



# Pathways to Funding



## ROBS

**ROBS stands for Rollover for Business Startups, a financing method that allows entrepreneurs to use funds from their retirement accounts to start or purchase a business without incurring early withdrawal penalties or taxes. Here are key points to understand about ROBS:**

### Structure:

ROBS involves creating a C Corporation and establishing a retirement plan, typically a 401(k) plan, for that corporation. The individual's existing retirement funds, such as those from a 401(k) or IRA, are then rolled over into the new 401(k) plan of the corporation.

### Investment:

The funds from the newly established 401(k) plan are then used to purchase stock in the C Corporation. This stock purchase provides the necessary capital to fund the startup or acquisition of the business.

### No Early Withdrawal Penalties or Taxes:

By using the ROBS structure, entrepreneurs can access their retirement funds for business purposes without incurring early withdrawal penalties or taxes that would typically apply to early distributions from retirement accounts.

### Legal Compliance:

ROBS arrangements must comply with IRS regulations and ERISA (Employee Retirement Income Security Act) guidelines to avoid penalties and maintain tax-deferred status for the retirement funds involved. It's essential to work with experienced professionals, such as attorneys and tax advisors, who are knowledgeable about ROBS compliance. We have excellent funding partners who can help you leverage self-funding through this program.



## Mortgage / Home Equity Lines of Credit (HELOC)

**Before applying for a Home Equity Line of Credit (HELOC), there are several important factors to consider:**

### Understanding HELOC:

A HELOC is a revolving line of credit that allows you to borrow against the equity in your home. It works like a credit card with a predetermined credit limit, but the collateral is your home.

### Draw Period and Repayment Period:

HELOCs typically have a draw period during which you can access funds, followed by a repayment period. During the draw period, you can borrow money as needed, while the repayment period requires you to pay back the principal plus interest. Understand the terms of both periods and how they affect your payments.

### Equity Consideration:

HELOCs are based on the equity you have in your home, which is the difference between your home's market value and the outstanding balance on your mortgage. Lenders typically allow you to borrow up to 85% of your home's appraised value minus what you owe on your mortgage.

### Variable Interest Rates:

Unlike a fixed-rate home equity loan, HELOCs often have variable interest rates, meaning your payments could fluctuate over time based on market conditions. Be prepared for potential increases in interest rates, which could affect your monthly payments.

### Fees and Closing Costs:

Just like with any other loan, HELOCs may come with fees and closing costs, such as application fees, appraisal fees, and annual fees. Make sure to inquire about these costs upfront and factor them into your decision-making process.

### Credit Score and Income Requirements

Lenders will assess your credit score (no lower than 680), income, and debt-to-income ratio when determining your eligibility for a HELOC. Having a good credit score and stable income can improve your chances of approval and help you secure better terms. If you are considering a HELOC, you should apply before terminating your employment.



### Self-funding

Utilizing your own funds when starting a business can be a smart move. It allows you to have full control over your business without involving third-party investors. However, it is important to assess your risk tolerance before tapping into your reserves. Keep in mind that cash alone may not be enough to cover all your business expenses. Lastly, always have a reserve of cash on hand to prepare for any unforeseen expenses that may arise. Here are key points regarding about utilizing checking & savings:

### Recognize the advantages:

These include the simplicity, speed of deployment, lack of credit check requirements and debt avoidance.

### Consider your risk tolerance:

Do you see tapping into your reserves as riskier, or do you see taking on debt (perhaps secured with your home) or potentially giving up some equity as more risky?

### If intending to use cash alone:

Will it be enough to fund the start-up all the way to profitability? Consider a burn rate (or cash runway) calculator. Often, money is available until you need it – so keep some in reserve.



### Friends, Family & Colleagues

When asking for funding support from friends and family for a business, it's crucial to approach the conversation with professionalism, transparency, and respect for their financial situation. Here's a step-by-step guide on how to ask for funding from friends and family:

### Be Prepared:

Clearly articulate your opportunity, including the problem you're solving, your target market, and your unique value proposition.

### Discuss Terms and Expectations:

Clearly outline the terms of the investment, including the amount, equity stake (if applicable), and any potential returns..

Develop a business plan outlining your goals, strategies, financial projections, and potential risks.

Practice your pitch to ensure you can confidently communicate your vision and address any questions or concerns.

### Choose the Right Timing:

Select an appropriate time to discuss your business proposal with friends and family, considering their availability and receptiveness.

Avoid approaching them during times of financial strain or personal stress, as this may not be conducive to a productive conversation.

### Be Transparent and Honest:

Clearly explain the purpose of your meeting and your request for angel funding.

Provide complete and accurate information about your business, including potential risks and challenges.

Be honest about your expectations regarding the investment, including the possibility of loss.

### Respect Their Decision:

Understand that investing in a business carries financial risks, and not everyone may be comfortable with the idea.

Respect their decision, whether they choose to invest or not, and avoid putting pressure on them to participate.

Reassure them that their relationship with you is valued regardless of their decision regarding the investment.

Address any questions or concerns they may have about the investment terms, and be open to negotiation if necessary.

Set realistic expectations regarding the timeline for potential returns and the level of involvement they can expect in the business.

### Offer Assurance and Appreciation:

Express gratitude for their consideration and willingness to support your business venture.

Provide reassurance that you will work diligently to maximize the success of the business and fulfill your responsibilities as an entrepreneur.

Offer to keep them informed about the progress of the business and provide regular updates on key milestones and developments.

### Document the Agreement

Once an agreement is reached, document the terms of the investment in writing, including any legal or financial agreements.

Consult with a lawyer or financial advisor to ensure the agreement is legally sound and protects the interests of all parties involved.

By following these steps and approaching the conversation with professionalism and respect, you can effectively ask for angel funding from friends and family for your business while maintaining positive relationships regardless of the outcome.



## SBA Loans

**Before applying for a Small Business Administration (SBA) loan, it's essential to understand several key factors to ensure you're prepared and maximize your chances of approval. Here's what you need to know:**

### Types of SBA Loans:

The SBA offers various loan programs to meet the diverse needs of small businesses, including the 7(a) Loan Program, CDC/504 Loan Program, and Microloan Program. Research each program to determine which one best suits your business's needs.

### Documentation:

Gather all the necessary documentation required for the SBA loan application, including financial statements, tax returns, business licenses, legal documents, and a detailed business plan. Be prepared to provide additional documentation as requested by the lender.

### Credit Score:

Your personal and business credit scores play a significant role in the SBA loan application process (680 or higher). Check your credit reports from major credit bureaus and take steps to improve your credit score if necessary.

### Collateral:

While SBA loans typically require less collateral than traditional bank loans, you may still need to pledge assets to secure the loan. Understand what collateral you have available and be prepared to provide documentation of its value.

### Down Payment:

Most SBA loans require a down payment or equity injection from the borrower. The down payment amount varies depending on the type of loan and the lender's requirements. Determine how much you can afford to contribute toward the down payment.

### Lender Selection:

Choose a lender that is experienced in processing SBA loans and has a good track record of working with small businesses. Research multiple lenders to compare interest rates, terms, and fees before selecting the one that best meets your needs. We have excellent funding partners that can help with this.

### Timeline:

SBA loans often have longer processing times compared to traditional bank loans. Be patient and prepared for the application process to take several weeks or even months from start to finish.



## Personal Loan / Line of Credit

**Unsecured loans for businesses offer funding without requiring collateral, making them attractive for entrepreneurs who may not have valuable assets to pledge as security. Here's what you need to know about unsecured business loans:**

### No Collateral Requirement:

Unlike secured loans, unsecured loans do not require collateral, such as real estate or equipment, to secure the financing. Instead, lenders base their decision on the creditworthiness of the borrower and the financial health of the business.

### Credit Score:

Your personal and business credit scores play a significant role in your ability to qualify for an unsecured business loan. Lenders will assess your credit history to determine your likelihood of repaying the loan on time. Maintaining a good credit score is essential for securing favorable loan terms.

### Loan Amounts and Terms:

The loan amounts and terms for unsecured business loans vary depending on the lender, your creditworthiness, and the financial health of your business. Loan amounts may range from a few thousand dollars to several hundred thousand dollars, with repayment terms typically ranging from one to five years.

### Application Process:

The application process for unsecured business loans is generally faster and less complex than secured loans since there's no collateral evaluation involved. You'll need to provide documentation such as financial statements, tax returns, business plans, and proof of identity to support your application.

### Interest Rates:

Unsecured business loans typically have higher interest rates compared to secured loans because lenders assume greater risk by not having collateral to seize in case of default. Be prepared for potentially higher interest costs when seeking an unsecured loan.

### Use of Funds:

Unsecured business loans offer flexibility in how you can use the funds to support your business. Whether you need working capital, to finance equipment purchases, cover expansion costs, or manage cash flow, you can typically use the loan proceeds for various business purposes.



## Credit Repair

If you're looking to borrow money to open a business, credit repair can be a crucial step in improving your chances of loan approval and securing better terms. Ensuring your credit is in good shape can demonstrate financial responsibility and reliability to potential lenders, which can significantly affect the success of your loan application. Some things to consider:

### Impact of your credit score:

A higher credit score can lead to better interest rates and loan terms, making it essential to address any negative items on your credit report before applying for a business loan.

### Credit Utilization target:

Maintaining a low credit utilization rate (the percentage of your credit limit you're using) is crucial. Aim to keep it below 30% to positively influence your credit score.

### Setting the record straight:

Correcting errors on your credit report can significantly boost your credit score. Ensure that any inaccuracies are disputed and removed to reflect an accurate credit history.

### Diverse Credit Mix:

Having a diverse mix of credit types (credit cards, installment loans, etc.) can positively impact your credit score. Ensure your credit profile is balanced to appear more favorable to lenders.

### Debt-to-Income Ratio is important:

Lenders assess your debt-to-income ratio to determine your ability to repay new debt. Reducing existing debt can improve this ratio and enhance your loan eligibility.

### Experts are available to help you:

The good news is you can explore possible funding solutions even while working on your credit score. There are specialized companies to help you navigate your credit repair options.