paul:** So, there are certain reasons why the SBA will help us out and give us a guarantee so that helps us lend to more businesses. By doing that, it helps create an economy that is much more robust than if the SBA wasn't around. Once in a while, you might hear things like, "The SBA will run out of funding." This is something that almost happened this last year.

[00:17:15] **Paul:** The government year is a September 30th year-end. And sometimes, I think I can remember—the last time might have been, like, five years ago or seven years ago—when there was another funding issue.

[00:17:32] **Paul:** But Congress did pass an emergency funding and so that did fund it. It's a little bit unlike the EXIM bank right now—if you have been keeping up on that—the EXIM bank did run out of funds and the Congress has not refunded them. So, it is standing there waiting in the background.

[00:17:57] **Paul:** So, that's a little bit of the background of it. The SBA 7(a) program—what it helps us do, is make loans for many different purposes—for a different business. And that would include working capital loans. That will include equipment loans. We can help finance even the receivables and inventory, and we can also go into the commercial property of a business. So, it has the full spectrum of short-term financing all the way to long-term commercial real estate financing. The advantage also is with the terms that you'll see within a 7(a) loan because it is a true—if you were looking at the longer term areas of equipment financing or of commercial real estate financing—it's a true long-term loan. If you haven't been involved with commercial loans with your bank recently—and long-term loans—you may not know that, oftentimes, what they have is—they'll have an amortization of the payment that makes it look like it's a long-term loan, but it has a shorter term cut off on it and you have to look at another renewal every five years—sometimes seven years—and sometimes 10 years. The SBA loan will allow us to go to a full 25 years on the commercial real estate, as an example.

[00:19:35] **Paul:** So, those are some of the things that are advantages to the bank that helps the bank lend more money to different businesses.

[00:19:47] **Paul:** One of the recent deals that I'm working on right now is up in Mount Vernon—there's a surgical center, an implant center for dental work—and he purchased his practice. He came out of the service, so he was a vet. He was a captain in the service and a surgeon—an oral surgeon in the service. He wanted to go into private practice, and so he purchased an operating business—a dental implant, surgical business—up in the Mount Vernon area. And he purchased that about a year and a half ago, or so. He's been operating out of the same facility that they had up there, and he bought the practice, but he didn't buy the real property. So now what he's doing—he's become very successful up there and he's looking at purchasing the real property up there, too. So, we can look at an SBA loan for him and it could be either structured as a 504 loan or a 7(a) loan, where we're going to help him purchase that commercial property that he's operating out of.

[00:21:06] **Paul:** So that gives you one example of a current deal that I'm working on.

[00:21:11] **Mimi:** Great. Thanks, Paul.

[00:21:13] **Mimi:** Oh, and by the way, if you come up with any questions—feel free to ask questions. We hope this to be interactive. And if you're at all confused, please— Yes, there's a question here? **Audience Member:** [inaudible/off-microphone]

[00:21:27] **Mimi:** Did everyone hear that? Yes? **Audience Member:** [inaudible/off-microphone]

[00:21:30] **Mimi:** What's a lift? Is that equipment or inventory? Who wants to take that? **Paul:** A—the equipment or inventory of—is—

[00:21:39] **Paul:** I didn't catch that part of it. **Mimi:** A lift for an adult home—a family home.

[00:21:45] **Paul:** Yeah. That would be equipment. And there are a number of adult family homes that we have financed—and many banks have financed—through the SBA products.

[00:21:54] **Paul:** But that would be equipment. Right.

[00:21:58] **Mimi:** And so, I think that brings up the question—504 is for capital-type improvement, so— Right? And then 7(a) is for the other— So, can you give examples of what a 7(a) loan can cover?

[00:22:15] **Paul:** Sure. When I said working capital, and accounts receivable, and inventory—those, to a bank, they are considered more of the soft assets because they're not long-term. They don't last a long time. Even with a receivable, it may be a term that's 30 days for payment, and so although the accounts receivable they'll have in total might be $100,000, it's always turning every 30 days or so. And on the 504 side, they're not doing

[00:22:52] **Paul:** that type of financing. But on the 7(a) side, we can do the working capital needs and the—as some of us call it—the softer assets. **Jamie:** And equipment for the 504—

[00:23:06] **Jamie:** there's loan limits that we can't go underneath. So, our 40% portion of a loan can't go under $50,000. We generally don't like doing them under $100,000, because the fee structure doesn't work very well for the borrower. But it's going to be equipment like a printing press or a brewery— something that costs two—three—$400,000 and up. If it was something like an adult family home, where you're purchasing the real estate and there's a little bit of the shorter-term equipment in there, we can't include that in the 504. But they get specific on the percentage of the shorter-term equipment versus the big. I mean, there's rules to it, but if you can't put it into a 504, then generally you can get a 7(a) to pair with it for that type of thing.

[00:23:54] **Mimi:** Thanks. So, the distinction—which is—the 504 is really for large capital and for commercial real estate purchases. **Jamie:** Yeah. **Mimi:** How about Edwin? Let's— Thank you very much.

[00:24:07] **Edwin:** Good evening, everyone. My name's Edwin Rios and I work with Mercy Corps Northwest. So, Mercy Corps is a community development financial institution. We're structured as a non-profit organization, and we're non-depository, so we don't function in the same way as a bank does. Essentially, the main product and focus that we do are the SBA microloans. For existing businesses, we're talking from $500 to $50,000. For startup businesses, it goes up to $20,000. So, we're talking one or two-people size businesses—food trucks, food carts, home-based businesses, bookkeeper's—the list can go on. And our main focus, really, is working with entrepreneurs who wouldn't normally qualify for traditional financing, or maybe some of the other SBA loan products, for numerous reasons. One of them might be that they just don't need that sized capital, or that there's been no-credit issues—no-cash-flow issues. So that's primarily where we've focused on. And to kind of highlight what we spend most of our time doing, especially with a startup business—which it seems like almost everyone in here is in that profile—is really looking at your business plan and all the aspects that go into it—What's your experience? What training have you had? Your financial projections? And not just whether those projections are feasible or not, but—What are your assumptions behind those projections? Do you understand the relationship between how your cost of goods sold change over time as your sales increase? I've worked with some six-month-old businesses that—

[00:26:12] **Edwin:** they actually lose more money as they make more sales, which I think is strange, but that's something very important to really get right from the beginning, because if you don't, you can exacerbate an inefficiency by trying to grow sales. So, that's really where we focus a lot of our attention—on the business planning aspect. Let's see, one recent example—a loan that we just closed—it's a home-based business. She sells herbal and tea products at farmer's markets, and she needed about $7,000 worth of equipment to be able to produce in higher volumes. She just started getting into wholesale with New Seasons—she's talking to Whole Foods and some co-ops—but without that equipment, she wasn't going to be able to meet that demand. And so, the next step now—in about a year or two, she wants to go into a warehouse. So, this first loan, even though it's small—I kind of think about it as stepping stone for the next project, which would probably be somewhere around 12—15,000 to get into the warehouse, and then really start taking advantage of those wholesale accounts. And I'll conclude there and open up for any questions about the microloan program.

[00:27:33] **Mimi:** Do you have a training component to your program as well?

[00:27:36] **Edwin:** Not in Washington at the moment. We're based out of Portland, so we do have training programs there.

[00:27:43] **Mimi:** But do you have a technical assistance type—

[00:27:46] **Edwin:** Not here at the moment. **Mimi: H**ere? **Edwin:** No. **Mimi:** OK. **Edwin:** Yeah. We have an online portal we connect with called MicroMentor that grew out of the Mercy Corps program.

[00:27:56] **Edwin:** But other than that, it's mainly just— **Mimi:** Great. Now we're going to move to Lindsey.

[00:28:01] **Lindsey:** Hi, Everyone. So, I'm going to quickly poll the room, but I promise not to call on anyone. It's just helpful for me with my explanation. Who here's heard of a Kiva loan? Ooh! How about a kick—that was great most of the time I get one—and how about a Kickstarter campaign?

[00:28:22] **Lindsey:** OK. Awesome! That was mostly everyone. Yea!

[00:28:25] **Lindsey:** OK. Super! So, I work for an organization called Community Sourced Capital. And what we do is we take that idea—the crowdfunding model—that many people can come together to create a pool of money—and we apply that to loans. So, everyone else at this table has a pool of money that they decide they lend out to people. We don't have that. We don't have a pool of money. We're just a facilitator between the community that lends you small amounts of money. So, the way we work is we have a crowdfunding platform where a small business can raise anywhere from $5,000 up to $50,000 through that model. So, say, for example—one of our people that we worked with is Pocket Bakery. So, Pocket Bakery was a pop-up bakery. You know—intermittent sales—hadn't been operating for very long— The community loves it—community follows him on social media wants to find out where he's bringing his baked goods and is super excited to support him in starting a bakery.

[00:29:30] **Lindsey:** But the lenders are—it's like—doesn't meet all the requirements that you would need for a bank loan.

[00:29:37] **Lindsey:** So, what he did was he launched a campaign on our site. He needed $40,000 to open a bakery. So, he had 30 days—reached out to his friends, his family, social media, handed out cards whenever he did a pop-up shop for the bakery, and was able to raise the funding through our program. One of the really cool things that we do is we have a matching capital partnership. So—for—normally when you run a crowd sourcing campaign, you need—every dollar that you get, you have to raise from someone. We have two matching capital partnerships right now—one with Craft3, which is a community development financial institution—and one with BECU, and Seattle Bank, and the Office of Economic Development. Here in Seattle, where you only have to raise half of the amount of money you need—so each $50 someone lends you actually means $100 for your business. So, that's pretty cool. And Josh with the Pocket Bakery actually participated in that program. So, he actually only needed to raise $20,000 and then got a $40,000 loan, which was pretty great for Josh. Yeah.

[00:30:44] **Lindsey:** So, our campaigns are month long. Business—all the individuals—they lend you—the loans are 0% interest. So, you're repaying your community. There's no rewards. You don't have to create T-shirts, or print mugs, or anything. So, each month you repay the loan and it goes back to all of those community members—all those people that follow you on social media and buy your products. We don't charge any interest. We charge flat fees for our services. So, what we do for you doesn't change based on how much money you borrow. So, it costs $250 to launch a campaign. And then for each month that you're repaying the loan, it's $50 per month. **Mimi:** Do you have an example of— **Lindsey:** So, I used pocket bakery— **Mimi:** Oh. That pop-up bakery. **Lindsey:** Yeah. But we've done New Flowers. They also built a bakery. We've helped breweries buy more tanks. We [unintelligible] out Pizzeria Gabbiano down in Pioneer Square. Yeah. Convoy Coffee—you might see them at Farmer's Market. So, it's a lot of tangible projects because basically, your community—they're not getting any interest back.

[00:31:55] **Lindsey:** They're not lending you $50 so that they can make $3 on interest. They're lending you money so that you can grow your business, and they get the value of your growth. So, when you can say to someone, "Oh, we need to put in another pizza oven so we can sell more pizzas.”

[00:32:13] **Lindsey:** And as a pizza consumer, you say, "Heck, yeah! I want there to be more pizza.” And so, then they see the value. So, it's a lot of tangible projects so people really understand what their money is going toward. Yeah. Absolutely. Yeah.

[00:32:27] **Lindsey:** So, Kiva is the closest thing to what we do. Kiva.org does international microloans.

[00:32:34] **Lindsey:** So, if you ever heard of someone lending $5 to someone in Ghana who's buying a goat to sell milk—

[00:32:43] **Lindsey:** So, Kiva has launched a domestic platform called Kiva Zip, where they're doing domestic microlending. They're—they are basically—they—

[00:32:55] **Lindsey:** those loans go from—I don't even know if there's a minimum—but they go up to $5,000. So, we come in at $5,000. So, Kiva does up to $5,000—if you repay that loan, you can then borrow up to $10,000 through their site. And—I think one of their—

[00:33:21] **Lindsey:** you have to have like 10 people. A certain number of people have to contribute to your campaign before it can go live on the site. What's different between our two platforms is Kiva is a really big international platform—people buy gift cards— And so, sometimes people get money lent to them that are from people that they don't know. Whereas, on our site—on Community Sourced Capital—it's mostly people that know and love the business that participate. So, for us, 90% of the money comes within 40 miles of the business. I don't know what the statistics are with Kiva. We're a trustee of that site, so if that's something that you're interested in, we can help you—walk you through the process, as well. So, they don't have—we have—I'm here, boots on the ground—we have someone in Portland. Kiva—I don't think has anyone here in Washington.

[00:34:12] **Mimi:** Thanks, Lindsey. And now we move to Steve.

[00:34:18] **Steve:** All right. My name's Steve Nilssen. I'm with Guidant Financial. I actually started at Guidant in 2004. Last year, alone, helped about 120 entrepreneurs access $21,000,000 of capital for their small businesses. Just so you know who I am—I actually majored in Chinese and Geography. So, in addition to financing a small business, if you need to find China on a Chinese map, give me a call and I might be able to help you out there. Guidant, itself, we've been around since 2003. We've helped about 9,000 entrepreneurs invest four billion into their small businesses. One thing we're proud of is our clients have actually gone on to employ about 60,000 American workers across the U.S. And year-to-date, we've actually funded over 13,000 businesses across the country. Now, what we're really known for, and what we've made a name for ourselves in, is in our rollover for business startup product. And this is a way that you can actually access some of your retirement funds to directly invest in your own business. So, much in the same way that you can currently take, let's say, 50 grand or a 100 grand in your retirement and purchase Apple stock—and if Apple increases in value, you're going to make money; if they decrease the value, you're going to lose money—you can actually do the same thing with your own privately-held corporation through this structure. The way we do it is we actually set up a C corp. It is required to be a C Corp. LLCs

[00:35:34] **Steve:** don't have stock, and S Corps have the wrong type of stock. So, by default, we do have to go with the C Corp. We then create a 401K plan. We have you take your existing retirement funds—roll them over to the new 401K. At that point, the 401K invests in the corporate stock and actually becomes a shareholder in the business. And then, that cash goes to a local corporate checking account which can be used for any business purposes. Really, the key here is that, again, it's an investment because you're doing it in the structure. There are no early withdrawal penalties and there are no taxable distributions. If your business increases in value, your shares will increase with it. So, if you invested—let's say—100 grand in retirement and your business doubled in value and you sold it for 200, then you'd have 200 go back tax deferred into your retirement account. Your biggest risk is the flip side. If your business doesn't do well, you could—you are risking that money and there's a potential to lose it. Although, generally speaking, if you do lose it, you're not going to lose all of it because you'll sell your business at a loss. One story with that specific product that we had recently—I had somebody looking at a martial arts franchise out of New York and he was really excited about it, but he kept going to different banks and getting denied on loans because he didn't have a lot of outside income and he really just didn't have a lot in cash reserves.

[00:36:50] **Steve:** And that was kind of the big sticking point for most of the banks. But what he did have was about 180 grand in retirement funds. So, I spoke him a bit more in-depth. He was looking for a total project cost of 220 to get it up and going. What we did is—we actually had him rollover his entire amount into the business. So, he rolled over 180,000, but he only used 75,000 for the business itself. The rest he just kept in his checking account. But now, because he had it in his checking account, the bank counted it as cash reserves. So, we were actually able to secure him a 7(a) SBA loan on top of that without him having to risk a significant portion of his retirement. And then he got really excited once we're able to do that, and he decided he wanted to actually do what's called a 3-Pack in franchising, where he's purchasing multiple territories up-front. So, we talked a bit more and we were able to get him an unsecured loan on top of that to be able to do that. So, that was one of the most exciting things that we've had recently. In addition to the retirement rollover, we do quite a bit with SBA lending as well. We do work on the SBA 7(a) loan—

[00:37:54] **Steve:** in fact, I have one person I'm working with right now that's coming to the office on Thursday—he's doing a startup for about $1,000,000. He's planning on using about $400,000 from his retirement funds and then getting an SBA loan through Kitsap Bank. We also do portfolio loans—and this is a way that you can actually borrow against money you have invested in the stock market outside of retirement funds. So, let's say you have $85,000 or more invested—you can borrow up to 80% of that at interest rates usually between 3 and 4%. I've seen them as low as 2%, but it's really rare they go that low. What's nice is it's a revolving line of credit. So, it's a way that you can borrow against your own funds. It's an interest-only loan. You can use it over and over again. And there is no specific payback window. And then we also do things like unsecured loans, which is—it's a higher interest loan, but usually you can borrow up to $100,000, and all you need is good credit to do this one. The upside is it's 0% interest for the first year. The downside is it's going to be significantly higher after that. I've seen anywhere from 10 to 20%. So, not quite “loan shark” yet, but it's pretty high. So, I usually recommend saving that for kind of a last option.

[00:39:09] **Mimi:** Thank you, Steve.

[00:39:11] **Mimi:** And last, but certainly not least, we've got Roland.

[00:39:15] **Roland:** Well, I'm Roland Chaiton with Community Capital Development, and we are also a CDFI: Community Development Financial Institution.

[00:39:25] **Roland:** So, quickly, a word about what those are, because there's about 12,000 of them around the country. Most of them are not-for-profit organizations. They're like alternative banks.

[00:39:38] **Roland:** They came into their heyday through the Clinton era when a lot of money went through the Treasury Department into the subagency community development financial institutions. And that's how a lot of these places got the money that they used to make their loans with. And so, that spread out a lot of government funds throughout the country so that this type of work could go on. So, people who are turned down by regular commercial banks because they can't quite meet their criteria—especially when they're startups—they can approach the CDFI world and oftentimes get financed. And that organization gets—well that agency gets lots of money every year and it goes out to a lot of those members in the organization—the ones that have been approved, who have to compete for that, and—through grant processes—and that's how they get some of their capital every year. They get capital for lending. They get capital to provide technical assistance. And every year they all get together in a different city and talk about how they're doing. This year, that's going to happen in Detroit in a couple of weeks.

[00:41:00] **Roland:** So, we are one of the CDFIs, like a couple other organizations at this table, and we do come in where the banks sort of leave off. We also are pretty heavy in the government side in terms of we do SBA lending, we do microlending, we do the SBA 7(a) program, we have some USDA programs, and several others. Our capital comes from government sources, it comes from foundations, it comes from very large banks that are required to invest in their communities—and they do that by actually investing in CDFIs, at times, with very low interest, long-term loans, which those organizations can then get out into the community. It's sort of like getting the money wholesale and going out at the street retail. So, what's retail?

[00:41:57] **Roland:** Retail is somewhere around nine—nine and a half—10% for us on most loans, except for the SBA 7(a) loans—which the SBA will set the interest rate at a certain amount over prime. And so, a lot of those may be coming in at five and a half to seven and a half percent by the time they get on the street.

[00:42:24] **Roland:** We cover all of Washington State. We provide technical assistance as well as funding. So that means that you can meet in-person with someone from our staff, or you can do it virtually, or you can attend one of our classes and learn—take entrepreneurial training and learn how to put together a business plan, a financial plan, marketing plans, et cetera—the whole package that you need to get financing. People that come to us sometimes just need the technical assistance. Other times people need more—they need all the way to getting the financing. And sometimes, we get called in by other organizations to provide the piece of financing that might be missing in a project. This happens frequently where the project might be in the level of several hundred thousand dollars, on up to maybe $1,000,000, and they've gotten finance in their part from the borrower, part from one or more different agencies, and they still don't quite have enough. And we might get called in to be a part of that. One of the larger ones that we did in that arena was around a $900,000 project up in Whatcom County. We were the last ones in with a $200,000 piece. There were seven different entities in that finance. So, we can do that, and we can do smaller microloans, like one I'm working on right now, which is to a service-disabled veteran who has a 40% disability. But he's worked himself through all of that. And he's a professional trainer-type—a fitness trainer—and he's starting his own fitness studio and he needed the money for equipment to launch into a particular market that fits for an area that's not being served well enough for the fitness community

[00:44:38] **Roland:** enthusiasts there. So, that capital will be maybe 40,000, if I remember right. That's a microloan. Anything under $50,000 are considered microloans. This particular one will be under the SBA microloan program.

[00:44:56] **Roland:** So, we've got quite a gamut that we can run. Our loans go from around $10,000 on up to 250,000, sometimes a little bit more. And at that point, if a project needs more capital in there, we're usually partnering with other agencies, whether they're a co-op, another CDFI, or some other institution—economic development institution—and government lending program. We've done a couple of programs with Pierce County—they have their own loan program—in order to get to higher dollar volumes for our clients. It seems that once we get to a project level that's over $1,000,000, one bank sort of comes in and takes the lead and takes over on that. We've also turned over some smaller projects—well, I should say it this way—some companies that have worked with us for a while, that have done very well, have gone on to graduate to either banks, or other CDFIs, or members on this table.

[00:46:06] **Roland:** One group that's not here right now—[unintelligible] I don't think [unintelligible] Craft 3—

[00:46:11] **Roland:** they do also similar CDFI-type of lending. But they go

[00:46:18] **Roland:** from—say—20—$30,000 on up to $5,000,000. So, one of the clients that we worked with for quite some time now needed more capital—we told that client about Craft 3 and now they're a client of Craft 3 and of us. So, they moved on and have been able to leverage that way.

[00:46:41] **Mimi:** Great. Thank you. At this time, are there any questions that anyone might have?
Audience Member: [inaudible/off-microphone]

[00:46:46] **Paul:** The 7(a) loans for startups, generally—what we look at doing, and what a lot of banks look at doing, is—they'll have a minimum size. Our minimum size tends to be around $100,000 or so and we can go up to $5,000,000 on the 7(a)-side. Outside income—that's something that we will look at and that adds value to the deal that we're looking at, but it's not necessary that you have to have outside income. There are a lot of businesses that have been operating for two years or more, where they work fully within the business itself, and as long as the cash flow can be shown in that business, then we're more than happy to look at it that way.

[00:47:37] **Steve:** If I could jump in on that as well. Every bank’s going to have a little bit different of a policy on this. One thing he's talking about is—Do you have other strong mitigating factors? So, if you don't have any outside income, but you have $1,000,000 in a checking account, it's going to look good. If you have direct industry experience in the startup that you're going to be going into—no outside income, but really low household expenses—then there's a good chance that they might build a secure a loan. So really, if you're going to be weak in any specific area that the SBA—that banks are looking for, you want to make sure you're very strong in another area to mitigate that.

[00:48:15] **Roland:** So, add one more piece to that. If you don't have lots of equity—if you don't have a lot of other income coming in, but you've got a strong network of loyal supporters, you can always go the

[00:48:35] **Roland:** route that Community Sourced Capital has with their program. But you can also use those same supporters to become guarantors on a loan. So, maybe some of them can put up collateral. And even if they're—if not, if you have enough of them and they can all guarantee a certain amount—if you needed a $40,000 loan and you had 40 people who were good for $1,000, there's your $40,000. What's the risk to us? Well, one or two of them might drop out if the whole thing blew up. So, we're going to cover 38. We covered 38,

[00:49:16] **Roland:** so, our risk is two. Are we going to do that? Probably. So, you've got to be creative.

[00:49:24] **Mimi:** So just to back up a little bit—if you're looking for a loan for your business, in general, what we recommend is that you go to the financial institution in which you normally do business, because they're the ones that are going to know you and know your patterns. And if, for whatever reason, you get turned down by them, you can always go to a different financial institution. On the website—on the home page at sba.gov/wa, when you scroll down the bottom, there's a list of SBA lenders. And we also have a list by what's called NAICS Codes—which is the North American Industry Classification System Codes, which is the code that's assigned to the type of business that you define yourself as being or doing—and you'll see which industries get the most dollars in terms of loans from the SBA. The SBA doesn't really loan the money. What we do is we guarantee or back the loans. That makes it easier for the banks to borrow—to lend money to you. Does that make sense? Right. So, we don't have the money unless it's disaster—that's a different case scenario. But it's the banks or the credit unions that you would go to that—as your first start to get a loan. And we've got the CDFIs, but we also have credit unions and banks such as Kitsap, which is where Paul is from. So—and then we've got—which you can you appreciate—and I think Lindsey wants to drop in on this—that we have—there are a lot of different other options. You don't need to actually—what Steve is representing is he can also do a rollover of your retirement funds. And then Lindsey's talking about a crowdfunding-type platform. So, you want to go ahead and jump in, Lindsey?

[00:51:29] **Lindsey:** Oh, I just wanted to jump in on the idea of going to your depository institution first. The place where you do your business banking, they're a little bit incentivized to be lending because they're making money off your deposits. So that's a place to have that first conversation. But sometimes those places—if you bank—for example—Bank of America. Sorry [unintelligible] that really likes them. But they're—they have really strict lending criteria because they're this big corporate entity. Right? They don't know you that well. You’re sort of a number. And so, it's really great to have those initial conversations with those bankers, but sometimes it's really clear that you're never going to get a loan from them. And so, don't—I would argue don't try, because as soon as you apply for a loan and then

[00:52:20] **Lindsey:** they go in and they check your credit and you don't get a loan, then it puts a ding on your credit report.

[00:52:27] **Lindsey:** And so all of us at the table, we're all really great resources for you and you can sit down with any of us and show us your business plan and say, “OK, this is what I'm trying to do—I think I might want to buy property.” Or, “I actually only need $10,000, maybe.” Or, “I think my community would really love it.”

[00:52:45] Or, “I don't have money in the business, but I have this great retirement fund.” Or, “I think I might qualify for an SBA loan.” There’s a lot of different conversations you can have with us

[00:52:54] **Lindsey:** and then you can figure out where to go. Someone like Kitsap Bank, they also take your deposit, so you could move your deposits over to a really amazing community bank that would then take care of that and help you with your loans. So, there's lots of conversations you can have. And I would say have those conversations before you start getting your credit checked because you don't want a bunch of dings to go on— **Mimi:** Very good point. **Jamie:** Yeah. Talk to your bank, but don't sign an authorization.

[00:53:24] **Lindsey:** Yeah. Yeah. Don't sign anything yet. **Jamie:** Don't sign it yet.

[00:53:29] **Lindsey:** And then, something I forgot to mention earlier when I was talking about Kiva—so, at Community Sourced Capital, we end up having a lot of conversations about—OK. Crowdfunding. What?—So, we're actually being paid by the City of Seattle to do a free hour of crowdfunding consulting. So, if you're actually like, “Oh, I think you want to Kickstart this idea, or maybe do an Indiegogo, or GoFundMe, or a Kiva, or Community Sourced Capital—” And if you're like, “I don't know what those words are,” I'm happy to sit down with you when— There's a flier up there—they're these blueish ones. This one says, “Is crowdfunding right for you?” So, you're thinking about crowdfunding—

[00:54:07] **Lindsey:** I'm happy to sit down and go through the different platforms [unintelligible]. **Mimi:** Which is a good question. Can you talk about the difference between debt versus equity funding?

[00:54:18] **Lindsey:** Do you mean like the DPOs?

[00:54:20] **Lindsey:** Like when people are doing— **Mimi:** Like when you do Kickstarter, you—it's like you give up a little—or some kind of reward or—

[00:54:28] **Lindsey:** Yeah.

[00:54:28] **Lindsey:** So, a lot of the crowdfunding platforms out there, like Kickstarter or Indiegogo, those are our platforms for donations, basically. So, if you fund something—like on Kickstarter, someone's making a new backpack—a new special travel backpack that can't get slashed, for example—you could use Kickstarter as a way to presell your product. So, you get the money in, you develop the product and then you deliver the product later. It's—those types of sites are really, really great when you need the money now to develop your thing. And then it's pretty cheap for you to deliver on that reward. So, think about a musician recording an album that costs a lot of money upfront. But if you're just sending out the download, it doesn't cost very much to deliver. So, something like Kickstarter can work really well for projects like that.

[00:55:19] **Lindsey:** So, those sites—you basically entice people to give you money that you don't have to pay back. You get it and it's basically free. Kickstarter takes a chunk, and the credit card company takes a chunk, and then you spend some of that money actually delivering on the reward. So, it works awesome if you're—if you have that product and you're just trying to get money upfront and then you can deliver on it. Sometimes it can be more challenging, though, like if you are making pizza. You're the pizzeria and you want $10,000 to build out a patio, or something. On a site like Kickstarter, it can be challenging because you have to offer some sort of other reward. So, you have to get T-shirts printed, or you have to get—maybe you could give out gift cards, or something. But sometimes those rewards take away from your core business. So, then all of a sudden, you're not making pizza. You're getting T-shirts printed and then writing thank you notes. And sometimes there can be a disconnect there. So that's when other sites like us can come in and be really useful. But especially since it sounds like a lot of you are getting started, those gifted money platforms are really great because it's money that you get. You can test the market and you don't have to pay it back. You don't have anyone— We still offer out— You know, there's a promissory note that you sign.

[00:56:41] **Lindsey:** We don't take any collateral. But still, it's a loan. But something like Kickstarter—if you could use that to get money given to you—it's—

[00:56:53] **Lindsey:** you don't—you're not on the hook for it if it doesn't work out. So— **Mimi:** So, what happens if you do a Kickstarter campaign and it fails, for example?

[00:57:02] **Lindsey:** So, there's a couple ways to fail, unfortunately. So, one way to fail is you don't hit your minimum. So, sometimes you don't even get that amount of money that you set. So, if you don't—if you get the money and you can't actually deliver on those rewards—nothing happens to you. It's just sort of bad from a brand perspective.

[00:57:27] **Lindsey:** So, you've probably seen, if you follow Kickstarter news, there's a—various different Kickstarter campaigns where people have raised money and not been able to deliver.

[00:57:39] **Lindsey:** And sometimes it results in really bad press. You know, in any of these situations, transparency is really great. When you're then—if you exhaust all of your options and you're just, "I totally messed up. There's no way to make an unslashable backpack." Whatever.

Then, explaining what you went through, and trying to help other people understand what their money went to—that's really important. So, I think a lot of this is really built on trust.

[00:58:06] **Lindsey:** And the more transparent you can be with people so that they understand—These are humans. We're all people lending to other people—the more you can create a human interaction, the better off you'll be. **Mimi:** So, go ahead. Someone had a question? **Audience Member:** [inaudible/off-microphone]

[00:58:24] **Lindsey:** So, the question is—if there's a disconnect between—if you were to run a Kickstarter campaign, the people that support your campaign are the people that are buying your thing. So, in this example, if you are providing a service to a business, for example, there isn't a lot of incentive for individuals, necessarily, to be contributing to a Kickstarter because they're not going to—ideally, you're not going to be the beneficiary of the service where, like, medical waste is

[00:58:53] **Lindsey:** processed. Right? That's not something we think about in our daily lives.

[00:58:57] **Lindsey:** So, we've actually done a campaign like that for—

[00:59:00] **Lindsey:** we did a campaign for a new software for music teachers. And so, a parent of a student wouldn't necessarily support a Kickstarter campaign for this music software for music theory because they are not going to use it unless their kid—their teacher—their kid's music teacher is using the software.

[00:59:24] **Lindsey:** So, we actually did a campaign for Linus where the business—this campaign was funded by, basically, music teachers all around the United States who were saying, "Yeah. I want this in my classroom. I'll lend you $50 to make this happen." So, in your example, you could run a campaign through someone like us, and then use your network of health care providers to then support your campaign.

[00:59:50] **Mimi:** So, Roland, did you have something to add to that? **Roland:** So, as you'll start to see, not all of the business ideas fit for all the resources here. That one is a stretch. Sorry. But it is.

[01:00:05] **Roland:** But we have actually funded that exact business. And in fact, we did it because SBA came to us and said, "We have somebody who wants to run this type of business and they need financing to keep it going." And there were not that many people doing this because it's got some danger to it. And also, you have to be very specially trained to do this properly, for your own protection as well as the protection of the community. And they had come to us with a client who fit those parameters—who was doing this business that needed to expand it, et cetera, et cetera. That person had some challenges, themselves. We were able to find a way, utilizing the SBA 7(a) program, to get them financed. We're looking at another one now that may go that route. And then it may be that the people—there's more than one person involved—have enough personal resources that they can put some of those resources into—

[01:01:17] **Roland:** instead of investing them into the business, they'll put them into a bank CD—a certificate of deposit, like a long-term savings plan—and then they will pledge those CDs as support—collateral support for their loan. So, we will take a lien on the CDs and then give them the money from our other sources. And that way, we're collateralized against the CDs, not against the business equipment, although that would be secondary as well. But the primary collateral would be the bank CDs in this case, and it will be probably 80% of the loan, and maybe a little bit less. But then, they'll get their money. If the bank CDs were much less, then we might need to bring in an SBA guarantee. So, the combination of the CDs, the SBA guarantee, some personal guarantees might be the capital that's needed here. So, each situation we have to look at uniquely, individually to see what fits. And sometimes we can make it work, and sometimes we can't.

01:02:31] **Mimi:** Great. Thanks. Any questions [unintelligible]? **Audience Member:** [inaudible/off-microphone] **Mimi:** "Amortization."

[01:02:36] **Paul:** "Amortization" is the loan payment.

[01:02:40] **Paul:** And so, if you take a loan of a certain amount—let's say it's $100,000—and you make that be repaid over only three years, versus making it repaid over 10 years, then it stretches the amortization out and lowers the payment down. So that's what you want to look at. And there are some loans where they will say that it is a 10-year amortization, but it might only be a five-year term on it. So, what I was saying is at the end of five years, you have to redo the remaining balance on that loan because there will be a remaining balance still.

[01:03:25] **Paul:** And then—let me respond—one thing up here, too, about industries—the SBA programs and the banks and the nonbanks that are up here—we all look at—very much so—the different industries. But you can go on to the SBA website and look at the different industries that use the SBA programs.

[01:03:50] **Paul:** And some of the most popular ones are restaurants—the full-service restaurants and limited-service ones.

01:03:57] **Paul:** Limited-service ones are generally fast-fooders. That's what you should think of when you think of limited-service restaurants. Hotels and motels,

[01:04:08] **Paul:** gas stations with C store—and a C store is a convenience store, because back in the old days, like when I was around, that—the gas stations had some sort of mechanic, or something like that, that was operating out of it. But nowadays, that's not the case. They're selling food. They're selling potato chips and soda and stuff like that. And that's the convenience store part of it. So, it's a gas station with C stores, auto mechanics, the interiors of autos, the body shop, paint shop—any of those—auto mechanics, professional practices—that would be dental practices, veterinarians, law firms, and CPA firms, and contractors—all kinds of contractors—remodeling contractors, home builders, and stuff like that.

[01:05:02] **Paul:** So, it's a full range of different industries that use SBA loans.

[01:05:11] **Mimi:** Thanks. Anything else up here? **Audience Member:** [inaudible/off-microphone]

[01:05:14] **Paul:** Yeah, it's more the latter, where you are going to have an even payment. What you can do is you can uneven the payment and let the principal pay back fast enough so that you would be halfway through it. But most people want to save their cash flow and they want to lower their payments and even out the payment over the time, which will cause that.

[01:05:35] **Paul:** Yeah. **Mimi:** Great. Now, I have a question— Oh, there is one up here? **Audience Member:** [inaudible/off-microphone] **Mimi:** Fee structure.

[01:05:41] **Paul:** Sure. The fee structure on the 7(a) loan, primarily, is for the benefit of the SBA department. And that can run up to—say—three percent is a pretty common number of the guarantee portion. And so, if you had a loan that was a $1,000,000 loan and that—the guarantee was going to be a 75% guarantee—that would be $750,000. So, it might be three—three and a half percent on top of that amount—the $750,000, not on the $1,000,000. So that's the common fee. From a bank standpoint, the bank doesn't charge a loan fee like they would on a commercial business loan. What they'll charge is—they'll usually charge a packaging fee and most of the banks run around $25,000 as a packaging fee.

[01:06:40] **Paul:** And it's just a flat fee.

[01:06:41] **Paul:** Yeah. **Jamie:** Well, in fiscal year 2016, SBA has waived the guarantee fees for loans under $150,000. So, if you're borrowing below that, then that three percent of the guaranteed portion completely goes away. If you're borrowing over that—and I want to say it's 150 to 350 for veterans—it's discounted by 50%. So, you're only paying one and a half percent. So, there's different fee structures. And unfortunately, sometimes they change year to year.

[01:07:13] **Mimi:** Great. Thanks. And does it cost the taxpayers money for the SBA loan program?

[01:07:20] **Jamie:** SBA loan programs are what's considered a zero-subsidy program. So, the reason why you pay the guarantee fee, or the reason why you paid the underwriting fee—which is 0.4% for debentures and generally 2.15% percent for the whole fee for a 504 loan—is because the people that use the loan are the ones that pay into the program, so that if there is a default, that's the money that goes to repurchase the loans. So, it doesn't cost the taxpayer anything.

[01:07:50] **Mimi:** Thanks. OK. And so, I have a question—Is it necessary to have a business plan and why would I want to have one? If I want to go in to borrow some money—

[01:08:03] **Lindsey:** Yeah. So, business plans are really great because they are a playbook for what you expect to be able to do. So, it's great for us when we look at it to say, “OK, this is what this person thinks they're going to be able to do. This is how much they think they're going to sell.

[01:08:17] **Lindsey:** This is how much their rent's going to be. They think they're going to take on the loan." It's helpful for us to see it, but it's also really helpful for you. Like, I think it's even more helpful for you to sit down and say, "OK, I'm going to start this restaurant.

[01:08:32] **Lindsey:** Am I going to sell a million dollars' worth of pizza this next month?"

[01:08:35] **Lindsey:** Probably not. Like, "How much money do you think you're going to sell?" And then when you project it and you plan it all out—then when you actually start running the business—you can look back and say, "What were my assumptions about what I thought I was going to be able to do?"

[01:08:51] **Lindsey:** And, "What—how does it compare to what the—what's realistically happening?" And then you can actually have context. And then you can actually use that to help strategize your business moving forward. So—

[01:09:03] **Jamie:** Well— Yeah. And your business plan, to me, is meant to be a living document. It's not meant to be, "When I started my business, this is what I thought I was going to do—I was going to sell $1,000,000 of pizza. I'm only selling $50,000 of pizza this month, but let's hope I can make $1,000,000 next month." No. It's supposed to be revised and—and different assumptions and different market conditions— What if the price of cheese goes up? You know, that's going to change the way your business operates. I use business plans with the assumption that you're going to open your business and the next day you're going to throw it in the trash because nothing is going to happen the way that you planned it out to happen.

[01:09:39] **Jamie:** I use them in the sense of, "I want to know what you are planning to do when things go bad. So, if prices go up, what are you going to change? If you can't charge a dollar for your widgets, you can only charge 50 cents for it, what is that going to change?" It's not going to go according to plan. It never is going to go according to plan. But as an underwriter, I'm looking to see, "Have you thought about the things that could happen as you are trying to finance your business?" So, yes. I find them very important.

[01:10:10] **Mimi:** So not only is a business plan for—to help get a loan, it's also for yourself, as well, to see—test your projections, your assumptions. And that's one of the reasons why it's good to use library resources, because they can help you with what is standard for the industry and how you can put your financials together. And the other thing is that next month we'll be having a couple of workshops on business planning—two different kinds. One is the canvas or lean-type model, and the other would be traditional business plans. That's next month in November. And just check the website and then you'll get a schedule and see when we're offering that. We're offering that both here, in Seattle—right here—and also at the Bellevue public library. So just a little plug for that. Go ahead, Steve.

[01:11:04] **Steve:** If I could just jump in real quick. On our services—with the exception of an SBA loan, which you would need a business plan on—technically with a 401K rollover, unsecured loans, portfolio loans—you don't need a business plan.

[01:11:16] **Steve:** But I would also echo what Lindsey just said and agree with her that it is something you are going to want no matter which route you go.

[01:11:25] **Lindsey:** And there's lots of resources. The idea—maybe you don't have a lot of Excel background and that's really scary—

[01:11:34] **Lindsey:** There's lots and lots of resources out there. So, the library has the workshops. There's an organization called Ventures, which used to be called Washington Cash, and they have an eight-week program—it's a sliding scale cost. And I think—Does the Women's Business Center help with business planning? **Mimi:** Yep. Uh, huh. **Lindsey:** So, at Community Capital Development, there's the Women's and the Veterans Business Center. But, P.S.—they'll see anyone. And so, you can get help there as well.

[01:12:02] **Lindsey:** So— **Jamie:** And VBOC—the Veteran's Business Outreach Center. They help with business plans as well. **Lindsey:** Yeah. So—

[01:12:10] **Lindsey:** we're not just like, "Yeah. Make a business plan—something perfect—" There's people to help.

[01:12:15] **Mimi**: Right. Yeah. So just to reiterate, we've got the Veterans Outreach Business Center for those of you— Any of you who are our veterans? Any veterans? Great. So that's here—and that's a source for you. We also have the Women's Business Centers. And you don't have to be a woman to use a Women's Business Center—men can use it as well. We have SCORE, which is located with us, downtown Belltown. And then we have a Small Business Development Center, which in general, is for businesses that are already ongoing concerns. And all of those organizations, including Ventures and Community Capital Development, can provide you assistance with your business plans for free. Any other questions up here? Right here? **Audience Member:** [inaudible/off-microphone]

[01:13:01] **Mimi:** Go ahead—

[01:13:01] **Roland:** So, let me start with that one. And that is, you can come to any one of us here, and if you're at the wrong place, we're going to get you to the right place, so you don't have to worry about, "Did I get the right one?" OK. So put your mind at ease, there. **Mimi:** No wrong door. **Roland:** We're going to help you get that figured out. And if you're in the wrong place or we see a better fit, we're going to move you over because it doesn't do anybody any good to have you in the wrong place. So, start from that—

[01:13:31] **Paul:** Yeah. But let me just jump in for a second, too. Mimi mentioned SCORE. And SCORE is one of the services that are through the SBA. And they're retired businesspeople who help—who sit down with you. And that service is all free. Isn't that right? It's still free. And they will go through your business plan and they're—your financial plan and all of that. They do have—

[01:14:01] **Paul:** we were talking about financial plans and financials—that you have to put together a budget—

[01:14:08] **Paul:** and generally, you should be putting together a two-year budget. Well, SCORE has a budgeting plan where you can just plug in the numbers and it'll crank all the information for you.

[01:14:21] **Jamie:** Well, and the SCORE website has pretty extensive templates that I use pretty consistently because it helps—kind of—map things out.

[01:14:29] **Jamie:** And you don't have to necessarily talk to a counselor, or you just go to—SCORE—templates—and pick the one that you want. But Roland actually made a good point—and it's the second time that he's made it—that I want to jump on. There are certain places where all of us overlap in what we do. You know, Roland and I both have the rural loan fund with USDA, and Edwin and I can both do loans under $50,000. But we are much more resources to each other than competition, in that sense. Where if it's just not something that I can do—or I can probably do it, but it's going to be a long, tortuous process, but you know what—Roland is really good at that particular type of industry—we're going to send it over. Or refer something to Edwin. Or maybe—you're too strong for me—I'm going to send you to Paul, because he's going to give you better loan terms. So, to your question and Roland's point—you can't really pick a wrong door with one of us because we're going to try and get you to the right spot as quickly as possible.

[01:15:29] **Steve:** And if I can give an example of that—last week, Roland, sent somebody over my way who they couldn't fund. I chatted with him for about 20 minutes and found out that there wasn't really an option that we could help out with, either. But there was a way that he could get exactly what he needed, and he wouldn't have known about that otherwise. So, I was able to explain that to him, and get him exactly what he was looking for, which is about $50,000 in his bank account for only one day—which I know is kind of strange. But that's what the guy was looking for. So, we're all going to be working in your best interest so you can really just chat with us. And if there's a better option out there, well, send you their way.

[01:16:06] **Mimi:** You can see there's a lot of collaboration going on. Right over here. **Audience Member:** [inaudible/off-microphone]

[01:16:10] **Roland:** Well, it's just that I have known about that group. They were formerly known as was Washington Cash, and I personally knew the founder [inaudible]. And so, they started up as a pure model lending group. So, they can make loans where they have peers that take training and then the people in the group decide which business is going to get funded—which one do they believe has the best chance, and would they approve it? And then, they may also all be on the hook for that guy's success. So, they have to be careful that it's going to work out. So, it started off as a pure model

[01:16:54] **Roland:** and they've also graduated from that now to have some other models there where they can do a microloan program up to $35,000 thousand dollars and a smaller microloan program for $5,000.

[01:17:07] **Roland:** And they have some incubator-type activities going on—retail incubator in the Pike Place market where you can sell products. And then the food truck incubator, if you want to practice or try out your products in a food truck and see if that fits for you—if you like working in the food truck,

[01:17:26] **Roland:** if your food will sell in a food truck— Because that's a big investment. Some of those food trucks are north of $100,000 for the full built-out ones, and the smaller ones are around $40,000 to $60,000. So, before you commit to a $40,000 to $60,000 food truck, maybe you want to borrow or rent the one that Ventures has for a much lower price and try their food truck and see if it works. See if your products will sell and you can make money.

[01:17:57] **Roland:** So, they have some very innovative programs there and they have good training—technical assistance. They offer lots of courses, so you can find them on the website—but it's under "Ventures."

[01:18:11] **Jamie:** Yeah. So, I think the technical assistance providers on the panel, they do lending first and then technical assistance as a secondary thing. Ventures is flipped, where their primary goal is technical assistance, and they happen to have loan programs as well—but very good training programs. Very good.

[01:18:29] **Lindsey:** Question—so, just to make sure I got it—as an existing business, what documents do you need to provide? So, at Community Sourced Capital, we look at your last 12 months profit and loss statement and your balance sheet.

[01:18:46] **Lindsey:** And then projections for the future.

[01:18:48] **Steve:** Generally speaking, most banks are going to want to see three years of tax returns. Sometimes small businesses get really creative in their accounting. So, I like to always note that the IRS is a cousin of the SBA. They're both part of the government. So, please keep in mind that the more profit you show, the better it looks if you're going to be trying to get an SBA loan. There are other types of loans out there, too. There are account receivable loans—so, if you have a lot of money that you're waiting to come in, or you have contracts signed, you can get those done very quickly. They are both remerge loans or bridge loans. But it almost always comes down to your tax returns rather than a profit or loss statement.

[01:19:25] **Mimi:** One of the things that we haven't talked about is the five "C"s. Is there anybody that wants to mention what they are?

[01:19:33] **Paul:** Well, I can jump in a little bit on this. The five "C"s of credit—the banks use them all the time. You can go into Google and you can Google it and find out what the five "C"s of credit are.

[01:19:45] **Paul:** But generally, there are they are: capacity, cash flow, capital, collateral, and character. And let me just talk a little bit about some of them. "Character" is a very important one to the bank or all the lenders, because the person that has good character and has a pretty clean credit report, that's the one that we'll all want to help in financing in some way. So, "character" is a big one. The one that a lot of people think about is "collateral." And actually, "collateral" is a secondary one to all the others that we have. "Cash flow" is the primary one that we as lenders are all focusing on. We want to know how you're going to pay this loan back and that you will pay the loan back. And it's actually "cash flow" that pays the loan back. Not "collateral." We take collateral, of course, as secondary or backup to—and we call that our secondary source of repayment or our tertiary source of repayment—but that's not what we're looking at to repay the loan. What we're looking at to repay the loan really is cash flow. On the cash flow side, you can get into different definitions of what "cash flow" is.

[01:21:11] **Paul:** Generally, we're looking at a traditional definition, and that's "earnings before taxes, interest, depreciation, and amortization." So, it's called "EBIDA." If you want to look that up also, too.

[01:21:28] **Jamie:** And that's a different definition of "amortization," by the way. **Paul:** Yeah.

[01:21:32] **Jamie**: So— **Paul:** —than the "loan amortization." **Jamie:** —than the "loan amortization."

[01:21:35] **Lindsey:** I think "amortization" really means "divided up—how many—divide something up by a number of periods." So, whenever you're looking at "amortization," it just means, "OK. How many periods are we going to divide this up by?" So—

[01:21:50] **Mimi:** I'm going to back up a little bit.

[01:21:54] **Mimi:** If all of you got a copy of our resource guide, you'll find information there about financing as well as Ventures and many of our resources here on the panel is going to be in that resource guide. So, you want to make sure to get a copy of that before you leave today. So, let's talk a little bit about "collateral."

[01:22:15] **Mimi:** What is that and what does it mean to be fully collateralized?

[01:22:20] **Paul:** Well, collateral can be a lot of things. It can be what you're financing is the primary thing collateral-wise. And so, if you're buying a piece of equipment—and let's say that it's a manufacturing piece of equipment that's going to make widgets, or something like that—and let's say that that piece of equipment was $50,000. Then, of course, we're going to take that piece of equipment.

[01:22:45] **Paul:** But in addition to that, we're going to take all the equipment that you have—that you own—and all of the business assets that you own, because, again, collateral doesn't repay the loan. If we've thought that collateral repaid the loan, you would have a problem because you would want to buy this piece of equipment and use this piece of equipment. And if we were saying, “No, that pays back our loan,” then there would be this tug of war going back and forth of, “Are you going to use it to repay the loan or not?” So, collateral doesn't repay the loan. It's the cash flow that that piece of equipment made for you that's going to repay the loan. We're going to take it as secondary source, of course, but it doesn't really repay the loan.

[01:23:31] **Roland:** So, we get into this issue about how we phrase things—and I know I do this all the time—I say, “OK, yeah, we'll take this as collateral and take that as collateral.” We're not taking things—we're securing the loan against these items of collateral. But in in our short form, in our own jargon, amongst each other, that’s how we talk. And so, we say, “we'll take this—we’ll take that.” But what we're really doing is coming up with—in a worst-case scenario, if this loan could not be paid back from cash flow—how would you generate enough money to repay the loan? That's the challenge. That's the question. And we have to— as lenders—we have to answer this in a loan write-up, which is what we present in order to get an approval to make the loan, unless we have our own authority, and most of us don't. So, we have to actually say, “OK. If this did not work out—if you were in that group, maybe five percent—six percent of the loans that just totally are not going to work out for whatever reason—how would this money get paid back?” So, part of it might be from the earnings of the borrowers down the road in the future. But part of it might just come from the liquidation of the collateral.

[01:25:02] **Roland:** And the liquidation value of the collateral will be probably quite different than what you paid for it. It just—it goes to that immediate thought about—you know, you buy a new car and you drive it off the lot—now it's worth 30% less and you haven’t driven it but 20 feet. So, what happened there? Well, and in reality, when we're looking at collateral, people usually get into business and they're operating and maybe they go down the road a ways—a year—two years—five years—some of them might hit a real rough spot and not make it through that. At that point, what is that piece of collateral worth? What is that equipment worth? So, maybe it's a shorter timeframe—but there's going to be a difference from the book value, or the new value versus—what’s the liquidation value at this point in time? So, when we're putting together these loan write write-ups describing your plan and how this is going to work, and the type of financing that we're going to propose here, we look real hard at—what are these collateral values going to amount to at a supposed liquidation value—which would be some discounted level from the original value. And SBA actually has in their standard operating procedures some precise

[01:26:28] **Roland:** percentages that we can use to come up with what those values are. If we're not using an SBA guaranteed loan or one of the other SBA products, we might use our own in-house version of what those percentages might be. And some of it might depend on—what is the actual condition of the collateral? So, I get people to come in sometimes and they have something they want to pledge as collateral, and it looks like really good equipment. And I'll say, "Well, we could only give you maybe 50%—account it for that amount. And they'll say, "No, no, no, no, no—this is going to be worth a lot more."

[01:27:08] **Roland:** So, I turn it back over to people and say, "All right, so show me how is it worth more. Get me the eBay listing or the Craigslist listing that's showing this stuff moving at these higher valuations." And then we'll take that into consideration and get you more for your money—give you more consideration. But you've got to give us the proof. So, you've got to do the homework.

[01:27:32] **Jamie:** Well, and SBA guidelines—they specifically say that you can't necessarily make a loan—or not make a loan due to a lack of collateral, because SBA—the way that we—the ones that we look at for financing a loan through SBA is cash flow. So, if you can cash flow, even if you have a collateral shortfall, we're not supposed to decline it just on the collateral shortfall.

[01:27:54] **Jamie:** So that's where the SBA steps in and helps us mitigate the risk for a loan specific to collateral.

[01:28:01] **Mimi:** Which is kind of the whole premise for the SBA loan guarantee program. If you're a little bit light on—say—your credit, a bank can do an SBA back loan because the SBA will back that for—if you can make up for it another way—and that would make it much easier for the bank to take that risk of a loan. If that makes any sense. What we do is we have loan workshops. We have briefings at our downtown location. They are also offered via a webinar or on occasion, and they're once a month. So, you'll want to take a look at our workshop schedule. And if you haven't had enough of financing tonight, you can go and take a workshop or one of those briefings and get some more information. So, we're going to start wrapping up. I just want to ask if there's any other questions that anyone else might have—might want to share your business idea and see where it might fit in terms of where you'd want to go for financing. Or—

[01:29:09] **Mimi:** If anybody has any questions— Right over here. **Audience Member:** [inaudible/off-microphone]

[01:29:14] **Lindsey:** Absolutely. The thing to consider when—if you were to do, like a community source capital campaign, if you were in a nonprofit world, you wouldn't want to cannibalize your donation stream. So, if you have a group of people that are going to be patrons of your non-profit and who are going to be donating money on a regular basis to help with operations—if you run a campaign through us and then all those people think, "Oh, I can just lend money now—I don't have to give it to you." You wouldn't want to do that—to then make it so that you can't access those donors for gifted money.

[01:29:47] **Lindsey:** For example, if you had your donors, but then you maybe wanted to build out a theater or wanted to build—do some sort of project that would drive the revenue for—like you're going to build a stage in a park, or something—for some interactive installation you're going to do and that was going to drive revenue in some way,

[01:30:11] **Lindsey:** and there was a way for it—that way—that you could engage more people that wouldn't necessarily be your standard patrons— It could work. It just—you might—you just would—totally wouldn't want to cannibalize that revenue stream by then having the people that donate money expect to get it back.

[01:30:32] **Lindsey:** So, anyway— **Mimi:** Can you start [unintelligible]— **Jamie:** For an SBA you have to be organized for profit. But my USD program can finance non-profits. So, you can't get an SBA loan for it because you're just knocked out of eligibility right there. But there are other programs that may be available. **Lindsey:** What's the interest rate adjust to after the year?

[01:30:51] **Steve:** That's what we're talking about. That's where we go super high. So, you're going to want to make sure you're within a plan that can pay it back within a year.

[01:30:56] **Linsey:** What's "super high"? **Steve:** 10 to 15 percent, generally. **Lindsey:** OK. **Steve:** The big key is that we get it to zero percent in one year. So, you really do feel you can pay it back within that time then it generally [unintelligible].

[01:31:07] **Mimi:** What's your minimum loan amount, Lindsey? Is it five thousand? **Lindsey:** Five thousand.

[01:31:11] **Roland:** Can I jump in here for just a second? So, if any of you don't know what's being talked about here with Indiegogo, Kickstarter—these are the web platforms for doing—raising capital online. And you should all go to these websites and you can see the current campaigns that are going on and see how other people are doing this and how they're raising capital. And if you look at enough of them, you might find one that's sort of like what you want to do and see the models. I mean, nothing works better than seeing what everybody else is doing. So, you can do that. And I was amazed at how well they laid it out so that you can move through this pretty readily and see what people are doing. We've had a number of clients raise some of their capital—not all of it, but some of it—through successful Kickstarter and/or Indiegogo campaigns.

[01:32:09] **Roland:** So, it just depends on which one fits better for your business and how much preparation you do, so you can ask for the right amount and actually achieve it.

[01:32:22] **Mimi:** I think we'll— Thank you. I think we'll just have one more question and then Jay's going to wrap it up tonight— Yes. **Audience Member:** [inaudible/off-microphone]

[01:32:30] **Paul:** Yes. [panelists and audience members laugh] And that is, you can buy the operating business—that would be one thing. And so, it would be looked at as the operating business.

[01:32:42] **Paul:** And then later on, if you are running that business and you wanted to buy the commercial property, you can buy the commercial property, too.

01:32:51] **Paul:** Or if you were able to finance all of it, you can buy both pieces at once. So, it can be both.

[01:33:00] **Paul:** One last thing—resource wise—there's a lot of resource material that's over on the table over there. And to the point where someone had asked about the five “C”s of credit—the information I have over there—I do have the five “C”s of credit in that also.

[01:33:17] **Mimi:** With that, I want to thank you for your time and attention tonight. I want to thank the panelists. So, I just want to thank you, Panelists, for such a great job. [audience applauds] And thank you all for coming and I'm going to turn it over to Jay for just a couple of announcements. Thank you all.

[01:33:37] **Jay:** Well, I just wanted to say the same thing—Thank you guys for coming out. And thank you guys for coming out tonight. This has really been fascinating. And if you are interested in other kinds of workshops like this—like Mimi said—we have a workshop on planning your business coming up. We also have—if you know anyone that's starting a food business and speaks Spanish, we have an awesome program at Beacon Hill coming up. It’s a two-part workshop on that. And then also, if you're getting into the education space and you want to meet other people and to—kind of—collaborate and have a great time, we’re going to be doing “Startup Weekend EDU” here at the Central Library. And that is free. So, it's a free event—that’s November 20th. So, I wanted to mention those. So, thank you all for coming. Appreciate it.

[01:34:30] **Jay:** And have a good evening. [audience applauds]

[01:34:39] [upbeat piano solo begins and fades to background music] **Podcast Announcer:** This podcast was presented by The Seattle Public Library and Foundation and made possible by your contributions to The Seattle Public Library Foundation. Thanks for listening. [background music ends]