

A stylized map background in shades of green and blue. It features a network of roads, some highlighted in white and others in light green. Road shields with numbers like 213, 627, 4, and 21 are visible. There are also icons for a star, a plus sign, and a triangle. The overall aesthetic is clean and modern.

# Fueling Your Business in North Carolina:

A Guide to Financing for Small Businesses



## ACKNOWLEDGMENTS

The North Carolina Rural Entrepreneurship Development System (EDS) is a collaborative project funded by the W.K. Kellogg Foundation and led by the NC Rural Economic Development Center (Rural Center). This guide is a project of the Rural EDS project team.

### The Rural EDS has begun to develop a system that has:

- no wrong door for any entrepreneur in rural North Carolina to information and services they need;
- no closed doors to racial and ethnic minorities, women, dislocated workers, or any other citizen who has an entrepreneurial mindset, a market-driven product, and the willingness to develop the skillset to be a business owner; and
- keys (or information) to open the doors most relevant to them.

Self-Help led a work group that drafted this guide. The group included Good Work, Institute for Rural Entrepreneurship, NC Community Development Initiative, NC IDA Collaborative, NC Institute of Minority Economic Development, NC Microenterprise Loan Program, and the Small Business and Technology Development Center. Erik Pages from EntreWorks Consulting assisted in drafting and editing the guide. Other EDS team input came from NC Department of Commerce Business ServiCenter and many of the SBTDC offices around the state. Self-Help coordinated the design and production of the guide, with credit to Kilpatrick Design Studio and Hutchison Allgood Printing.

You can find this guide on-line through the NC Department of Commerce Business ServiCenter at [www.nccommerce.com/en/BusinessServices/StartYourBusiness](http://www.nccommerce.com/en/BusinessServices/StartYourBusiness)

# Fueling Your Business

## in North Carolina:

### A Guide to Financing for Small Businesses

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#### INTRODUCTION

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**YOU ARE READY** to start your business. Or maybe you started your business and now you are ready to grow. Fortunately, you're not alone. About 60% of all Americans say they would like to start a business someday. And, at any one point in time, about 10% of American adults are in the process of starting a new business.

While many people want to start a business, it's not a decision that should be taken lightly. Lots of issues will come into play as you begin this journey. A successful business needs a committed owner, a strong business concept and strategy,

and, last but not least, money! All businesses need money to operate and grow. **Most businesses generate this money themselves — through a process known as "bootstrapping."**

Bootstrapping isn't very complicated. You use your own money to get started, and then you sell something, collect your profit, and invest that money back into the business. Most businesses operate this way. But sometimes that isn't enough. To grow faster or to make bigger investments, you may need to obtain money from somewhere else: friends and family, a bank, or other sources.

Where do you find the money? And, what do you need to do to obtain it? This guide is designed to answer these questions. Specifically, this guide explains:

- What you need to do before looking for money
- What kinds of financing exist
- How to obtain a loan
- What any lender/investor wants to see from you
- What those financing terms mean

This guide is designed to put you in the “driver’s seat” to create a plan that will help you find money to start or expand a business. Rather than just going for the “best” or most financing you can get, you will learn to identify the financing that is right for your business. This money, known as **capital**, is a critical part of creating a successful company. But it’s not the only part. Lots of experts

The Small Business and Technology Development Center publishes a report entitled “Capital Opportunities for Small Businesses” that provides information about specific funding sources in North Carolina, including microlenders, government programs, angel funds, and others. *Fueling Your Business* is a companion to the SBTDC publication. You can find the Capital Opportunities report on-line at [www.sbtcdc.org](http://www.sbtcdc.org).

experience yourself, find a mentor, partner, or employee who does!

- Passion and commitment. Good entrepreneurs don’t view their businesses as their “job.” It is their livelihood. They work hard!

You’ll notice that money is not included in our definition of a “good” entrepreneur. Money does not make a good entrepreneur or successful business. It can help a strong entrepreneur with a good business idea be more successful or grow faster. If you’ve done the hard work of developing a strong business idea, outside money can be critical. That’s the purpose of this guide: to help you identify sources of financing *after* you have developed a good business concept. If you don’t yet have a strong business idea, you need to think more deeply about why you want to start your own company and about potential new business concepts. If you’ve done this part already, read on. This guide is designed to help you think more carefully about whether you need outside money

The Small Business Administration (SBA) website has a Small Business Planner that offers information and resources for businesses at every stage of development. You will find sample business plans, learn about buying a franchise, and get information on financing growth.  
<http://www.sba.gov/smallbusinessplanner/index.html>

**Capital:** Money or property owned or used in business. Capital is often referred to in the context of the money used to fund business start-up. In a broader sense, this term can also mean the assets of a business. In accounting, capital is the sum of long-term debt and equity.

will tell you that the real key to success is a good entrepreneur. “Good” can mean a lot of things, but it generally includes some or all of the following:

- A good business idea. This generally means that you have an idea about how to provide a product or service that is faster, better, or cheaper than what can be found today.
- Some previous experience or knowledge of your industry or sector. If you don’t have this

Certain financial terms used in this guide are defined in the guide. For other terms related to finance, you can find a good glossary at <http://www.eventuring.org/eShip/appmanager/eVenturing/eVenturingDesktop>. Click on the “glossary” button on the left side of the page.

as well as the pros and cons of taking outside investments. It also offers suggestions for where to find such money, and what is required to get it. This is not the last word on business financing.

Instead, the guide serves as an introduction — designed to get you thinking and to get you in the driver's seat so that you are ready to deal with banks and other sources of capital.

## SELF ASSESSMENT — What to do before your trip begins?

### KICK THE TIRES —

#### How much do you need?

**As you begin** the business journey, you must first figure out how much money you need to start or grow your business. This is the first draft of your start-up budget. Businesses need different amounts of money at different parts of their

You should carefully consider whether you and your business will be able to repay the money that you borrow.

You should only borrow what you need. If the market changes or your business takes longer than anticipated to become profitable, you want to make sure you keep your costs low — and that includes keeping borrowing costs down.

Borrowing money to start your business is likely just the first of many financing “pit stops” you'll need as your business grows. Paying your first loan on time can help you and your business build good credit, improving your ability to get more money when you need it at the next stage of your business.

life cycle. They also work with different kinds of investors. For example, **banks rarely fund a brand new start-up business with no track record**. But they do regularly fund companies that have been in business for an extended period. Meanwhile,

**venture capitalists only want to provide money to companies that have the possibility of getting big fast.**

As you assess your financing needs, you need to think about everything

from equipment and supplies to rent or the cost of buying a building. Appendix 1 lists typical start-up costs. Use this chart to begin the process, but also remember to consider costs that are unique to your business or your industry.

If you've been in business for a while, you probably have a good handle on the cost of various items. This job can be tougher for someone starting a new business. At this stage, it's not always possible to get the exact cost of every item or service. Do your best to find an estimate that seems reasonable. The best ways to do this are to look up prices of equipment, ask other business owners how much certain things cost, and get estimates from contractors.

At this stage, make sure you include some **contingency** in your start-up budget. Contingency is extra money to have available in case your estimates are wrong. At this planning stage, it is good to add an additional 10% of the start-up or project cost as contingency (more if you will be doing a lot of construction, less if you will be working out of your home or are already in business and have more reliable cost estimates). New business owners often underestimate how long it will take to find new clients. Building in a contingency provides you with a little cushion in case your original projections are too optimistic.

**Contingency:** Extra money you should add into your start-up budget to be prepared in case your estimates are wrong or you run into problems.



Most companies start with small amounts of money. Some businesses, such as restaurants or retail stores, require larger up-front investments for equipment or inventory. But businesses — especially service companies — can be started for small amounts of money. And the costs for business start-up are getting lower each day thanks to heavier use of computers and other new technologies. This is true for one-person companies and for firms that get large very quickly. In fact, the average Inc. 500 firm — America’s fastest growing companies — starts with roughly \$25,000 and more than a quarter of these companies started with \$5,000 or less.

A good start-up budget doesn’t just worry about costs for purchasing materials and inventory; it also seeks to reduce operating costs. As you

Businesses need budgets. For a start-up, a well-planned budget is crucial to assess whether an idea is realistic. Even if you already have a business, your budget will tell you whether you are on track.

A budget is your projection for your business income and expenses. You should track your actual income and expenses in your monthly cash flow statement and then compare these numbers to your budget. This comparison will let you see how your business is doing and whether you are meeting the goals you had set.

There are a number of resources on the internet to help you develop your business budget, plan your cash flow projections, and figure out your break-even (how much money your business needs to earn to cover all of your expenses). To get you started, here are two to check out:

- [http://www.sbtcd.org/quick\\_faqs/financing.asp](http://www.sbtcd.org/quick_faqs/financing.asp) The SBTDC website provides links to a number of helpful financing and cash management resources.
- <http://www.score.org> The SCORE site’s business tool box includes a breakeven calculator and a cash flow projection spreadsheet template.

There are two sample budgets in the Appendix of this guide: Start-Up/Expansion Budget and Construction/Renovation Costs.

review your budget, how can you cut costs and avoid unnecessary spending? Consider used equipment or working out of your home rather than an office space. Use a business incubator for office space. Find out if there is a trade association through which, by joining, you can save on insurance, supplies, advertising and other items. Lenders and other investors love to see a well-made budget with as little “fat” as possible.

## CHECK YOUR GAUGES — How much money do you have?

**Most small businesses** get their start-up money from their own personal savings, family, friends, or acquaintances. **Be prepared to spend your own money!** When you are looking for funding, people want to see that you are willing to spend some of your own money on your business. If you aren’t willing to risk your money, why should other people risk their money?

There are many who can help you with your business plan, accounting, marketing plan, etc., as you start and grow your business. The North Carolina Business Resources Directory is a great starting place to help you find the organizations that can help you. There are indices of organizations by region and type of business service. You can download this guide at <http://www.ncruralcenter.org/pubs/businessdirectory.htm>.

Few new businesses generate lots of profit (and income for the owner) at the outset. As a result, you need to think about how to meet your basic expenses during this start-up phase. The best source of funds is savings that you already have on hand. That’s why **many entrepreneurs try to sock away savings before they go out and start a new company**. If you’re not blessed with a flush bank account, there are other options.

For example, you might consider keeping your current job or working at least part-time while starting your business. You will need savings or income from another job to pay your personal bills and to continue to invest in your company while you get your business going.

You may also want to consider a home equity **loan**. If you own a home and have equity in it, this is a source of money. Home equity loans usually have lower rates of interest than commercial (business) loans and are often easier to get.

Another common source of start-up funds is money from family or friends. Whether asking for a loan, a gift, or an investment, approach your family and friends the same way as you would a banker — show them your business plan and make sure to tell them exactly why you need their money and how much you need.

If you accept a loan from family or friends, make sure to treat it professionally. Have a loan document that states clearly the loan amount, the interest rate (if any), the expectation of when and how the loan will be paid back, and what will happen if you can't pay back the loan. Sign and have two copies of the document notarized — one for you and one for the person giving you the loan. This document will help you maintain your personal relationships if your business runs into trouble.

## HOW IS YOUR DRIVING RECORD?

You know how much money you need and how much money you have—and maybe there is a gap. Before looking for more money to fill that gap, take time to look at your personal credit history, think about **collateral**, and make sure your finances are in order.

**Collateral:** Security for a loan — something a lender can sell if they need to in order to get paid back on a loan. Collateral is often real estate (your home or business or other properties that you own), cash pledges in banks or credit unions, equipment, and other items that will have a re-sale value.

Your credit history is like your driving record. A bad driving record may keep you from getting insurance, or it may make your insurance very expensive. Bad credit works the same way. It may keep you from getting a loan for your business. If people see you can't manage your own finances, they'll wonder how you will manage the business finances.

Before you ask other people to help you fund your journey, you may need to clean up your **credit report** by paying off judgments and collections, making sure all of the information on the report is correct, and having a good payment history on all accounts.

### Credit Report:

Be prepared and not surprised! You can get a free copy of your credit report once a year: On-line at <http://www.annualcreditreport.com>; By phone by calling 1-877-322-8228.

There are 3 credit reporting agencies — each year you can get one report from each agency. The agencies are:

**Equifax**  
1-800-685-1111  
<http://www.equifax.com>

**Experian**  
1-888-397-3742  
<http://www.experian.com>

**Transunion**  
1-800-888-4213  
<http://www.transunion.com>

Your credit score (FICO) ranges from 300–850 and is made up of five weighted categories:

**Payment History:** paying each bill before the due date (35%)

**Amounts Owed:** outstanding obligations (30%)

**Length of Credit History:** how long have you used credit? (15%)

**New Credit:** inquiries for new accounts (10%)

**Types of Credit Used:** credit cards vs. mortgage or installment loans (10%)



# CHARTING YOUR COURSE TOWARDS FINANCING

**NOW THAT YOU HAVE YOUR MAP** of financing, which is the right one for you? Should you ask family members, apply for a bank loan, or search for an outside investor? Here's a quick way to assess your general options. For more detailed information about funding sources, see the SBTDC's "Capital Opportunities" report at [www.sbtdc.org](http://www.sbtdc.org).

## If you need less than \$25,000:

- Start with your own savings, family, and friends.
- Consider a home equity loan.
- **Credit cards** can also be useful, as long as you are sure you can pay the bill each month. If you don't pay the bill, you may hurt your credit rating and limit, and your future chances of getting a business or personal loan.
- Your bank may be willing to make you a small personal loan if you have a good relationship with your bank and a good credit score.

**Can I get a grant to start my business?** In a word, no. Most start-up businesses do not qualify for grants. Grant-making institutions are interested in solving societal problems, and the grant process is extremely competitive.

- Start an Individual Development Account (IDA) which is a matched savings account for low- and moderate-income families.
- Many non-bank lenders provide microloans, often from \$1,000 to \$35,000, for businesses.

## If you need more than \$25,000:

- You'll still need to put in some of your own money — often 30% of the total project cost.
- Still consider a home equity loan.
- Loans from banks and large non-bank lenders are probably needed.

## If you are looking for an equity investor for even more money:

- Equity capital from angel investors (wealthy individuals who invest in local companies) or venture capital firms may be available. In these cases, you will be required to share ownership and control of the company with outside investors.

**Equity:** Money or other assets that you own. Lenders want to make sure you put some of your own equity (usually cash) into your business. In real estate, equity is the amount of the property that you actually own — i.e., the difference between the market value of the property and the mortgage you still owe. (For example, you own a building worth \$200,000. You owe \$150,000 on the mortgage. Your equity in the building is \$50,000.)

## Credit Cards:

A credit card is a convenient way of finding short-term financing: for traveling, purchasing an item, or financing your business.

- Remember that your credit card is a 30-day loan that has to be repaid at the month's end.
- Don't overspend; act as if you are paying with cash.

- Track how much you spend on the credit card.
- Save your receipts and compare them with your monthly statement.
- Keep your balance less than 50% of the credit limit.

- Always send more than the minimum payment that is required.
- Whenever possible, pay the bill in full every month.

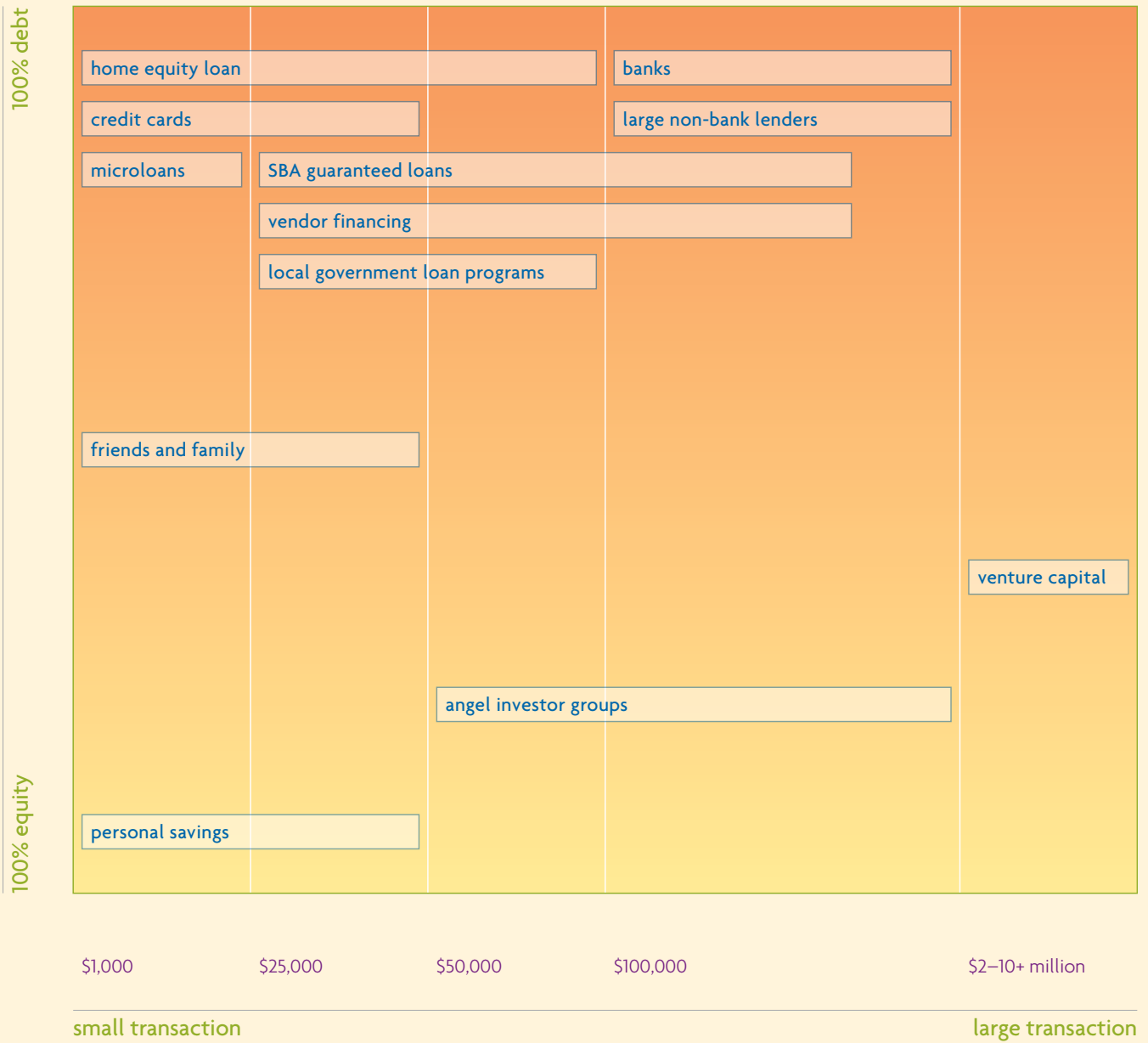
If you made one purchase of \$1,000 on a credit card that carried an 18% interest rate, and if you never used the card again,

and made only the minimum payments:

- It would take you 12 years to repay the balance
- You would spend \$2,115 in total for that \$1,000 purchase
- You would have bought the item for \$1,000, and paid the bank \$1,115 in interest



# CAPITAL AT A GLANCE



## TYPES OF FINANCING AND WHAT THEY REQUIRE

### For Start-up Entrepreneurs:

- **Credit cards:** Relatively easy to get and use, although they may have higher interest rates.
- **Vendor Financing:** Sometimes the best source of financing for a major purchase is the vendor you're buying it from. Vendors often offer favorable interest rates as an incentive to purchase, and they are more likely to take on risk when their own product is used as collateral.

Typically, business financing is categorized as either debt or equity. **Debt financing** means borrowing money that is to be repaid over a period of time, usually with interest — in other words, loans. The lender does not have an ownership interest in your company. For many small businesses, personal guarantees are likely to be required on most loans.

**Equity financing** is an exchange of money for a share of business ownership. Most business owners start by providing their own equity — they put up their own personal funds (the equity) to start their businesses. If more money is needed to start or expand, other investors may provide money — essentially buying a share of ownership in your business.

- **Franchisors:** Many new businesses are franchises where owners pay a franchise fee for the right to operate a business. Lots of well-known companies, such as Subway or Curves, operate as franchises. Some franchise companies may provide financing to qualified franchisees or provide help in finding outside funding.

### For Microenterprises:

- **Micro-Lenders:** make small loans (\$1,000 to \$35,000), especially to businesses that don't qualify for bank loans.

When getting a loan or an investment for your business, make sure to consider **all** of the terms and read the fine print carefully. Interest rates on loans are important, but a low interest rate paired with high fees and a prepayment penalty may be more expensive than another loan with a slightly higher rate but lower fees. If you get a loan with an adjustable rate, make sure you will be able to pay the loan after the interest rate adjusts. Never sign any paperwork if it makes you uncomfortable. It could be a sign that the loan terms are not right for you.

- **Other non-bank lenders:** North Carolina has many nonprofit organizations that provide loans of various sizes to businesses. Many of these organizations also provide some level of business training and counseling. Another potential option is new sources of on-line funding such as Prosper.com. At this site, you can present your business idea and request for funding. These concepts are shared with other site users who can then decide whether or not to invest in your idea.

### For Established Businesses:

- **Bank loans:** Your bank or one in your community makes personal loans and business loans, and provides lines of credit.
- **Credit Unions:** Operate like banks but require people to be members and will only lend money to members. Members are usually people who work for the same employer, belong to the same association, or live in the same community.
- **Government agencies:** The Small Business Administration, [www.sba.gov](http://www.sba.gov), the US Department of Agriculture, [www.usda.gov](http://www.usda.gov), and other government agencies have some loan programs and loan guaranty programs to help businesses. Counties and local governments may also have some loan programs to help businesses in their

areas. Nearly all of these programs operate as loans (www.business.gov offers links information on and links to many of these programs).

### For Fast-growing Businesses:

- **Angel Investors:** People who want to participate in the growth or start-up of new companies. Most often found through networking with other entrepreneurs or the professional community. Usually invest close to home. Less than 5% of start-ups obtain angel financing. At least ten organized angel funds now operate in North Carolina. Most are located in larger metropolitan areas like Charlotte and the Research Triangle, but groups are also headquartered in Greenville, Greensboro, and Asheville. Many of these funds seek to invest in technology-based companies with strong growth prospects. These angels will generally back firms located anywhere in North Carolina or the wider Southeast U.S.
- **Venture Capital:** Investors that buy part of a company, help with management, and hope to one day sell their part of the company in 3–5 years for a profit. Typically invest (\$1 million or more) in a very small number of small, growing companies that have the potential for very high growth. Often these are high-tech companies in industries like biotechnology or software. Venture capital is limited and is difficult to get. **Less than 1% of all businesses receive venture capital funding.**

### For Specialized Needs:

Certain government agencies have loan and guarantee programs available for certain types of industries. These loans are difficult to obtain, but they can make sense in specialized cases. Some examples include:

- US Department of Agriculture for farms and other types of businesses located in rural areas.
- US Export-Import Bank for companies that export their products.
- SBIR (Small Business Innovation Research) This program provides grants (of up to \$100,000) for companies or individuals undertaking research into products, services, and technologies that may meet the potential needs of a Federal government agency. In addition, the North Carolina Board of Science and Technology will provide matching grants to help companies pay for the costs of applying to the Federal SBIR program.

**The Small Business Administration (SBA)** has various programs to help small businesses. Except in rare circumstances (primarily disaster assistance), the SBA does not make loans directly to business owners, but instead provides loan guarantees to commercial lenders and others who make and administer loans. **The business applies to a lender, not the SBA, for financing.** SBA backs those loans with a guaranty that will eliminate some of the risk to the lending partners. Therefore, when a business applies for an SBA loan, it is actually applying for a commercial loan, structured according to SBA requirements, that receives an SBA guaranty. To find out more information about these guaranty programs, go to <http://www.sba.gov/services/financialassistance/index.html>.

## HOW TO GET THERE — A few other items Funders will require

Now that you have figured out how much money you need and where you might find that money, you still have one big task ahead. You need to be prepared for what the lender or investor will want to see from you.

The best way to understand bankers and lenders is to try to think like them. Just as you might invest in stocks with the expectation of making money in the process, **lenders and investors expect to make money by providing funding for your company.** They don't lend or invest as a charity; they want to make money just like any other business. The good news is that they want you to succeed because, when you succeed, they get paid back. At the same time, they also want to make sure that if your business fails, there is another way that they can get paid back.

The process of working with lenders or investors is really all about sharing information. The lenders

want to be sure that they will get paid back, and they want to identify the sources for this payback before they lend you money or invest in your idea. For these reasons, they will likely:

- Review your business plan
- Look at the financial projections for businesses that are similar to yours. For example, if you are opening a restaurant, they will study how other local restaurants have fared.
- Require you to provide 30% of the project cost in equity.
- Require you to personally guarantee the loan.
- Look at business projections for start-ups. In other words, how have other new businesses in the region performed?
- Obtain collateral from you to secure the loan

Providing all of this information to a lender or investor is often a long and complicated process. But it is an essential step to receiving outside funding. Remember—it's their money so they get to set the conditions for the information they need. And they generally expect a lot of information as you will see in the detailed checklist found in the Appendix.

### Things to remember when looking for financing:

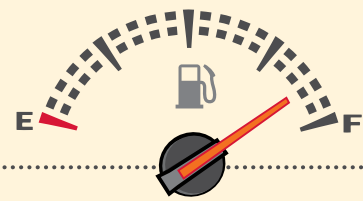
- Know how much you can invest in the business
- Know how much you want to borrow and why
- Make sure your **cash flow** makes sense and you can afford a loan
- Be prepared to provide information related to “the 5 C's of credit”

**Cash Flow:** Money you have available in your business after paying for all operating expenses, loan payments, etc.

Lenders will look at the “**Five C's of Credit**” when deciding whether to make a loan. Be prepared to answer their questions about:

- **Character** — do you have the proper experience and skills needed to run the business, and does your credit history show that you pay your debts?
- **Capacity** — does your business have sufficient cash flow to pay the loan payment?
- **Capital** — what is your business' (or your personal) net worth? Do you have your own funds to put into the business?
- **Collateral** — what assets (house or other real estate, etc) do you have to secure the debt?
- **Conditions** — what is the state of the economy, and are there other issues particular to you or your business that might impact the success of your business?

# THE FUEL IS IN THE TANK — What now?



**ONCE YOU'VE GONE THROUGH** all of these various steps, you'll soon hear whether you've been approved for financing. The loan process can take several weeks or even months. Hopefully, the news is good and you can begin to invest these new funds. Even better news will come when these new investments bring in new business, more profit, and a growing healthy company.

But, the process is not really over because you can't just take the money and run. It has to be paid back. There are good reasons to be worried about paying back your loans. First, it's the law. Second, you need to pay the money back if you ever want to get new loans or future investments. If your business is successful, you're not going to need just one loan or one outside investment. It's more likely that you become a regular customer of your local bank or a regular partner with your investors.

To position yourself for future investments, you should set up a system for repaying your loan or outside investments. This "system" need not be complicated. It can be as simple as a reminder note to yourself every month or getting set up to pay your loans through automatic drafts from your business checking account.

As you set up this repayment system, don't forget that **you have to pay taxes first**. As you set aside funds for these purposes, think first about paying taxes, second about repaying loans, third about reinvesting in your business and paying employees, and last about your personal expenses. This is not a message that many aspiring entrepreneurs want to hear, but it is the cold reality of business ownership. To be successful in business means that the business comes first. Profit is not the proceeds of the business. It is the proceeds of the business after all other expenses have been paid.

When searching for financing, beware of money that seems too easy: If it sounds too good to be true, it probably is! Because new businesses are so important to North Carolina's economy, government agencies and many non-profits work to help fund budding entrepreneurs. But most of this help is about giving a hand-up, not a hand-out. There is generally no free money.

How do you know when to quit? While planning for start-up, take some time to plan for your exit from the business. If your business succeeds, what is your goal — do you want to continue to run it as long as you can, leave it to family, sell it to employees or sell it to the highest bidder?

And what if your business is failing — how do you know when to quit? You should set a series of triggers that will help you know in advance when you are on the way toward disaster. These triggers may have to do with the number of customers or contracts you have, your assets and liabilities, your cash flow — whatever thresholds will make you stop and think that maybe your business is beginning to run into trouble.

Thinking about these triggers upfront will help you structure things like whether or how you want to incorporate, how to structure profit distributions, and how to value your assets.

## FINANCIAL SUCCESSION AND "BACK-OUT" PLAN

**Everyone hopes** that their business becomes a smashing success, but we don't all get to enjoy this storybook ending. Many businesses fail — sometimes it's due to a bad market, or poor management skills by the business owner. Outside factors, like an illness or accident, can also complicate matters. Since you can't control all of these forces, you need to develop a plan for what to do if your business is forced to close.

No one ever wants to close their business, but it's not the end of the world. In fact, many of the world's most successful entrepreneurs, like Apple's Steve Jobs, failed in their early ventures. The secret is developing a way to avoid a "catastrophic" failure and bounce back quickly.

To avoid a catastrophic failure, you need to face head on the "what if" question. What if my business fails? What will I do to pay the bills? This will be a tough process. If you close your business or your business fails, you still need to pay back your loans and other business debts. Your business debts are often your personal debts too. If you don't pay back your business debts, you may later have trouble buying a house or a car or even getting credit cards. Most small business debts require personal guarantees, meaning that you personally are responsible for the debt. Other business debts can become your personal debts too depending upon the situation.

The first step in this process is to insure yourself from the worst case scenarios. To protect yourself and your family in case you are no longer able to work because of injury or even death, you should make sure to have enough disability and life insurance to pay off your debts.

If you start experiencing problems or decide to close your business, talk to your investors and lenders. Depending upon the size of your debt, you may be able to continue making payments by selling your business **assets** and getting a job. For larger debts, you may need to consider selling your house and down-sizing your personal expenses. Your investors and lenders may be able to help you develop plans to pay your debts.

**Assets:** Anything of value that you or your business owns, including cash, equipment, real estate, etc.

## YOU'RE READY FOR YOUR JOURNEY!

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**YOU'VE DETERMINED HOW MUCH MONEY** you need, how much money you have to invest in your own business, and whether you need other financing. You now know what questions you'll need to answer, what information you'll need to provide, and what kinds of financing may be right for you.

As you continue on your journey, make sure to read all financing documents carefully before you sign so that you know exactly what you are signing. If you don't understand the terms, ask your attorney or accountant for assistance.

Money is an important part of your business, but it is only one piece necessary for a successful business. With money, a strong business concept and strategy, and your strong commitment, you are ready for your business journey.

The North Carolina Department of Commerce's Business ServiCenter offers a one-stop source for all of your questions about starting or expanding your business, including referrals to resources in your area. Call 1-800-228-8443 in NC or 1-919-715-2864 from out of NC.



## ALPHABETICAL LIST OF RESOURCES NOTED IN THE REPORT

### **Free annual credit report:**

[www.annualcreditreport.com](http://www.annualcreditreport.com) or call toll free 1-877-322-8228

### **Three credit reporting agencies:**

- **Equifax:** [www.equifax.com](http://www.equifax.com) or 1-800-685-1111
- **Experian:** [www.experian.com](http://www.experian.com) or 1-888-397-3742
- **Transunion:** [www.transunion.com](http://www.transunion.com) or 1-800-888-4213

### **North Carolina Business Resources Directory:**

free download at [www.ncruralcenter.org/pubs/businessdirectory.htm](http://www.ncruralcenter.org/pubs/businessdirectory.htm)

### **North Carolina Department of Commerce’s Business ServiCenter:**

1-800-228-8443 in NC or 1-919-715-2864 from out of state

### **SCORE:**

[www.score.org](http://www.score.org)

### **Small Business Administration:**

[www.sba.gov](http://www.sba.gov)

### **Small Business and Technology Development Center (SBTDC):**

[www.sbtdc.org](http://www.sbtdc.org)

### **US Department of Agriculture:**

[www.usda.gov](http://www.usda.gov)



## START-UP/EXPANSION BUDGET

Expense Item	Cost (estimate)	Where will the money come from?
Land/building purchase		
Construction/renovation**		
Construction contingency (10% of construction costs)		
Rent deposits		
Utility deposits		
Furniture		
Machinery & equipment		
Office equipment		
Telecommunications (phones, Internet access)		
Inventory		
Office supplies		
Other supplies		
Insurance (hazard, liability, etc)		
Working capital to cover first 3 months of expenses (or more)		
Business license/permit fees		
Marketing costs		
Legal fees		
Start-up budget contingency		
Other:		
Bookkeeping/Accountant		
Shipping		
Dues, Licenses, Partnerships		

\*\*Constructing or renovating a building? See the next page for a checklist of other expenses you may need to include.



## POSSIBLE CONSTRUCTION/RENOVATION COSTS

Site-Related Expenses	Cost Estimate
Water lines	
Gas lines	
Electrical lines	
Septic tank/sewer hook-up	
Site preparation (grading, tree removal, etc)	
Driveways, sidewalks, curbs, gutters	
Environmental testing	
Environmental remediation	
Signs (handicap signs, business signs, etc)	
Termite treatment	
Landscaping	
Window treatments	

Building “Soft” Costs	Cost Estimate
Architectural and engineering fees	
Building permits	
Inspection permits/license fees	
Impact fees (sewer and water usually)	
Surveys (land, foundation, site, environmental)	
Appraisals	
Legal fees	
Construction period insurance (liability & builder’s risk)	





## WHAT FUNDERS WILL WANT

You will be asked to provide the following information:

### 1. MANAGEMENT

- Resumes/experience of key personnel in the business
- Management plan for the business (who will be in charge of daily operations, bookkeeping and accounting, etc.)

### 2. CASH FLOW

- Past financial statements for existing businesses (tax returns, audits, year-to-date internal statements)
- Projected financial statements for the next 1-2 years
- If a start-up, personal tax returns for the past 2 years

### 3. EQUITY/DOWNPAYMENT (How much money you are putting into the project?)

- Fund balance/equity on balance sheet
- If a start-up, personal savings to invest
- If purchasing a business, is seller financing available?

### 4. COLLATERAL (Security for the loan)

List of possible collateral including:

- Real Estate
- Cash pledges in banks or credit unions
- Marketable securities (no retirement accounts)
- Equipment/vehicles
- Names of possible co-signers if collateral is weak

### 5. CREDIT HISTORY

- Personal and business credit reports
- History of rental and utility payments (if have no or little credit history)

### 6. OTHER INFORMATION

- Market information (who are your customers and why will they come to you?)
- Business Plan (which should include all of the above information)
- Secondary source of repayment (how will you pay your debt if your business is not earning a profit yet)

