Financial Assistance

*Financing Your Business*

Will you need to borrow money? Much emphasis is placed on the importance of researching the feasibility of your proposed business and then planning for its operation. Of equal importance is whether outside financing is needed to get the business started or if financing can be acquired.

**Too many entrepreneurs try to start and operate a business without enough money.** Tragically, many small businesses fail each year because of insufficient funds.

To avoid this dilemma, analyze three questions:

1. How much money do you have?

2. How much money will you need to start your business?

3. How much money will you need to stay in business?

A variety of funding sources exists to assist small businesses in the start-up phase and throughout their development and expansion. The following section examines the types of funding sources that are available to small business owners. For assistance in identifying the funding sources for which your business may be eligible or for additional information on any of the financing programs listed here, contact the WV Small Business Development Center.

*How much do you need?*

Preparing a projected monthly cash-flow statement in the initial planning stages of the business is a good way to determine the amount of capital needed to establish and maintain your business. The cash-flow statement allows you to incorporate anticipated start-up expenses (as well as the requested

loan amount) into the first year’s financial forecast to show a clearer picture of the company’s projected financial position.

The cash-flow statement is also useful in determining whether outside financing will be needed to start the business, and how much will be required. In most cases, revenues generated by a business in its initial months of operation are not enough to meet its debt obligations. Thus, additional “working

capital” is needed to keep the business operating until revenues reach the break-even point, or a level at which sales can sustain business.

**It is a good idea to request enough financing to cover all anticipated start-up costs, plus enough working capital to meet all monthly operating expenses, including the loan payment, for the first three to six months.** The number of months of working capital needed will depend on the type of business you are starting. Keep in mind that the higher the loan amount, the higher the monthly payment.

*What will the lender need from you?*

Virtually all banks and the U.S. Small Business Administration (SBA) require a portion of the loan to be an equity injection from the owners of the business. This can vary depending on the type of business being contemplated as well as the strength of the entrepreneur. The remaining capital obtained generally is from a conventional lending institution, a private investor or from one of the alternative funding sources listed in the next section.

Regardless of what funding source is used, the lender typically will require some information from the prospective borrower concerning the proposed business. This information is examined carefully by the lending agency to assist in evaluating the loan request. Have a loan proposal prepared before approaching the lending agency so that you can make a strong first impression. Remember, the

prospective lender will be evaluating not only your business idea, but you as a potential business owner.

When you meet with a lender, know exactly how much financing is needed, what terms are desired and how the money will be used. Additionally, it is wise to have the following information on hand:

• Business plan

• Business financial statements and tax returns for the last three years and interim financial statements within 90 days of being current (existing businesses only).

• Projected income statement (for at least three years) by month.

• Projected balance sheet (for at least one year).

• Projected cash flow budget (for at least one year) by month.

• Personal financial statement (dated within 90 days of the loan request).

• Personal tax returns.

• Listing of major equipment with written estimates.

Please reference the SCORE website link for Finance Templates: <https://www.score.org/resource/business-planning-financial-statements-template-gallery?gclid=Cj0KCQiAsvTxBRDkARIsAH4W_j_Xe6Ff68PJRGpk13CvXXzanlL6_bKbofjh-ghcpJW39rv0Ec57SRQaApPeEALw_wcB>

*What funding sources are available?*

Personal assets and investments by family and friends provide a major share of financing — an average of 20 percent to 30 percent of all funds — for business start-ups. Formal business loans also play an important part in business financing, particularly for existing companies.

The following section lists some funding sources available to small business owners. Many funding programs, particularly low-interest loan pools, will finance only a portion of the total loan amount requested, or place restrictions on the types of businesses or uses for loan funds. Subsequently, business owners often combine one or more of the funding sources listed so at least some portion of

the total loan amount is obtained at a lower interest rate, with the remaining capital secured from more conventional lending sources at the current market rate.

For more assistance in identifying the funding sources for which your business may be eligible, consult the WV SBDC.

Bank Financing

The primary source of funding for a small business is your local bank. It is the bank that initiates the guarantee process with state and federal agencies, and it is the bank that is actually lending the money. Without the expertise and commitment to economic growth of the commercial bankers of West Virginia, businesses large or small would have extremely limited options for obtaining money for their business needs.

Your local bank commercial loan officer will work closely with you in finding a source of funding that is appropriate for your financing needs, whether it is a direct loan from the bank itself or participation in a guarantee loan program with a state or federal agency. The loan officer also coordinates with the other sources of funding to help you obtain your finances in a reasonable time period and at rates that are suitable for your business.

Federal Financing

Small Business Administration

SBA provides several financial assistance programs for small businesses, including debt financing, surety bonds, and equity financing. Even though SBA does not loan money directly to small business owners, they play an important role for people who want to finance or grow their business. When

you apply for an SBA-backed loan at your local bank or credit union, you are asking SBA to provide a guarantee that you will repay your loan as promised.

Guaranteed Loan Programs (Debt Financing)

SBA Guaranteed Loan Programs set the guidelines for loans made by its partners (lenders, community development organizations, and microlending institutions). The SBA guarantees that these loans will be repaid, thus eliminating some of the risk to the lending partners. So when a business applies for an SBA loan, it is actually applying for a commercial loan, structured according to SBA requirements with an SBA guaranty.

Financing programs include:

* 7(a) Loans

The 7(a) loan program is the backbone of the SBA financing programs. A borrower can receive up to $5 million gross with an 85% guaranty for loans of $150,000 or less and a 75% guaranty on amounts greater than $150,000; there is a $375 million maximum guaranty.

Eligible uses of funds include acquisition and expansion of assets such as land, building and equipment; working capital and more.

<https://www.sba.gov/partners/lenders/7a-loan-program/types-7a-loans>

* SBAExpress

The SBAExpress program gives small business borrowers an accelerated turnaround time for SBA’s review. You will receive a response to your application within 36 hours. In addition, lower interest rates are often available to you when you apply through an Express program.

https://www.sba.gov/partners/lenders/7a-loan-program/types-7a-loans#section-header-4

* 7 (a) Small Loan

The maximum loan amount is $350,000 and the maximum guarantee is 85% for loans up to $150,000 and 75% for loans greater than $150,000. The 7 (a) Small Loan program gives lenders and borrowers an opportunity to negotiate the interest rate, but it may not exceed the SBA maximum. The turnaround time for this loan application is anywhere between 5-10 business days.

* Community Advantage

The Community Advantage loan program is designed to assist small businesses who are located in an underserved market and is community based. The maximum loan size available is $250,000 and the SBA guarantees loans for up to $150,000, and 75% for loans greater than $150,000 and 90% for International Trade Loans. The program expires March 31, 2020.

* Express Bridge

The Express Bridge loan program expires on September 30, 2020, however the program follows the policies and procedures of the SBA Express program. The maximum amount that can be lended through this loan program is $25,000. The guarantee amount is for 50% and loan maturity is a maximum of 7 years.

There are other specialty programs, such as Export Express Loans and Export Working Capital, and International Trade Loans.

For more information, contact the SBDC nearest you. Or, you may reach the SBA directly at the following locations or visit their website at www.sba.gov:

West Virginia SBA District Office

320 West Pike Street, Suite 330

Clarksburg, WV

Phone: (304) 623-5631

Charleston Branch Office

405 Capitol Street, Suite 412

Charleston, WV

Phone: (304) 347-5220

<https://www.sba.gov/offices/district/wv/clarksburg>

To view the WV 2019-2020 SBA Small Business Resource Guide, click here: <https://www.sba.gov/sites/default/files/files/resourceguide_3159.pdf>

CDC/504 Loan Program: <https://www.sba.gov/offices/headquarters/ofa/resources/4049>

The Certified Development Company (CDC)/504 Program provides small businesses with long- term, fixed-rate financing to acquire major fixed assets for expansion or modernization. CDCs work with SBA and private sector lenders; typically, a CDC/504 project includes:

• A loan secured from a private sector lender with a senior lien covering up to 50 percent of the project cost

• A loan secured from a CDC (backed by a 100 percent SBA-guaranteed debenture) with a junior lien covering up to 40 percent of the project cost

• A contribution from the borrower of at least 10 percent of the project cost (equity)

This means that 100% of the project cost is covered either by contribution of equity by the borrower, or the senior or junior lien.

Proceeds from 504 loans must be used for fixed asset projects, such as purchase of land, including existing buildings; cost of improvements; construction of new facilities or modernizing, renovating or converting existing facilities and purchase of long-term machinery and equipment. Proceeds cannot be used for working capital or inventory, consolidating or repaying debt, or refinancing or businesses engaged in speculation or investment in rental real estate.

To be eligible for a CDC/504 loan, your business must be operated for profit and fall within the size standards set by the SBA as small; that is, it does not have a tangible net worth in excess of $7.5 million and does not have an average net income in excess of $2.5 million after taxes for the preceding two years. Generally, your business must create or retain one job for every $65,000 provided by the SBA, except for small manufacturers which have a $100,000 job creation or retention.

Generally, the project assets being financed are used as collateral. Personal guaranties of the principal owners are also required. Interest rates on 504 loans are pegged to an increment above the current market rate for 5-year and 10-year U.S. Treasury issues. Maturities of 10 and 20 years are available. Fees total approximately 3 percent of the debenture and may be financed with the loan.

*West Virginia’s 504 lenders are:*

* West Virginia Economic Development Authority

Greenway Building

Northgate Business Park

180 Association Drive

Charleston, WV 25311-1217

Phone: (304) 558-3651

www.wveda.org

* Regional Economic Development Partnership (RED Partnership)

1100 Main Street, 3rd Floor

P.O. Box 1029

Wheeling, WV 26003

Phone: 304.232.7722

www.redp.org

* Business Finance Group

535 Winter Camp Trail

Hedgesville, WV 25427

Contact Elizabeth Wilson at bwilson@businessfinancegroup.org

www.businessfinancegroup.org

US Department of Agriculture: Rural Development

The USDA Rural Development is dedicated to increasing the economic opportunity and improving the quality of life for all rural Americans. To accomplish this, Rural Development coordinates Federal assistance in rural areas of West Virginia.

Rural Development provides technical assistance and funding programs to rural Americans. Those programs are:

Business & Industry Guaranteed Loan Program

A business located in a rural community may qualify for special financing. The U.S. Department of Agriculture (USDA) currently maintains a Business and Industry (B&I) Guaranteed Loan Program, with guarantees of up to 80 percent of a loan made by a commercial lender. Proceeds may be used for working capital, machinery and equipment, buildings and real estate and certain types of debt refinancing.

B&I loans can be guaranteed in rural cities up to 50,000 population; priority is given to applications for loans in rural communities of 25,000 or less. Loan proceeds can be used for business acquisitions; construction; expansion; repair and development costs; purchase of equipment; machinery or supplies; startup costs and working capital and refinancing for viable projects under certain conditions. Loan guarantee limits are 80% up to $5 million, 70% over $5 million to $10 million and 60% over $10 million to $25 million.

Like SBA loans, you need to go through your local bank or financial institution to apply for a B&I loan.

For more information, please visit this link: <https://www.rd.usda.gov/programs-services/business-industry-loan-guarantees/wv>

The Renewable Energy and Energy Efficiency Program (REEEP)

The Renewable Energy and Energy Efficiency Program offers grants and guaranteed loans to help farmers, ranchers, and rural small businesses purchase renewable energy systems and make energy efficiency improvements.

Farmers, ranchers, and rural small businesses with a demonstrated financial need are eligible for this program. Farmers and ranchers must directly engage in the production of agricultural products and obtain at least 50% of their gross income from their agriculture business.

Rural small businesses must meet the definition of a small business according to the SBA small size standards and be headquartered in a rural area. The private entity may include a sole proprietorship, partnership, corporation, and a cooperative.

<https://www.reeep.org/>

Value-Added Producer Grants (VAPG)

Eligible applicants are independent producers, farmer and rancher cooperatives, agricultural producer groups, and majority-controlled producer-based business ventures.

Grants may be used for planning activities and working capital for marketing value-added agricultural products and for farm-based renewable energy. The maximum amount that can be awarded is $500,000, and all VAPG funds must be matched by an equal amount of funds from the applicant or a third party.

Value-Added Products are defined as 1) changing the physical state or form of the agricultural product; 2) physically segregating an agricultural product or commodity in a manner that results in the enhancement of the value of the product or commodity; 3) producing an agricultural product or commodity in a manner that enhances its value; or 4) using an agricultural product or commodity to produce renewable energy on a farm or ranch.

USDA/Rural Development

State Office

1550 Earl Core Road, Suite 101

Morgantown, WV 26505

Phone: (304) 284-4860 or Toll free: (800) 295-8228

<https://www.rd.usda.gov/contact-us/state-offices/wv>

State Financing

The West Virginia Economic Development Authority (WVEDA) is the state’s mechanism for providing low interest financing to new and existing business owners whose projects will benefit the state economically through long-term job creation. The programs include direct and indirect loans.

* [About the WV EDA](https://eda.wv.gov/programs/Documents/West%20Virginia%20Economic%20Development%20Auth.pdf)
* [WVEDA Direct Lending Programs](https://eda.wv.gov/programs/Documents/Direct%20Lending%20Programs.pdf)
* [WVEDA Loan Insurance Program](https://eda.wv.gov/programs/Documents/WVEDA%20Loan%20Ins%20Program.pdf)
* [WV Broadband Infrastructure Insurance Program](https://eda.wv.gov/programs/Documents/WV%20Broadband%20Infrastructure%20Ins%20Program.pdf)
* [WVEDA Leveraged Technology Loan Program](https://eda.wv.gov/programs/Documents/WVEDA%20Leveraged%20Technology%20Loan%20Programs.pdf)
* [Tax-Exempt Industrial Development Bonds](https://eda.wv.gov/programs/Documents/Tax%20Exempt%20Industrial%20Development%20Bonds.pdf)
* [US Foreign Trade Zones](https://eda.wv.gov/programs/Documents/US%20Foreign%20Trade%20Zones.pdf)

Because a participating lender must apply to the state on your behalf for the Loan Insurance, check with your banker before considering either of these loans.

For information on any of these programs, contact:

* West Virginia Economic Development Authority

Greenway Building

Northgate Business Park

180 Association Drive

Charleston, WV 25311-1217

Phone: (304) 558-3651

www.wveda.org

Venture Capital

Venture capital companies are certified investors who will contribute capital into a small business in exchange for some level of control in the company and a return on their investment. This is not easy money. Most venture capital companies are interested in projects requiring an investment of $150,000 to $200,000 or more, and expect a return of three to five times their original investment within five to seven years.

Before approaching a venture capital company, you should prepare a thorough business proposal that supports the qualifications of your management team and have a strong and realistic financial plan.

While most venture capital funds will invest in any business, some funds are target certain geographic areas or industries. Work with your SBDC business coach to select the right fund to approach.

Venture capital investment companies must be approved by the West Virginia Economic Development Authority.

Additional Financing Programs

The Natural Capital Investment Fund (NCIF) is a business loan fund that provides debt and equity financing to small businesses located in North Carolina, Northeast Tennessee, Southwest Virginia and West Virginia.

The NCIF provides flexible financing and investments and targeted technical assistance to a variety of environmentally related businesses, which range from small crafts enterprises and specialty food manufacturers to multi-million-dollar forest products enterprises. They also finance and invest in businesses involved with Environmental & Green Products/Services.

Sectors of particular interest include heritage and recreation-based tourism; value-added and sustainable agriculture; water/wastewater treatment; sustainable forestry and forest products; integrated waste management; and technology that promotes improved efficiency and safety in industrial processing.

For more information, contact:

* Natural Capital Investment Fund

West Virginia Business Lender

Charleston, WV

(304) 575-1462

https://www.ncifund.org/contact-us

Local Financing Programs

Some local and regional development organizations offer financial assistance to small businesses, particularly if the operation will result in job creation, retention or revitalization of the community.

Additionally, county and local governments may offer loan programs for business owners. Contact your local Chamber of Commerce or government offices for information on the scope of services available in your community.

**The Small Business Innovation Research (SBIR) and the Small Business Technology Transfer (STTR)** programs are federal initiatives that provide over $1 billion in research and development grants and contracts each year to small businesses to develop new products and services based on advanced technologies. These programs provide excellent opportunities to nurture the development of innovative businesses in West Virginia.

The SBDC serves as the centralized source for information and technical assistance regarding the SBIR/ STTR program for West Virginia-based small technology businesses and entrepreneurs through their Innovation-Technology (In-Tech) Program.

To propel technologies, teams and companies that have a proven track record and a technology or innovation with a high degree of potential, West Virginia has initiated an Award Matching Program managed by the WV SBDC. If a West Virginia-based small business has been successful at Phase I or Phase II the they may be eligible to match a portion of the award. To learn more about this funding opportunity, visit the SBDC Web site at wvsbdc.wvcommerce.org. The SBDC also works with other providers of technical and financial assistance across the state.

Grants

The truth about federal grants: Right off the top — The U.S. government currently does not provide grants for starting or expanding a small business. However, the government does offer plenty of free help planning how to start or improve your business and in securing Small Business Administration- backed small business loan guarantees.

Most federal grants are awarded to organizations planning major projects of benefit to their community. For example, a neighborhood street paving project; a statewide program to retrain displaced workers; or a project to attract new businesses to a depressed downtown area.

Some state grants are available. To find out more, contact your local SBDC business coach and make an appointment to review your eligibility.

*The following are grants from two state organizations that assist small business owners.*

* The Division of Culture and History

The Division of Culture and History is home to the State Museum and Theater, the State Archives and Collections, and a library for genealogical research. The Division includes the West Virginia Commission on the Arts and the State Historic Preservation Office.

Through a long range planning process, the West Virginia Division of Culture and History (WVDCH), on behalf of the West Virginia Commission on the Arts (WVCA), worked closely with artists, communities, arts organizations and arts educators to identify arts needs of West Virginians. With direction from the governor and the West Virginia Legislature, the WVCA has adopted a number of programs to address those needs.

*The following table lists grant programs for individual artisans and crafters:*

* Professional Development. February 1 and October 1. Up to 75% of project cost and up to 50% for subsequent years. Provides support for professional and emerging artists seeking ways to expand and/or improve their own work or share their expertise. Helps art organizations better meet the need of under-served artists. http://www.wvculture.org/arts/grants.html
* Training and Travel Fund. No later than 6 weeks prior to the event. Up to 50% of eligible expenses; funds decrease for repeat visit to same event. Provides funding support on a reimbursement basis to attend training opportunities. http://www.wvculture.org/arts/grants.html

There many other grants for arts organizations and educators. Call 304) 558-0240 or go to <http://www.wvculture.org/news.aspx?Agency=Division&Id=3581> to see a complete listing and access online application forms.

Tourism Advertising Partnership Program (MAPP)

The Tourism Matching Advertising Partnership Program is a reimbursable partnership program that provides matching funds for innovative and effective direct advertising projects that increase visitation and travel expenditures in the State of West Virginia impacting the economic growth of the travel industry.

There are various eligibility criteria and levels of awards. For complete information, definitions and forms, or the MAPP grant application, please contact Anna Plantz, Director of Partner Programs at Anna.M.Plantz@wv.gov.or go to <https://wvtourism.com/industry-information/mapp/> to read more.

*Credit History*

When a small business requests a loan, one of the first things a lender looks at is personal and business credit history. So before you even start the process of preparing a loan request, you want to make sure your credit is good.

Get your personal credit report from one of the credit bureaus, such as TransUnion, Equifax or Experian or through a credit report service, such as annualcreditreport.com. You should initiate this step well in advance of seeking a loan. Personal credit reports may contain errors or be out of date, and it

can take three to four weeks for errors to be corrected. It’s up to you to see that corrections are made, so make sure you check regularly on progress. You want to make sure that when the lender pulls your credit report, all the errors have been corrected and your history is up to date.

Once you obtain your credit report, check to make sure that all personal information (your name, Social Security number and address) is correct. Then examine the rest of the report carefully. It contains a list of all the credit you obtained in the past (for example, for credit cards, mortgages, student loans), with

information on how you paid that credit. Any item indicating that you have had a problem in paying will be toward the top of the list. These are the credits that may affect your ability to obtain a loan.

If you have been late by a month on an occasional payment, this probably will not adversely affect your credit. But it is likely that you will have difficulty in obtaining a loan if you are continuously late in paying your credit, have a credit that was never paid, have a judgment against you, or have declared bankruptcy in the last seven years.

A person may have a period of bad credit as a result of divorce, medical crisis, or some other significant event. If you can show that your credit was good before and after this event and that you have tried to pay back those debts incurred in the period of bad credit, you should be able to obtain a loan. It is best if you write an explanation of your credit problems and how you have rectified them and attach this to your credit report in your loan package.

Also, work with your local Consumer Credit Counseling service to help repair and improve your credit. Find your local office via the links below:

<https://www.wvsb.uscourts.gov/credit-counseling>

<https://www.justice.gov/ust/eo/bapcpa/ccde/CC_Files/CC_Approved_Agencies_HTML/cc_west_virginia/cc_west_virginia.htm>