

Financing your business



DEPARTMENT OF COMMERCE, COMMUNITY & ECONOMIC DEVELOPMENT

Office of Economic Development

550 W. 7th Avenue, Suite 1770

Anchorage, AK 99501



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For a PDF on-line version of this publication, go to
<http://www.commerce.state.ak.us/oed/smallbus/home.htm> and click on the "Publications" tab,
then on the file "Starting Your Small Business"

Editor: Jennifer Abbott, Development Specialist I, Small Business Regulations Coordinator



Business loans are about relationships, not just money

Apply for a loan with the lender with whom you've been saving your money, making mortgage or credit card payments, or writing checks. Applying for a loan from a bank in whose lobby you've never set foot before, is asking to have your application rejected. Establish relationships with your lenders, they are people, too!

The cure for bad credit is time

It is not about how many debts you have when you apply for a loan, it is about whether or not you are meeting the monthly payments for those liabilities regularly over a period of time. Bad credit? Bite the bullet and pay your debts without fail monthly over a period of at least one to two years. Your credit score will improve and you'll change your spending habits. Take charge!



Loans

Tip-A bank officer wants to know one thing; how are you going to pay the loan back?

Consider your financing options

Tip – A well-financed business will help you sleep at night!

There is no such thing as starting or operating a business on a shoe string, anymore. You may have heard of successful businesses that started in garages and such, but those are the exception rather than the rule. Computers have transformed the till from a cash register to a point of sale (POS) and inventory control (IC) center that allows competitors to instantly track sales and determine how much to order. Also desktops and laptops have become the customer service person that handles instant, global purchases, sales, orders, and communications.

Whether you are starting a business or already have one operating, financing should be enough to cover your operations costs, plus at least two months reserve to carry you until the business' cash flow results in a regular revenue stream.

Where do you find money? Common sources of business financing are:

- personal savings
- family and friends
- bringing in a partner
- banks and credit unions

But don't overlook:

- credit from vendors and suppliers
- equipment leasing
- venture capital
- business plan competitions

A possible source of grants for small businesses is the White House Faith-Based and Community Initiative funding, that comes from the federal agencies like HUD down through to churches and non-profits, to which you apply for a grant for your business.

Do not be misled by the name, the program is for any for-profit or non-profit business that qualifies. <http://www.whitehouse.gov/government/fbci/> in Alaska the site is <http://www.hss.state.ak.us/fbci/office/default.htm>

Take stock of your personal assets such as savings, investments, availability of credit or equity in your home, and see what can be used to start your business. Raise money by selling some valuables...try eBay. While you may not have enough money in your pocket to cover all your start-up needs, be prepared to use your own money if you are going to ask someone else for a loan. Other sources of financing are going to expect you to put your own money or property at risk, along with theirs.

Financing comes in two basic forms — **debt and equity**.

- **Debt financing** is money that will be paid back on specified terms. A bank loan represents debt financing.

- **Equity financing** is giving up a portion of the ownership of the business in exchange for financing.

Venture capitalists — individuals or companies that invest money in private businesses, provide equity financing. I

Loans

Tip-A bank officer wants to know one thing; how are you going to pay the loan back?

The 5 C's of Credit

Every lending institution will have paperwork requirements, which generally include a copy of your business plan. In general, the lending institution will evaluate your request on the basis of the 5 C's of Credit:

1. **Capital** – the amount of your own money invested in the business.
2. **Character** – your reputation in business matters, including your credit history.
3. **Capacity** – your credit limit and the cash flow available to repay the loan.
4. **Collateral** – assets pledged as security for the loan. Guarantees – someone else's promise to repay the loan if you don't – can also serve as collateral.
5. **Conditions** – the intended uses of the loan, and the business environment in which you will be operating.

Be prepared and organized when approaching a lender. In addition to having a copy of your business plan available, be prepared to tell the lender how much money you need, what you need it for, how much of your own money you are going to put in, and how you will pay the lender back.

Applying for that Loan

Know, really know what each lending institution specializes in! Not all banks want to do small business loans. Some banks want mainly home mortgages, others want to invest in specific types or size of projects. The best way to find out is to check their websites, or call them.

Check out the current loans made by several institutions and compare interest rates, and terms. Pick the ones that best meet your needs or preferences—hopefully you will have done business with them, already. Make an appointment with a loan officer just to share your business concept with him/her. At this meeting the lender might tell you whether

their institution makes loans to your particular type of business. If they do, then let him/her know that your application will be forthcoming complete with a business plan, and all financial documents.

Fill in the application, completely. Call the banker and ask for clarification on anything you don't understand in the application. Make sure you attach ALL documents required by the application. Mail your completed application, or if possible, hand-deliver it to the banker.

Commercial banks are the most common source of business loans. However nowadays many credit unions will approve home equity loans which you can use to finance your business. Other sources include revolving loan funds, state or federal loan funds, and local revolving loan funds from the Alaska ARDOR for your area.

You can also contact the following agencies and organizations for more information about business financing

programs. For programs that fit your business proposal, be sure to ask for current information about terms and conditions, the availability of funds, and application procedures.

There are templates of financial statements at the end of this booklet. Use whichever meets your needs. You can also download these templates in Excel from our website at

<http://www.commerce.state.ak.us/oed/smallbus/publications.htm>

A lender may be more apt to approve the loan if:

- You too, are risking something of value such as cash, collateral from home equity, or real estate.
- Your projected financial statements are realistic and well documented, rather than pie in the sky.
- You already have in place some future or current bread-and-butter revenue such as contracts or orders from government, other businesses, schools, signed leases from your future tenants, etc.
- You have a track record of steadily paying other loans such as car, credit cards, lines of credit, mortgage, signature, etc.
- You haven't declared bankruptcy *recently*.
- And if you have declared bankruptcy, you have established a record of having taken control of your personal and business finances, since then.
- Your application packet is complete!

Lending Resources

Alaska Division of Investments

Department of Commerce, Community, and Economic Development
P.O. Box 34159, Juneau, AK 99803-4159
Phone (907) 465-2510, Fax (907) 465-2103,

In Anchorage (907) 269-8150 Fax (907) 269-8147

The Rural Development Initiative Fund (RDIF)

Available only to businesses located in a community with a population of 5,000 or less, that is located in a ***non-organized borough***. Loans must result in the creation or retention of jobs in the community.

Alaska Growth Capital

3900 C Street, Suite 302
Anchorage, AK 99503
Phone (907) 339-6760 or toll-free 1-888-315-4904
Fax (907) 339-6771

<http://www.alaskagrowth.com>

Alaska Growth Capital provides loans to viable businesses that banks consider too risky. Alaska Growth Capital also makes equity investments in businesses by buying stock in the company, and makes hybrid loans that combine the features of debt and equity financing.

Alaska Industrial Development and Export Authority (AIDEA)

813 W. Northern Lights Blvd. Anchorage, AK 99503
Phone (907) 269-3000 or toll-free 1-888-300-8534
Fax (907) 269-3044

<http://www.aidea.org/>

AIDEA's Loan Participation Program increases the availability of financing by purchasing a portion of a loan from a financial institution. AIDEA's portion of the loan may offer a lower

interest rate or a longer term than the bank's portion. Application to the Loan Participation Program is made after the loan is approved by the financial institution.

U.S. Small Business Administration

510 L Street, Suite 310
Anchorage, AK 99501
Phone (907) 271-4022 or toll-free 1-800-755-7034
Fax (907) 271-4545
<http://www.sba.gov/ak/>

Small Business Administration 7(a) Loan Guaranty Program

Available to most small businesses, and provides a **guaranty** of up to 85% of loans in the amount of \$150,000 or less. For larger loans, the maximum guaranty is 75%. Most private sectors lenders are familiar with the SBA program.

The 504 Loan Program provides financing through a Certified Development Company (CDC), a nonprofit corporation set up to enhance economic development. The CDC provides a portion of the financing in addition to an amount borrowed from a bank. 504 loans cannot be used for working capital, inventory, or restructuring of existing debt. The CDC for Alaska is:

Evergreen Community Development Association

Desiree Gray, Loan Officer
900 Fourth Avenue, Suite 2900
Seattle, WA 98164
Phone (206) 622-3731 or 1-800-878-6613
Fax (206) 623-6613
<http://www.ecda.com>

Kenai Peninsula Economic Development District

14896 Kenai Spur Highway, #103-A

Kenai, AK 99611

(907) 283-3335 X223 Fax (907) 283-3913

www.kpedd.org

www.exportalaska.com

A Revolving Loan Fund (EDA Funded) \$5,000 to \$50,000. Requires Loan Committee approval, and takes approximately 45 days to process.

A MicroLoan Fund (USDA funded) from \$1,000 - \$25,000. Requires business license, collateral, resident of the Kenai Peninsula and money to be used locally. Interest rate is prime +2. Maximum length of loan is 48 months. Approximately 1 week to process.

Northwest Arctic Borough Economic Development Commission

P.O. Box 1110

Kotzebue, AK 99752

Phone (907) 442-2500

Fax (907) 442-3740

<http://www.northwestarcticborough.org>

U.S.D.A. Rural Development

800 W. Evergreen, Suite 201

Palmer, AK 99645

Phone (907) 761-7705

Fax (907) 761-7783

<http://www.rurdev.usda.gov/ak/business%20&%20industry.htm>

The Business and Industry Guaranteed Loan Program provides guarantees for loans made by an authorized lender. The program is available to businesses anywhere in Alaska outside the Municipality of Anchorage. The percentage of the guarantee varies with the size of the loan.

Venture capital firms invest money in businesses in exchange for a share of ownership. Venture capital is a form of equity financing, that is, it is not repaid like a bank loan. However, venture capitalists often expect a substantial return on their investment.

Small Business Innovation Research (SBIR) and Small Business Technology Transfer (STTR) are federal grant programs that provide funding for the research and development of new technologies. Assistance with identifying and applying for these grants is available from:

TREND – Technology Research and Development Center

430 West 7th Avenue, Suite 110
Anchorage, AK 99501
Phone (907) 274-7232 or 1-800-478-7232
Fax (907) 274-9524
<http://www.trendalaska.org>

Venture Capital

Tip-An investor wants to know how soon your business will double or triple his investment in it?

Venture capital firms invest money in businesses in exchange for a share of ownership. Venture capital is a form of equity financing, that is, it is not repaid like a bank loan. However, venture capitalists often expect a substantial return on their investment.

Alaska InvestNet

PO Box 241126
Anchorage, AK 99524
907 569-2123

Alaska InvestNet's (AIN) purpose is to create wealth and jobs in the 49th State. InvestNet links Alaska's most talented entrepreneurs to local financial support, critical for their growing enterprises. Local private equity investments keep entrepreneurial talent and

businesses in Alaska, and help companies build fresh economic infrastructure with sales, new jobs and enduring wealth.

CASH FLOW PROJECTION YEAR 2006													12-Month
Month	jan	feb	mar	apr	may	jun	jul	aug	sep	oct	nov	dec	Total
A. Monthly Income													
Product/Service A	100	0	0	0	0	0	0	0	0	0	0	0	100
Product B													0
Product C													0
Product D													0
Product E													0
B. Receivables													0
Total Monthly Revenue	100	0	0	0	0	0	0	0	0	0	0	0	100
Expenditures:													
A. Variable Expenses													
Materials	100												100
Supplies													0
Equipment/Furniture													0
Seasonal Items													0
Activities Supplies													0
Staff Training Expense													0
Total Variable Expenses	100	0	0	0	0	0	0	0	0	0	0	0	100
B. Fixed Expenses													
Rent or Mortgage	1,000												1,000
Utilities													0
Telephone													0
Office Supplies/Postage													0
Equip/Auto repairs/maint													0
Insurance													0
Loan Payments													0
Marketing/Advertising													0
10. Subscription/Dues													0
Legal/Accounting													0
Auto:Fuel													0
Salaries													0
7.5% Withhold Match													0
Owners Compensation													0
Depreciation (Office Equipment)													0
	1,000	0	0	0	0	0	0	0	0	0	0	0	1,000
Total expenses	1,100	0	0	0	0	0	0	0	0	0	0	0	1,100
Loans							0	0	0	0	0	0	0
Monthly Revenues over expenses							0	0	0	0	0	0	0
Month's Beginning cash balance							0	0	0	0	0	0	0
MONTH ENDING CASH BALANCE							0	0	0	0	0	0	0

!2-Month Profit and Loss For the Year: 2006													12-MONTH	% of Total
INCOME:	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	AMOUNT	PERCENT
1. Sales/Revenues														
Product A	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	12,000	33.33%
Product B	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	24,000	66.67%
Product C													0	0.00%
Product D													0	0.00%
Product E													0	0.00%
3. GROSS PROFIT	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	36,000	100.00%
EXPENSES:														
1. Variable Expenses														
Materials	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	12,000	33.33%
Supplies	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	12,000	33.33%
Equipment													0	0.00%
Furniture													0	0.00%
Other													0	0.00%
Training													0	0.00%
Miscellaneous													0	0.00%
Total Variable Expenses	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	24,000	66.67%
2. Fixed Expenses														
Rent/Mortgage	50	50	50	50	50	50	50	50	50	50	50	50	600	1.67%
Utilities													0	0.00%
Telephone													0	0.00%
Office Supplies/Postage													0	0.00%
Equip/Auto repairs/maint													0	0.00%
Insurance													0	0.00%
Loan Payments													0	0.00%
Marketing/Advertising													0	0.00%
10. Subscription/Dues													0	0.00%
Legal/Accounting													0	0.00%
Auto:Fuel													0	0.00%
Salaries													0	0.00%
7.5% Withhold Match													0	0.00%
Owners Compensation													0	0.00%
Depreciation (Office Equipment)													0	0.00%
Total Fixed Expenses	50	50	50	50	50	50	50	50	50	50	50	50	600	1.67%
Total Variable and Fixed Expenses	2,050	2,050	2,050	2,050	2,050	2,050	2,050	2,050	2,050	2,050	2,050	2,050	24,600	68.33%
Net Income From Operations	950	950	950	950	950	950	950	950	950	950	950	950	11,400	31.67%
Other Income (Interest)	10	10	10	10	10	10	10	10	10	10	10	10	120	0.33%
Other Expense (Interest)													0	0.00%
Net Profit (Loss) Before Taxes	960	960	960	960	960	960	960	960	960	960	960	960	11,520	32.00%
Taxes: a. Federal													500	1.39%
b. State/local													0	0.00%
NET PROFIT/LOSS) AFTER TAXES	960	960	960	960	960	960	960	960	960	960	960	460	11,020	31%

Three-Year Profit & Loss Projection

Updated: _____ 2006

	Year 1: 2006		Year 2: 2007		Year 3: 2008		Total: 3 Years	
	AMOUNT	%	AMOUNT	%	AMOUNT	%	AMOUNT	%
INCOME								
1. SALES/REVENUES	10,000	100.00%	10,500	100.00%	11,025	100.00%	31,525	100.00%
Product/Service A	10,000	100.00%	10,500	100.00%	11,025	100.00%	31,525	100.00%
Product B		0.00%		0.00%		0.00%	0	0.00%
Product C		0.00%						
Product D		0.00%						
Product E		0.00%						
2. GROSS PROFIT ON SALES	10,000	100.00%	10,500	100.00%	11,025	100.00%	31,525	100.00%
EXPENSES								
1. VARIABLE	1,000	10.00%	1,050	10.00%	1,103	10.00%	2,050	6.50%
Materials	1,000	10.00%	1,050	10.00%	1,103	10.00%	2,050	6.50%
Supplies		0.00%	0	0.00%	0	0.00%	0	0.00%
Equipment/Furniture		0.00%	0	0.00%	0	0.00%	0	0.00%
Seasonal Items		0.00%	0	0.00%	0	0.00%	0	0.00%
Activities Supplies		0.00%	0	0.00%	0	0.00%	0	0.00%
Staff Training Expense		0.00%	0	0.00%	0	0.00%	0	0.00%
2. FIXED	0	0.00%	800	7.62%	840	7.62%	1,640	5.20%
Rent or Mortgage	1,000	10.00%	1,050	10.00%	1,103	10.00%	3,153	10.00%
Utilities		0.00%	0	0.00%	0	0.00%	0	0.00%
Telephone		0.00%	0	0.00%	0	0.00%	0	0.00%
Office Supplies		0.00%	0	0.00%	0	0.00%	0	0.00%
Postage		0.00%	0	0.00%	0	0.00%	0	0.00%
Equip/Auto repairs/maint		0.00%	0	0.00%	0	0.00%	0	0.00%
Insurance		0.00%	0	0.00%	0	0.00%	0	0.00%
Loan Payments		0.00%	0	0.00%	0	0.00%	0	0.00%
Marketing/Advertising		0.00%	0	0.00%	0	0.00%	0	0.00%
Subscription/Dues		0.00%	0	0.00%	0	0.00%	0	0.00%
Legal/Accounting		0.00%	0	0.00%	0	0.00%	0	0.00%
Auto:Fuel		0.00%	0	0.00%	0	0.00%	0	0.00%
Salaries		0.00%	0	0.00%	0	0.00%	0	0.00%
7.5% Withhold Match		0.00%	0	0.00%	0	0.00%	0	0.00%
Owners Compensation		0.00%	0	0.00%	0	0.00%	0	0.00%
Depreciation (Office Equipment)		0.00%	800	7.62%	840	7.62%	1,640	5.20%
TOTAL OPERATING EXPENSES (1+2)	1,000	10.00%	1,850	17.62%	1,943	17.62%	3,690	11.70%
NET INCOME OPERATIONS (GPr - Exp)	9,000	90.00%	8,650	82.38%	9,083	82.38%	27,835	88.30%
OTHER INCOME (Interest Income)	0	0.00%	0	0.00%	0	0.00%	0	0.00%
OTHER EXPENSE (Interest Expense)	0	0.00%	0	0.00%	0	0.00%	0	0.00%
NET PROFIT (LOSS) BEFORE TAXES	9,000	90.00%	8,650	82.38%	9,083	82.38%	27,835	88.30%
TAXES 1. Federal, S-Employment	5,000	50.00%	800	7.62%	0	0.00%	5,800	18.40%
2. State	0	0.00%	0	0.00%	0	0.00%	0	0.00%
3. Local	0	0.00%	0	0.00%	0	0.00%	0	0.00%
NET PROFIT (LOSS) AFTER TAXES	4,000	40.00%	7,850	74.76%	9,083	82.38%	22,035	69.90%