

BUSINESS SMART TOOLKIT

Instructor's Guide



Business Smart is a business education series
developed by...



BUSINESS SMART WORKSHOP



Business Smart Toolkit Overview

SBA's Business Smart Toolkit is a resource designed to equip local civic organizations, trade associations, faith based and non-faith based community organizations, as well as other groups with the information and tools necessary to host a Business Smart Workshop.

The Business Smart Toolkit includes:

- Host organization welcome packet which includes a template promotional flyer, sample press releases and social media marketing ideas
- PowerPoint Presentation for the Business Smart Workshop
- Instructor Notes within the PowerPoint
- Instructor/Presenter Guide

Instructor Guide

This Instructor Guide highlights the content for the Business Smart Workshop and provides detailed talking points and guidance for hosting an informative and dynamic workshop. Feel free to supplement the material with information from your own experience, your local community and local guest speakers. The materials provided in the entire toolkit can and should be customized to fit the unique aspects of your community

The material is presented in such a way that only requires the presenter to have a basic understanding of business terms. Presenting should be simple – and this Guide will walk you through the presentation almost slide-by-slide (also, there are Instructor Notes within the actual PowerPoint presentation).

PowerPoint Presentation

Each module is provided as a separate PowerPoint Presentation. Each slide in the PowerPoint Presentation includes instructor notes that provide detailed talking points to guide the presenter.

The PowerPoint is customizable, so you should include your host organization information where indicated.

The workshop is intended for individuals that want to start a small business or those that are new to small business ownership. The Business Smart Workshop consists of three separate modules (**Ready, Set, Go**) that should be delivered in sequential order to provide maximum assistance to the entrepreneur. Each module is between 60-90 minutes long and can be delivered over 3 separate workshop sessions or as one ½ day workshop.



While the entire workshop can be delivered by a single entity, it is highly encouraged that the host organization deliver **Module 1**, a local lender deliver **Module 2** and an SBA District office representative deliver **Module 3**.

Presenter tip: Reach out to your local SBA District office to secure someone to deliver Module 2 and 3. Visit: <https://www.sba.gov/tools/local-assistance/districtoffices> and ask to speak with the District Director.



If you do have others present the workshop with you, be sure to forward them a copy of the PowerPoint Presentation and the Instructor Guide.

Module 1

READY

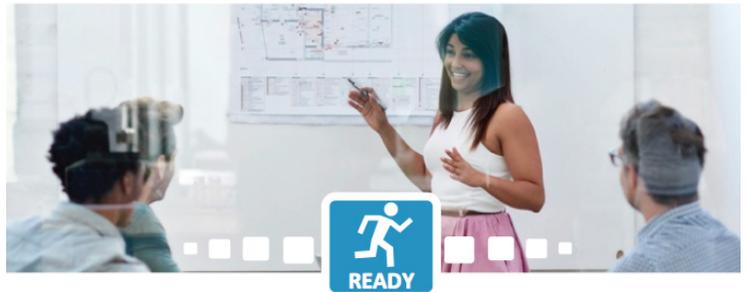


Module 1: READY

Welcome to the **BUSINESS SMART WORKSHOP**

Purpose

The “READY” module addresses what a startup business owner must do to get organized and ready to start a small business. It is a good starting point for brand new business owners since it covers all the things new business owners should be doing. It is also a good review of practices for existing business owners, and serves as a reminder about the importance of implementing those practices. The module serves as a preparatory checklist for those considering small business ownership.



Objective

To walk entrepreneurs through the key action steps and planning that must be done prior to ever opening the doors for business

Who should present the Ready Module?

This module should be presented by the faith- or community-based organization that is hosting the event. The material is presented in such a way that only requires the presenter to have a basic understanding of business terms. Presenting should be simple – and this Guide will walk you through the presentation almost slide-by-slide (and there are Instructor Notes within the actual PowerPoint presentation). There are even places in the slides for your organization to type in its name and any other contact information that you want to provide to attendees!

Tips to Presenters

- Reassure attendees that there is a great deal of information about business and financing (credit) basics contained in the Business Smart Workshop, and that they should not feel overwhelmed if there are topics that they remain unclear. Starting or growing a business is a big undertaking and it will take time to feel completely comfortable with the concepts and realities of business ownership.
- Print the slides in handout form for the “attendees”, which provides room for note taking. You might also consider printing the slides’ instructor notes for students as a take-home resource, since they contain more explanation than what is on the slide.
- Remind attendees that there are a large number of resources, many that are free, to assist a person who want to own a small business. www.SBA.gov should be their starting point.

TALKING POINTS

[Slides 2]

- Introduce the speakers and share their backgrounds
- Introduce/acknowledge any community sponsors, if any

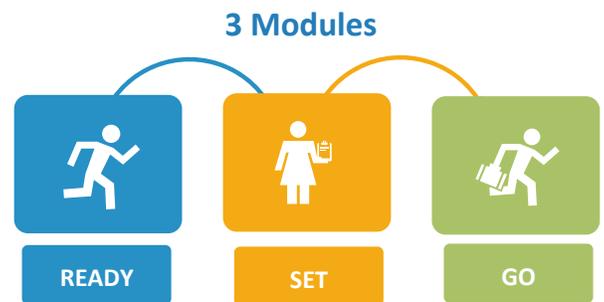
[Slide 3] SBA Mission

The Business Smart Workshop is an initiative of the U.S. Small Business Administration. Through the Business Smart Workshop, SBA hopes to provide you aspiring entrepreneurs with the information you need to head down the pathway toward economic empowerment and business success by educating you on:

- the fundamental steps to starting a business,
- how to become credit ready, and
- how to identify local technical assistance resources to continue their entrepreneurial journey.

[Slide 4] Workshop Overview

Presenter tip: If you will have other presenters deliver the other modules, you should mention that at this point.



[Slide 7] Introductions

Having a strong and robust network is key to any business.

This workshop is a great opportunity for you to start building your network, you never know how you may be able to support one another.

- Have the participants quickly introduce themselves and share their name and business idea with their neighbor sitting beside them.

[slide 9] What can impact small business success?

What impacts small businesses negatively?

Understanding these and deciding early on how you will overcome these will help increase your odds of business success. While some actions and decisions are obvious, others like failure to seek outside help and lack of planning can be helped by the SBA.

On the other hand, what impacts small business success positively? Gallup studied 2,500 entrepreneurs to understand the actions and decisions that lead to venture creation and growth. After years of research and hundreds of interviews, Gallup has identified 10 specific talents that drive business success. These 10 behaviors are consistently observed in highly successful entrepreneurs. Don't be discouraged if you don't have all of these talents. Some may come to you naturally, while others may need to be cultivated.

[Slide 11] Are you ready to be an entrepreneur?

This quick assessment will help you determine if you are ready to be a business owner. Take time to run through this mental checklist. If you have trouble answering any of these questions, make sure to think about why and how you will overcome this.

Presenter tip: Give the participants a few moments to think through and write down their answers to these questions.

[Slides 12] Steps to Starting a Small Business

Planning and preparation done early will go along way toward helping business owners become successful. Planning to open a small business does not require an advanced degree or a fancy 30 page business plan. It does take vision of where you want to go and then the discipline to work towards that vision. These steps are the building blocks that will help you begin building your business plan and getting your business off the ground properly.

[slide 13] 1. Determine your offering and market demand

If you are unsure of your customer base or whether or not there is a need for your product, answering these questions will help you get started. Some of you may already have an idea in mind (or have started a business) while others may still be identifying a product or service to sell. These questions will help you think about your product or service in a strategic way.

Tip: Have each participant take some time to answers these questions as best they can. If they cannot answer one of these questions, that's OK. They can always reach out to get help from one of the many resources in their community.

[slide 14] 2. Understand your competition

When you have a solid understanding of what similar businesses currently exists, you are better able to identify gaps and unfulfilled needs. Getting a grasp of your competition can help you get a starting point with in terms of prices, marketing, etc. This exercise can also help you identify the unique niche your product or service will occupy. Understanding how your product or service differs from competitors will help you identify your advantage over the competition.

Tip: Have participants write down their answer to the questions on the slides, if they can. If they don't know about their potential competition, have them write down where they think they could find the answers.

[slide 15] 3. Determine your marketing strategy

Marketing is basically what you do to promote your business to your customers. Customers are crucial for the success of your business—without a customer there is no business. In the early stages, you should focus on identifying and targeting the customers that are most likely to buy.

Tip: Again, have participants write down their answer to the questions on the slides, if they can. If they don't know about their potential customers, have them write down where they think they could find the answers.

[slides 16-18] 4. Determine your start-up costs

One of the earliest parts of starting a business is approximating the costs of starting. Start-up costs are technically defined as the costs you'll incur before you start making any income. Businesses often fail because they do not have enough cash on hand to last them until they become profitable. Estimating costs early on in the process is crucial.

When starting a business, initial costs often end up costing more than initially thought. Sometimes this occurs because a prospective business owner did not consider and include ALL the costs required when starting the business. Start-up costs are technically defined as the costs you'll incur before you start making any income. It's an important distinction to make because it will impact your tax return.

[Slide 18]

This is an example of start-up costs for a business, however, this could vary depending on the type of business. Participants should make a similar list for their business. For recurring expenses, encourage participants to include the first few months (generally around 3-6 months) of cost as it may take a while for the business to generate enough cash to cover those recurring expenses.

Tip: Have participants make a list of initial costs and recurring costs for their new business. They should try to think about which start-up costs are absolutely necessary and which can wait until the business starts making sales and generating revenue.

[slides 19-21] 5. Meet your legal requirements

There are advantages and disadvantages to each form of organization, consult with an attorney or certified public accountant for guidance on which may be best for you.

Businesses can be an extension of a person, which is called a sole proprietorship or it can be a separate legal entity such as a general or limited partnership, a corporation or a limited liability company or limited liability partnership. Here is a quick overview of each type of business.

A business must be organized as some form of entity. The most common entities are:

Sole Proprietorship: A sole proprietorship is the easiest business structure to form, it's basically an unincorporated business owned and run by one individual (no partners are involved), with no distinction between the business and its owner. As a sole proprietor, you are entitled to all profits and are responsible for all your business's debts, losses and liabilities.

General or Limited Partnership: A partnership involves two or more people who agree to share in the profits or losses of a business. A primary advantage is that the partnership does not bear the tax burden of profits or the benefit of losses - profits or losses are "passed through" to partners to report on their individual income tax returns. A primary disadvantage is liability - each partner is personally liable for the financial obligations of the business.

Corporation (S Corp or C Corp): A corporation is a legal entity that is created to conduct business. The corporation becomes an entity - separate from those who founded it - that handles the responsibilities of the organization. Like a person, the corporation can be taxed and can be held legally liable for its actions. The corporation can also make a profit. The key benefit of corporate status is the avoidance of personal liability. The primary disadvantage is the cost to form a corporation and the extensive record-keeping that's required.

Limited Liability Company (LLC): A hybrid form of partnership, the limited liability company (LLC) , is gaining in popularity because it allows owners to take advantage of the benefits of both the corporation and partnership forms of business. The advantages of this business format are that profits and losses can be passed through to owners without taxation of the business itself while owners are shielded from personal liability.

[Slide 21]

There are legal requirements that must be taken care of on the state or local level and there are others that are to be taken care of on the federal level. These are the most common.

One of the first things you will want to do is check with your State to see if they name you want to operate under is available, if so you should reserve and/or file the business trade name.

Most businesses must have a business license from the city in which the business operates. Each city or county has its own requirements, so small business owners will have to check what the requirements are in the city where their business will operate.

Some businesses will need a special permit to operate. For example, an auto body repair shop that does painting may need a special permit to operate a paint booth. Check with your local city or county for any special requirements.

Paying your business' taxes on time can be the difference between staying in business and going out of business. It is really important to know how to file and pay your taxes on time to avoid costly penalties.

There is truth to that old saying that the only thing certain in life is death and taxes!

Taxes are paid at several levels:

- Federal level (www.irs.gov)
- State level
- Local (city or county) level



Taxes can include: Income taxes, employer and/or employee taxes, and sales taxes

A financial professional such as an accountant or a bookkeeper can help you understand how to pay taxes at all levels. Make sure you know the schedule of when your taxes are due. Not knowing the schedule is not an excuse if you forget or don't pay on time. Keep in mind: Failure to pay taxes on time can lead to penalties that continue to increase/accumulate – and have the potential to put you out of business.

Every business needs an employer identification number (EIN, also known as a tax ID number) from the Internal Revenue Service (IRS). Obtaining the number is easy once you decide on the type of business entity you are forming. You do NOT need to pay a service to help you obtain an EIN – you can call or apply online and obtain the number immediately visit www.irs.gov

The IRS offers several different language choices for help in obtaining the EIN at www.irs.gov. Look in the upper right hand corner for the language tab – click on it and several choices will appear.

[slide 22] 6. Prepare yourself financially

Starting a business will require some financial commitments – these tips can help you figure out how you will manage your finances during those tough beginning months. Cash flow may be tight during the early stages of your business, therefore: Take into account your personal budget and calculate how much you need to survive at least the first six months of business. Remember that most businesses fail because they do not have enough cash on hand during the early months before businesses turn a profit. Following these strategies will help you during your low cash flow times.

[slide 23-24] 7. Develop your business plan

Steps 1-7 which we've just reviewed make up key components to your business plan. So answering those questions puts you on track to developing your own business plan.

A business plan explains what a business will sell, to whom it will sell, and how it will make money. A business plan does not need to be a 30 or even a 15 page document. What's important is that the plan should help you have a clear understanding of what you're doing and where you're going.

Writing a business plan takes time and effort – just like running a small business will. There are many organizations that offer FREE counseling! In the 3rd module, you'll learn more about those resources. However, the Small Business Administration offers some at: <https://www.sba.gov/tools/business-plan> . If you intend to apply for a loan to start your business, a lender will require a written business plan. Loan or no loan, you should have a plan!

[slide 25] 8. Get help

There are many resources to help businesses get up and running, many of them are free. The slides show some of them, but feel free to add in any that you know of in your local area.

[slide 26] OPTIONAL: GUEST ENTREPRENEUR

Tip: Entrepreneurs love to hear from others who have successfully started and grown a business. If possible, this would be a good place to invite a local entrepreneur to talk about how they started their business. Ask the guest entrepreneur to talk about:

- How or why they decided to start the business
- Describe their business
- What skills have contributed to their success
- The challenges of being a business owner
- Advice for new business owners
- Questions and answers

Wrapping up Module 1

Congratulations, this is the end of the Ready module! You now have the tools to help you understand the thought process any potential small business owner must follow in order to start a small business.

Next in the Business Smart Workshop is the Set module, which is designed to help you understand what types of financing are available to small businesses and to help you understand what lenders look for as they review a loan application. Finally, the last module in the workshop is the Go module, which offers various resources and website links to help you as you put your business plan into action and begin to operate your very own small business.

Tip: If you are delivering all three modules as a half day workshop, then this is a great time to offer a short 10 minute break.



Module 2

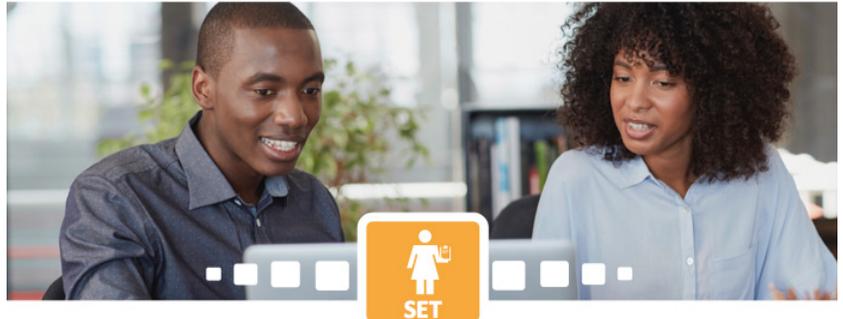
SET



MODULE 2: SET

Purpose

The “SET” module discusses the fundamentals of financial literacy, how to prepare the company to be credit-ready and explores conventional and non-traditional sources of financing available to new or established small businesses. The module covers the information and documentation businesses need in order to apply for a loan. It also reveals what lenders look for in a borrower’s experience and in a loan application.



Objective

To help entrepreneurs understand how to build a business that is credit-ready.

Who should serve as presenter for the Set module?

Ideally, this module should be delivered by someone familiar with traditional and alternative lending sources. A volunteer banker/lender that participates in the SBA’s business loan programs is an ideal fit. SBA’s partner, the National Association of Government Guaranteed Lenders (NAGGL), which is a trade association whose membership is made up of just such lenders located all across the country can assist in identifying such an individual. Send an email to info@naggl.org and ask for the names of some lenders in your town or city and the staff at NAGGL will help you to identify someone that fits the bill!

However, if you are unable to secure a Lender to present this module, don’t worry because we have presented the material in this workshop in such a way that it only requires the presenter to have a basic understanding of business terms. Slide by slide talking points have been provided that will walk the presenter through this workshop and each of the modules.

Tips to Presenters

- Reassure attendees that there is a great deal of information about business and financing (credit) basics contained in the Business Smart Workshop, and that they should not feel overwhelmed if there are topics that they remain unclear. Starting or growing a business is a big undertaking and it will take time to feel completely comfortable with the concepts and realities of business ownership.
- Print the slides in handout form for the “attendees”, which provides room for note taking. You might also consider printing the slides’ instructor notes for students as a take-home resource, since they contain more explanation than what is on the slide.
- Remind attendees that there are a large number of resources, many that are free, to assist a person who want to own a small business. www.SBA.gov should be their starting point.

Talking Points

Getting Set

[Slide 4]

The Set module reviews some of the topics in the Ready module and builds on them as attendees learn about obtaining financing to start or grow a business. Among the topics to be covered are potential sources of financing; what lenders look for in a loan applicant (the “Five Cs of Credit”); what a credit score is and why it matters; what’s included in a loan application, including more on the importance of a Business Plan and solid cash flow projections; and avoiding predatory lending practices.

It’s important to understand terminology:

- **Financing** = borrowing money AND is often called “getting credit” and a bank is said to “extend credit” to a loan recipient.
- This is why you will often hear lenders and other “experts” discuss with a prospective small business borrower how to get “credit ready.”

[Slide 7] Where can you get money to start a business?

There are three sources of funding to start a small business:

- 1) Money that the loan applicant has or is given by family or friends
- 2) Money from an investor
- 3) Money that the business owner borrows
 - a. Personal loan – credit card, home equity line of credit
 - b. Business loan –
 - i. Microloan lending program
 - ii. State or other local lending program
 - iii. Conventional business loan from a bank or other lender
 - iv. Business loan supported by U.S. Small Business Administration (SBA) guaranty

However, often someone who wants to start a small business has only a small amount of savings and usually investors are not interested in supporting businesses that are just starting and do not have a proven track record. So most often someone who is getting ready to start a business will need to find an outside source of funding.

If you own a house, you might be able to get a loan based on that ownership and the home's equity (a "home equity line of credit").

For many startup small business owners, credit cards provide the necessary funds to open the business. But there are drawbacks to using credit cards to fund a business:

- 1) The business owner must have very good personal credit
- 2) The issuer of the credit card will want to see a reliable source of income that will be available to make the credit card payments ... so, if the person is quitting a job to start a new business that may be a problem
- 3) The interest rates charged on credit cards is much higher than the interest rate on a business loan, so the business will need to generate more sales in order to pay back the same amount of money.

So, today, we will concentrate on the third category of funding – business loans.

What do you need to do to get a bank or other lender to say "YES" to your loan request?

[Slide 9] Introduce your Business to a Lender

Even though we live in an Internet-saturated world, it is usually best for anyone who is thinking of opening a small business to deal face-to-face with a lender. Building a relationship with your lender is crucial. While running a credit score provides a quantifiable way for a lender to gauge how likely the small business owner is to repay its business loan, it is very impersonal. Often the factor that turns a "maybe" loan decision into a "yes" may very well be the entrepreneurial spark that the lender sees in the loan applicant.

As soon as you commit to starting a business, you should start cultivating a business banking relationship, including opening necessary accounts such as checking and payroll accounts, establishing a credit card relationship if you will allow your customers to make payment in that way, etc. And, as much as possible, maintain a face-to-face relationship with your banker since that person may also become the lender that provides your small business a loan!

[Slide 10] What you need to know about Traditional Lenders

When most people think of seeking financing (a loan, "credit"), the first source they look to is a bank. And although everyone has heard jokes about the cold-hearted banker, the actual truth is that banks ... lenders ... **WANT to make loans; THEIR BUSINESS is to make loans!**

But, it is important to remember that banks are regulated [meaning that they must follow a lot of very strict rules about lending] and that they must follow their regulators' requirements regarding how much risk they can take on. [That is, the risk of losing all or some of the money they agree to lend to a small business.]

Since small business loans are typically regarded as more risky than the business loans made to larger or more established businesses, a new business owner has to work harder to persuade a bank lender that making a loan to business would be a smart decision. **(And, again, that's why personal relationships can be very important in getting a loan!)**

[Slide 11] Non-Traditional Lenders

There are many loan sources OTHER than banks that provide loans for small businesses, including:

- Credit Unions: Many credit unions are adding small business lending to the services they provide. And, since many credit unions have memberships limited to a particular community or employer, they tend to have a more relationship-focused view of lending which can be good for a business owner who needs a first loan in a smaller amount.
- Microlenders
- Other community-based lending programs
- Community Advantage lenders that make loans under a special SBA business loan program
- Online lending platforms
- [Add local program(s) here]

Presenter Tip: this is a good place to talk about any microloan programs that may be available in your community as well as any other community-based lending programs that may be available to small businesses in your area. You may also want to briefly discuss the resources that are available in your community (including your organization, if applicable), that can help a fledgling business identify potential lenders and help them to approach one or more of those lenders with a request for funding.

Microlenders:

[Slides 12-13]

In many areas of the country, there are established microlenders that can provide smaller loans—microloans, usually coupled with the provision of technical assistance (advice) to the business owner(s). Some microlenders participate in the SBA Microenterprise Development Program, to find out more visit: SBA microloan program website: <https://www.sba.gov/content/microloan-program>

The Five C's of Credit

[Slides 15-27]

Lenders look for an applicant that thoroughly addresses what are commonly known as the five C's of Credit:

1. Character
2. Capacity / Cash Flow
3. Collateral / Guaranties
4. Capital / Contribution
5. Condition



[Slide 17-22] Character

Character is the factor that relies on WHO the small business owner is – what his or her reputation in the community is, whether he or she is known to the lender, how he or she has handled previous personal or business loans, whether his or her tax obligations are met on time, and what other factors are known about the individual's integrity.

[Slide 19] Character – Your Personal Credit Standing

Anyone intending to apply for a small business loan (or, really for any loan) should know his or her credit score. The Federal Trade Commission (FTC) provides information about how an individual can get a FREE copy of their credit score. All credit reporting agencies are required to provide a score each year at no cost to the individual.

[Presenter Tip: Please stress to the attendees that they do not have to sign up for a credit score program, or pay to get their credit scores.]

[Slides 20-21] FICO Scores

FICO is one of the credit scoring systems most commonly relied on by lenders.

FICO scores generally range from 300 to 850 -- and the higher the score, the better – it shows that you have paid back any debts that you owe in a timely manner.

For smaller loans (\$250,000 or lower) some lenders make credit determinations based wholly or mostly on the applicants credit score.

[Slide 22] What if YOUR Credit Score is Low?

Credit reports can contain errors in them. Some of the more common errors are:

- Information that is not yours because of confused names, addresses, etc. Credit reporting agencies may confuse names, addresses, Social Security numbers, or employers. If you have a common name—say, John Brown—your file may contain credit or personal information on other John Browns, John Brownes, or Jon Browns and may lack some of your own credit information. Your file may erroneously contain information on family members with similar names.
- Problems because of identity theft. If you have been the victim of identity theft, mixed account information may appear in your credit report.
- Information from an ex-spouse. If you have been divorced, your prior spouse's information may be mixed with yours.
- Outdated information. Accounts may still be listed after the legal deadline for removing them from your reports.
- Incorrect payment status. The payment status of accounts may be incorrect.
- More than one delinquent date on an account. If an account has been transferred to a debt collector, your report may contain more than one date for when the account became delinquent (which triggers how long it may remain in your report).
- Wrong notations for closed accounts. Accounts you closed may look as if the creditor closed the account.
- Remedied delinquencies not reported as such. Credit reporting agencies often fail to note accounts in which delinquencies have been remedied.

If you discover errors in your credit report, you should take action – and seek help from your lender and/or the National Foundation for Credit Counseling if needed.

Take these steps:

- Contact the creditor [the business or lender that was owed money] in writing to ask to have the report fixed
- Contact the credit bureau in writing to find out how to correct wrong information
- Provide copies of your letters to your lender

TRY TO FIX IT BEFORE APPLYING FOR A LOAN, This may mean waiting to apply for a loan until you have taken care of your other bills and improved your credit score. If you need a credit counselor there are several non-profits that will provide free credit counseling – there are likely some in your local area.

[Slide 23] The Second C – Capacity / Cash Flow

This is the most important “C” since it will tell any potential loan source whether or not your business makes enough money to pay all its bills including the new loan you are asking for your small business. It measures whether you can pay back the loan!

A small business’ cash flow – the money that it makes now or expects to make – must be enough to pay ALL of the business’ expenses and allow a little extra in case something unexpected comes up.

[Slide 24] Existing Businesses

If you already own a business [or are considering purchasing an existing business], a lender will measure cash flow by how much money the business has made in the past. If a new loan will significantly change the business operations so that past “performance” will impact future cash flow, the lender will rely in whole or in part on estimates – called “projections” – to measure income.

When might a lender rely more heavily on projections? If the loan proceeds [money from the loan] will be used to:

- Expand existing facilities or hire more staff because the business expects that there will be more sales;
- Start a new business line (for example adding a new product to those already being manufactured)

Startup Businesses (New Business): A business that is newly starting will be measured by how they are expected to perform in the future (projections).

[Slide 25] The 3rd C – Collateral / Guaranties

Lenders will often require a borrower to ‘pledge’ collateral when making a loan. Collateral is something of value (“tangible asset”) that you own or will buy with money from the loan that you can “pledge” to secure a loan – that means that if something happens and you do not pay your loan back, the lender will be able to take possession of your “thing of value.” [It could equipment you use in your business; real estate or a home; etc.] Collateral is sometimes less important to non-traditional lenders than to a bank.

Why do lenders want collateral?

Lenders look to collateral as a way of limiting their risk when they make loans, especially to a new start business. What is a lender's risk? It is the risk of not being paid back the money loaned to an individual or to a small business. How do lenders' stake their claim to a piece of collateral? They do it by filing legal documents called liens.

Liens

A lien on collateral property gives a legal right to the lender to sell the property if a borrower doesn't make its loan payments. A lien exists, for example, when someone borrows money to buy a car – the lender files a legal form indicating that it has loaned the money for the car and has the right to sell the car if the borrower doesn't pay back the loan.

Generally lenders will require a 1st lien position on any assets that are purchased with loan proceeds. That simply means that if a borrower doesn't pay back the loan, the lender with the 1st lien position is the one that has the first rights to any money when the collateral is sold. Most lenders will also take whatever lien position is available on other assets owned by the business including real estate, equipment, furniture, etc.

This means that more than one lender may have a lien on the same property. But, the order of the liens decides who has first rights to any money made when the collateral is sold, and a lender that is not in the first lien position will only get paid after the first loan is paid in full.

Personal Guarantees

Most lenders will require the business owner or owners to personally guarantee the loan – that means that the owner makes a legal promise to repay the loan even if the business fails.

An unlimited personal guaranty is a business owner's legally binding agreement to repay the business loan in full even if the business does not succeed.

Why do lenders require personal guarantees? Personal guaranties demonstrate the owners' commitment to the success of the business and are almost always required by all lenders, including microlenders. SBA requires unlimited personal guaranties from all individuals who own 20% or more of a business.

[Slide 26] The 4th C – Capital / Contribution

In most loan scenarios, conventional lenders like to see that the business owner has made some monetary contribution to the business. They expect the owner or owners to have contributed something to the business (called an equity injection) because they want to see that the owners have some "skin in the game." An "injection" to your small business shows that you are committed to making the business a success – and that YOU, like the lender, have something at risk if the business fails.

Equity injection is especially important when working with traditional lenders; lack of equity can sometimes mean the loan will be turned down. For non-traditional lenders, having an equity injection (money) available may not be quite as important.

In SBA lending, an equity contribution is important, particularly when the loan is used to start a new business, to buy an existing business, or to purchase real estate.

[Slide 27] The 5th C – Condition

The final C of the 5 C's of Credit is Condition, which refers to the loan conditions that a lender considers when approving your loan such as –

- Loan amount
- Interest rate
- Purpose for loan – to buy fixed assets like real estate or equipment; for inventory; or for working capital
- How well people are doing in your community and how well your business' industry is doing

[Slides 28-33] Get Set ... Ask for a Loan

A small business owner, that fully understands every aspect of her business, and has a well thought out Business Plan will make the best impression on a potential lender. That means being:

- **Well prepared** – you've thought-out and written a reasonable plan
- Story ready – you're able to tell your story well, so that the lender can believe in your dream and want you to succeed
- **Very honest** – in the presentation of yourself and your business
- Some of the things that lenders DO NOT like to see from a prospective small business owner include:
 - Business owners who do not know their own plans and have to rely on others (consultants, accountants, etc.) to explain the business.
 - Unrealistic sales and expense projections that are not backed up by very specific assumptions and as much science as possible. [Guesstimates and overly optimistic projections tend to scare off lenders.]
 - Business owners that try to hide or gloss over less positive aspects of the business operations. [Lenders expect to see positives AND negatives, and a plan with no negatives arouses suspicion.]

[Slide 28] Prepare to Ask for a Loan

Just submitting the filled-in loan application documents without telling your business' story is more likely to result in having the loan turned down. You will need to provide: a Summary of your loan request (how much money are you asking for; what will you use it for; how will you pay it back?) and information on the financial condition of your business.

Here are a few questions you should be prepared to answer:

- How will the loan change the business in a positive way? – More customers, higher sales, relocation to a better site, etc.
- Is there a plan to overcome any prior problems? – For example, if the business suffered from customer

or employee theft, what steps have been taken to stop that from happening in the future?

- Are there any personal circumstances for the business owner or his/her family that could either help or hurt the business? – For example does the owner’s spouse have income from a source other than the business that can help to pay personal living expenses (mortgage or rent, utilities, car expenses, school tuition, etc.) so that the business will not have to provide funds to meet all these expenses?
- Most importantly, will the business have enough revenue to pay its ongoing expenses as well as the new loan?

[Slide 29] Prepare to Ask for a Loan

Business Plan: As discussed in detail within the READY module, having a well thought-out Business Plan is key both to the business owner’s understanding of the business and to the way that a potential lender will regard the probability for the long-term success of the business.

Resume: One measure of how successful a business is likely to be is the managerial and industry-specific experience of the business owner and any employees who will play key roles in the business. Strengths should be emphasized, and weaknesses should be overcome.

Here’s an example: Let’s say the small business owner is a retired Army Sergeant who, during his Army career was involved in all aspects of mess hall operations, including planning, procuring foodstuffs, preparing and serving meals, etc. –that individual could clearly demonstrate his managerial experience and abilities. However, if the business that he now wants to start is a high-end restaurant, his skills would not necessarily be a complete match. So, ideally, he would have a year or two of post-Army experience in a restaurant like the one he wants to open. Or, if he does not have that additional experience, he should acknowledge his possible weakness, and address it by having a co-owner with the experience that he lacks, or by hiring a manager with the necessary skills and experience. The goal is to demonstrate that the owners and key managers together have the necessary skills, education and experience to successfully run the applicant business.

[Slide 30] The Basics of Your Loan Request

Any lender will be looking to see a reasonable request that is adequate to meet the needs of the business without being extravagant. Oftentimes, loans that will be used to acquire ‘hard’ assets – real estate, equipment, etc. –are easier to get than loans that will be used for working capital because the assets that are purchased will be pledged to secure the loan. What is working capital? It is money to help you pay your daily expenses like rent, utilities, employee salaries, inventory, etc. If this is the type of loan that you need, you should break out the various purposes for which the loan funds will be used – for example how much will be used for rent, how much for utilities, how much for salaries, etc.

[Slide 31] Basics of Your Loan Request; What Type of Loan Are You Seeking?

Do you need a loan for a one-time purpose? That is, to purchase a fixed asset, a building or piece of equipment? Then you probably need a term loan. With a term loan, you will get a set amount of money that you will pay back during a specified period of time.

Do you need a loan to cover ongoing needs – maybe to regularly purchase inventory for your retail shop. Then you might need a line of credit. A line of credit allows you to borrow up to a maximum amount of money, repay some of it and borrow more up to the maximum loan amount, so that you always have money available when you need it. This is how a lender might say it: lines of credit are drawn down, repaid, and then drawn down again, usually multiple times during the life of the loan.

[Slide 32] Basics of your loan request; How Will You Pay Back the Loan?

As a prospective small business owner and loan applicant, you will rely on the business' cash flow projections to help answer these questions. You will always want a loan term (maturity) that is appropriate to the loan purpose. Lenders will be willing to offer a longer repayment time for loans that will be used to buy real estate or equipment that has a long usable life. Lenders will be willing to offer shorter repayment time (terms) for loans that are used for equipment that will need to be replaced in a few years and for working capital. And, if you have anything of value (collateral) to pledge to offset the lender's risk, you will have a greater chance of receiving the loan.

[Slide 34] How Much Should You Ask For?

This is a hard question that only a specific business owner can answer – and if you are uncertain, seek assistance and advice from a business advisor since it is important to be realistic and accurate as you determine the amount needed to start or grow your small business. You should be aware that lenders do not like to see loan requests that seem excessive based on the purpose for which the money will be used. [For example, asking for \$50,000 loan for a piece of equipment that costs only \$15,000.]

However, it can also be a problem if you don't ask for enough money. This is often true with startup businesses – it is common to under-estimate how long it will take for the business to “break-even” and make a profit. Be Business Smart – seek advice from experts in your area!

[Slide 35] Your Business Plan

The Ready module discussed the importance of a Business Plan since it:

Helps you to think about all of the details of how your business will operate, including

- Its mission and goals
- How it will operate on a day-to-day basis now and in the future
- Your short- and long-term capital needs
- Tells the story of your business

Get business plan samples at <https://www.sba.gov/tools/business-plan>

[Slide 36] Where Can You Get Help with Writing a Business Plan?

Here are just a few and we will discuss getting “technical assistance” for starting a business more in the Go Module.

[Slide 37] Financial Information

Lenders will require that any prospective small business owner looking for a loan provide financial information about the business. This is the area where it is VERY important that you seek expert assistance – from an accountant or one of the many financial experts that mentor and guide small business owners. BUT, as the business owner, you must understand and agree with the financial documents that you share with a lender since you will need to explain it to a lender.

Business financial statements dated within 90 days of date of application, consisting of:

- Year End Balance Sheet for last 3 years
- Year End Profit & Loss Statements for last 3 years
- Filed tax returns for last 3 years or years in business
- If fewer than 3 years available – most lenders will compare financial statements with tax returns (SBA requires tax return verification by IRS to make sure taxes were paid and income was reported on financial statements agrees with income reported on tax returns)
- Cash flow projections – month-by-month for first year plus 2 additional years

Lenders will also expect that the business has complete books and historical records and can provide appropriate financial statements, tax returns, etc. For instance, lenders usually will not lend to any business that owes past due taxes, or has a tax lien.

[Presenter Tip: Suggest that attendees consider investing in a software package designed to make financial record-keeping simpler for small businesses. Among those on the market are Intuit Quick Books, Wave Accounting (free), Zoho Books (for really small businesses), Fresh Books, Xero, Cheqbook and Kashoo. But, only the business itself and its advisor can pick what may be best for a particular business.]

[Slide 39] Preparing Financial Reports

Cash flow projection = estimate of money coming in and money going out of your business and the earnings and the payments

Cash flow projections are extremely important for both existing and new start businesses since they will take into consideration HOW the loan will impact the business. Cash Flow projections are REALLY important for new start businesses or for businesses that will change substantially after the loan is received – for example, new equipment increasing capacity, additional money to buy more raw material increasing goods available for sale, etc.

For new start businesses, lenders expect to see a full year of month-to-month projections, and an additional

year of annual projections. What do lenders use a business' projections for? They rely on them to support the conclusion that a borrower will be able to repay its loan from its business earnings! Lenders will compare your small business' projections with what is available on an industry-by-industry basis from RMA, industry-specific trade associations and other sources, including the franchisor if the loan applicant is a franchisee.

[Slides 40-41] Beware of Unfair Lending Practices

CAUTION: Not ALL lenders operate fairly! Legitimate lenders function under many legal rules and regulations and must adhere to fair lending practices. Other, illegitimate "lenders" prey on unsuspecting people – they are predators.

The old saying, "If it sounds too good to be true ... it probably isn't true," unfortunately applies in lending also. If the prospective lender is not a known quantity like a bank, SBA Microlender, Community Development Financial Institution (CDFI), or a lender affiliated with a state or local program, the business owner should check out the lender to be sure that it is appropriately licensed and operates fairly.

[Presenter Tip: Caution attendees about dealing with unknown entities.]

What are some things YOU should watch out for?

- Receiving a loan offer that you did not apply for
- A lender who promises you loan approval no matter what your credit history or credit score
- Being Rushed to Sign Papers
- High Interest Rates and Fees
- Loan Repayment Terms that do not seem fair or appropriate, including balloon payments, penalties for early repayment, etc.
- Blank Spaces in Documents
- Do not sign any documents that contain blank spaces

If you have ANY doubts, do not sign anything until you have consulted with a lawyer or trusted friend and fully understand the terms and conditions of the loan you are being offered.

Wrapping up Module 2

Congratulations, this is the end of the **Set module!** You now have the tools to help you understand the types of financing available to small businesses and a better understanding of what lenders look for as they review loan applications.

The last module in the Business Smart Toolkit is the Go model, which will offer various resources and website links to help you as you put your business plan into action and begin to operate your very own small business.



Module 3

GO



OPEN

MODULE 3: GO

Purpose

The Go module discusses ongoing business requirements and provides information on organizations that can assist small business owners in realizing their dream of business ownership. The module introduces common technical assistance and financing resources.

Objective

To educate participants on where to go to seek assistance when starting a new business venture.

Who should serve as presenter for the Go module?

The ideal presenter for covering this material is someone from your local SBA district office. To locate the local SBA district office, visit: <https://www.sba.gov/tools/local-assistance/districtoffices>

However, if you are unable to secure an SBA representative to present this module, don't worry because we have presented the material in this workshop in such a way that it only requires the presenter to have a basic understanding of business terms. Slide by slide talking points have been provided that will walk the presenter through this workshop and each of the modules.

Overall Tip to Presenters

- Reassure attendees that there is a great deal of information about business and financing (credit) basics contained in the Business Smart Workshop, and that they should not feel overwhelmed if there are topics that they remain unclear. Starting or growing a business is a big undertaking and it will take time to feel completely comfortable with the concepts and realities of business ownership.
- Print the slides in handout form for the "attendees", which provides room for note taking. You might also consider printing the slides' instructor notes for students as a take-home resource, since they contain more explanation than what is on the slide.
- Remind attendees that there are a large number of resources, many that are free, to assist a person who want to own a small business. WWW.SBA.gov should be their starting point.
- Taking the process one step at a time, getting ready and set to own and run a small business, will make the likelihood of ultimate success much greater. And this Go module will show that there are TONS of resources to help individuals realize their dream of small business ownership!

Talking Points

A Review

[Slide 5]

The Go Module is the last module in the Business Smart Workshop.

Sometimes when you get started on a project, it's hard to know where to start. The Ready module gave a list of the things that a small business owner must do in order to start in business. If you haven't ever started a small business before, would you know where to turn? It's OK if you don't ... because the Go module will help you! Let's start with the number one resource for small businesses: **The SBA.**

Welcome to the **BUSINESS SMART WORKSHOP**



[slides 6-11] SBA Resources

[Slide 6] SBA

SBA offers all types of free information to the public at www.sba.gov. The site is full of information for new or existing small businesses. When you go to the SBA website, you will see the Starting and Managing Tab as well as the Learning Center tab under the SBA logo. The Starting and Managing tab offers articles that SBA has put together on various topics. The Learning Center tab offers half hour videos about various topics. If you don't have time to watch the video or you want to use the video as a reference, there is a text document that summarizes all of the information in the video. Many videos also have worksheets you can use to apply your new knowledge to your business. Let's go to the next slide and look at a snapshot of SBA's website so you can see what it looks like.

[Slide 8] SBA Website

The red arrows are the tabs you can click on to see what learning tools SBA offers. If you click on the Starting and Managing Tab, you see various topics. One of the topics is Create Your Business Plan. Let's take a quick look at that site.

[Slide 9] Create a Business Plan

Presenter Tip: Walk through the slides that contain these screenshots pointing to the various tab locations. If possible, you may also navigate through the actual website.]

SBA's webpage at <https://www.sba.gov/writing-business-plan> on writing a Business Plan is excellent. There are almost a dozen articles about what to include in a Business Plan and the articles are organized topic-by-topic. As you can see by the red arrow on SLIDE 8, the Business Plan section of the SBA's website was found by clicking on the Starting & Managing Menu and then click the link for Create Your Business Plan. If you want to watch a video, go to the Learning Center tab for a list of video subjects.

SBA offers a wealth of information on its website – and it's all FREE to the public!

What if you don't have a computer or Internet access? Check your local public library – most offer free computer usage with access to the Internet. And, many of the resources discussed in the Go module will also be able to assist.

[Slide 10] More SBA Info

SBA also offers information on other items discussed in the Ready module. In the Starting and Managing section of SBA's website, you can learn about these items discussed in the Ready module:

1. For a Business Plan (Create Your Business Plan topic)
2. To know the costs to start a business (Finance Your Business topic)
3. To decide the type of Business Entity (Choose Your Business Structure topic)
4. To obtain a Tax ID Number (Filing and Paying Taxes topic)
5. To obtain Business License and Permits (Obtain Business Licenses topic)
6. To learn how to file all taxes (Filing and Paying Taxes topic)



[Slide 11] Find Local Resources

Finally – you can find in person assistance at a variety of SBA and SBA partners by entering your zip code into the zip code tool: <https://www.sba.gov/tools/local-assistance>

This tool will map out the closest offices to you so you can get started with free and low cost, in person assistance! This tool includes SBA offices as well as the SCORE, SBDC, and WBC partners we will talk about later in this module.

[Slide 12] BusinessUSA

Additionally, BusinessUSA is a joint effort from several federal agencies to aggregate content and resources for America's businesses. There are several tools that can help you pinpoint resources and next steps such as the "Start a Business" wizard and the "Access Financing" wizard.

This website can be found at: <http://business.usa.gov/>

[Slide 14] SCORE

SCORE is an SBA Resource Partner and is funded in large part by the SBA to provide expert volunteers who mentor entrepreneurs. SCORE has more than 11,000 volunteers to provide business mentoring all across the country. With 300 local chapters, there is very likely a SCORE chapter in your local community, you can visit their website is www.score.org to find a chapter near you. SCORE Mentors have a variety of expertise in general business management but also in specific industry areas. Go to www.score.org to find a local chapter near you; Find a Mentor or even take an online workshop. You can also access free business advice by email. SCORE's website is robust with free resources articles, templates and tools.



[Slide 17] Small Business Development Centers (SBDCs)

The Small Business Development Centers or SBDCs for short is another SBA Resource Partner. SBA provides primary funding to SBDCs so that they can provide free business counseling and low cost training to small businesses and aspiring entrepreneurs. The SBDC's staff act as advisors to provide aspiring and current small business owners a variety of free one on one business consulting and low-cost training services including: business plan development, manufacturing assistance, financial packaging and lending assistance, exporting and importing support, disaster recovery assistance, procurement and contracting aid, market research help, 8(a) program support, and healthcare guidance.

You can also find SBDCs on the homepage of the SBA website by clicking on the Local Assistance tab.

<https://www.sba.gov/tools/local-assistance/sbdc>

[slides 18] Women's Business Centers (WBCs)

Women's Business Centers (WBCs) represent a national network of nearly 100 educational centers throughout the United States and its territories, which are designed to assist women and others in starting and growing small businesses. WBCs seek to "level the playing field" for women entrepreneurs, who still face unique obstacles in the business world, however WBCs serve entrepreneurs of all genders.



[Slide 20] VBOCs

VBOCs conduct entrepreneurial development workshops dealing specifically with the major issues of self-employment. An important segment of these workshops entails the usage of the Internet as a tool for developing and expanding businesses. Each client is afforded the opportunity to work directly with a business counselor.

VBOCs, working with other SBA resource partners, target entrepreneurial training projects and counseling sessions tailored specifically to address the needs and concerns of the service-disabled veteran entrepreneur.

[Slide 23] Finding Financing for Your Small Business

You are ready with your plan and are thinking about finding financing so you can borrow money. There are three primary sources of small business loans that are financed through the SBA. Let's go over where to find Microloans, Community Advantage loans and SBA 7(a) Small Business Loans.

[Slide 24] Microloans

[Presenter Tip: Search SBA.gov website to find the nearest SBA microlender near you.]

Unfortunately, SBA's Microloan program is not available in all parts of the country. Microloans are small loans according to banking standards. The average loan size is \$13,000. *The best microloan success story is that of a small software company in New England that got its start with a \$25,000 SBA microloan and a few years later was sold for over \$10 million!*

[Slide 25] Community Advantage

Community Advantage loans are the next step in financing. Because "Community Advantage" is a lot to say, sometimes you will see the name shortened to "CA" for the sake of convenience. A CA loan is similar to a Microloan because it is not made by a bank but by a "non-profit intermediary" that has been approved by SBA. Another positive aspect of a CA loan is the management and technical assistance offered. This service is provided to ensure that your business can start, grow and achieve long-term success. Services include business plan preparation, market research, accounting services, payroll, etc. and using the services is often a condition of approval.

[Slide 26] 7a loans

SBA 7(a) loans are the most widely used, flexible loan product that SBA offers. The chief advantage of an SBA 7(a) loan is the long term, fully amortizing loan term. A longer loan term means that you have a longer time to repay the loan which in turn lowers your monthly payment. Conventional loans offered by a bank or credit union typically have shorter terms which results in a higher monthly payment. To say that a loan is fully amortizing means that your loan payments will pay off the loan in full over the period of the loan term. For example, a 10 year loan means that you will make 120 payments over a 10 year period and the loan will be paid in full at the end of the 10 years. Loan proceeds [money from the loan] can be used for almost any business purpose. You may start a business, purchase equipment, furniture, inventory, or obtain working capital (cash for operating the business).

An SBA 7(a) loan may also be used to purchase a business, refinance debt or purchase/construct a building. Rates will depend on the loan term and how the money from the loan (proceeds) will be used. The lenders who participate in the SBA 7(a) program follow the SBA credit guidelines first and then their own institution second, so each lender may have slightly different requirements. Your SBA local district office can help you find a lender close to you.

[Slide 27] SBA LINC

LINC allows a potential borrower to enter their information and then you'll hear from SBA approved lenders that may be interested in providing you with a loan. This tool is new and new lenders are constantly being added, and while this is the only way to find an SBA loan, it's a good starting point.

The tool can be found at: <https://www.sba.gov/tools/linc>

[Slide 28] CDFIs

CDFI lenders may be slightly different from each other because they follow their own credit policies. Their loans are not always SBA loans. They usually have a public policy goal to meet such as lending to rural businesses, low to moderate census tract businesses, or minority owned small businesses.

[Slide 29] Other financing avenues

There are some other avenues for financing presented on this slide.

DEFINITION of Peer-To-Peer Lending (P2P): A method of debt financing that enables individuals to borrow and lend money - without the use of an official financial institution as an intermediary. Peer-to-peer lending removes the middleman from the process, but it also involves more time, effort and risk than the general brick-and-mortar lending scenarios. Also known as “social lending”.

Peer-To-Peer Lending (P2P)

The advantage to the lenders is that the loans generate income in the form of interest, which can often exceed the amount interest that can be earned by traditional means (such as from saving accounts and CDs). Plus P2P loans give borrowers access to financing that they may not have otherwise gotten approval for by standard financial intermediaries. The method is not without its disadvantages as the lender has very little assurance that the borrower, who traditional financial intermediaries may have rejected due to a high likelihood of defaults, will repay their loan. Furthermore, depending on the lending system employed, in order to compensate lenders for the risk that they are taking, the amount of interest charged for peer to peer loans may be higher than traditional prime loans.

DEFINITION of Crowdfunding: The use of small amounts of capital from a large number of individuals to finance a new business venture. Crowdfunding makes use of the easy accessibility of vast networks of friends, family and colleagues through social media websites like Facebook, Twitter and LinkedIn to get the word out about a new business and attract investors. Crowdfunding has the potential to increase entrepreneurship by expanding the pool of investors from whom funds can be raised beyond the traditional circle of owners, relatives and venture capitalists.

Crowdfunding

In the United States, crowdfunding is restricted by regulations on who is allowed to fund a new business and how much they are allowed to contribute. Similar to the restrictions on hedge fund investing, these regulations are supposed to protect unsophisticated and/or non-wealthy investors from putting too much of their savings at risk. Because so many new businesses fail, their investors face a high risk of losing their principal.

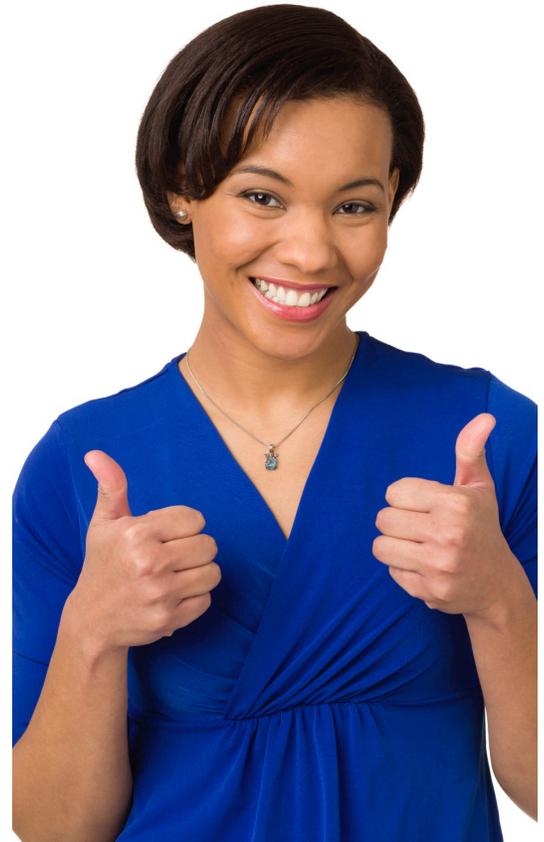
[Presenter Tip: No matter what type of financing you choose, make sure you build the cost of the financing into your business plan. There is nothing worse than getting financing ... and then discovering it costs you ALL of your profit – or more!]

Wrapping up Module 3

Congratulations on completing the Go module - the last module in the education series! Within this Go module are the various resources and website links to help you as you put your business plan into action and begin to operate your small business.

While there is a lot of information to remember, it is only a click or phone call away. SBA is your information partner and can guide you as you launch your small business.

Best of luck in your new adventure!



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