GROWERTALKS

Features

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Successfully Chasing the Funding Dream

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Good times or bad, and despite the economy and the reluctance of many lenders to loan money, almost every business can secure needed funding. Obviously, a business owner seeking to borrow faces many challenges, not the least of which is the higher cost of that funding.

Few growers or retailers are aware of all the options available—or don't have the time to explore the many possibilities. It turns out there's a vast menu of choices, each with their pluses and minuses.

Keeping it in the family

It's wise for you to have at least some personal funds at risk since that shows other potential lenders or investors that you're committed to the success of the business. The most basic (and frequently the most affordable) option uses personal or family funds to finance the business.

"Boot Strapping" can involve personal investment by the founders, their family and friends, and/or the owners foregoing a salary. Unfortunately, our tax laws make self-funding a touchy—and complex—strategy.

Whenever a loan is made between related parties, or when a shareholder makes a loan to his or her incorporated business, our tax laws require a fair-market interest be included. If not, the IRS will step in and make adjustments to the below-market (interest) rate transaction in order to properly reflect "imputed" interest.

Avoiding the potential pitfalls of self-financing means small business loans. Here, you must understand exactly how much money is needed, what it's needed for and, most importantly, how it will be repaid.

Today's interest rates have translated into lenders being more selective. Term loans from a bank are often used by a business to purchase assets or finance expansion over a period of time.

Banks

According to the Federal Reserve's Small Business Credit Survey, 43% of small businesses applied for loans from banks. Obviously, some banks are more likely to make loans than others.

Your first stop in the search for affordable funding should be your bank. Even without a personal relationship with the bank, it's familiar with your business. And don't forget that banks provide many services and can provide guidance to other funding resources. However, if a bank won't lend you money, the good news is that there are now lots of other options.

A government loan guarantee can overcome the reluctance of many bankers, as well as incurring lower interest rates and better terms. Today’s challenging lending environment adds yet another element to the task of funding your business, a challenge that may be overcome by taking advantage of one of the government’s many funding programs.

The Small Business Administration

The U.S. Small Business Administration (SBA) doesn’t do much lending. Rather, the bulk of their financing comes in the form of “guarantees.” They guarantee the repayment of loans made by a financial institution, thereby lowering or reducing the institution’s risk and, in most cases, the amount of interest charged the borrower.

SBA loan programs are generally intended to encourage longer-term small business financing, but not always. Short-term, or “micro loans,” are also available through the SBA that can help many smaller growers meet their short term and cyclical working capital needs.

Special funding

The government has long offered low-interest loans for farmers and ranchers. These loans can be used to purchase land, livestock, farm equipment and other supplies necessary for farming. Of course, whether a greenhouse operation can qualify for farm loans is questionable.

“Green banks”—public, quasi-public or non-profit financing entities that leverage private and public capital to fund clean energy projects—on the other hand, may be a viable option.

Generally, state and local governments use green banks to fund projects that don’t offer the financial incentives demanded by conventional lenders. Green banks utilize various financial services, such as credit enhancements, co-funding and offering subsidized loans with interest rates lower than traditional lenders. Frequently, green banks will take on risks by offering loans to customers who don’t meet the requirements of other lenders.

Green banks often finance high initial project costs in underserved markets. They also frequently partner with Community Development Financial Institutions (CDFIs) to invest in clean energy projects, but there are also state and local agencies offering funding programs.

Funding locally

One of the best sources of assistance—and, in many cases, funding for growing operations—are the many state, regional and local economic development agencies. There are nearly 12,000 economic development groups in the U.S. whose purpose is to provide economic growth and development in the areas they serve. While not always a source of expansion financing, a state’s office or agency of economic development can be a guide to regional and local funding.

Even those who are aware of public funding often have misconceptions about who will and will not qualify. Many of these programs are looking for businesses with proven track records.

Other options

A business that wants or needs to borrow outside the traditional bank or SBA system has other options. There are hundreds of specialist small business lenders that can help with those borrowing needs although requirements, terms and interest rates will vary widely.

Like banks, credit unions offer favorable rates and loans backed by the SBA. However, unlike banks, credit unions have increased their small business funding. In fact, the number of credit unions offering small business financing has doubled, according to the CFPB (Consumer Finance Protection Bureau).

Alternative funding

An important form of alternative financing is “asset-based” lending. In general, commercial finance companies are often willing to lend funds to businesses that cannot, for various reasons, secure credit from a bank. The credit is secured by the assets of the business, such as receivables, inventory, equipment and sometimes real estate.

Equipment financing is ideal for any greenhouse operation that needs hard assets quickly, but can’t afford to purchase them outright. Certain types of greenhouses (metal structures) are often considered to be equipment and easier to finance. Equipment financing is available from banks and with SBA guarantees. There are also lenders, including dealers and distributors, offering targeted financing programs.

The Internet

A recent report from the Federal Reserve indicated that small businesses are increasingly choosing alternative financing options, such as crowdfunding, peer-to-peer lending and FinTech platforms.

Thanks to changes by both the IRS and the Securities and Exchange Commission (SEC), crowdfunding is helping many small businesses. Crowdfunding that relies on investors can help get an idea, project or business off the ground, often rewarding investors with perks and/or equity in exchange for cash.

Although the popularity of crowdfunding has increased there are caveats. The project or business must, for example, be intriguing enough to attract multiple investors. With equity crowdfunding, where investors are given a stake in the business, there are strict SEC regulations both the business and investors must follow.

Somewhat less regulated than crowdfunding, funding “platforms” are an increasingly popular door-to-Internet financing option. With an online lender, bad credit isn’t always a barrier to getting the needed financing, although it’s often expensive. However, while these lenders put up fewer barriers, other drawbacks include significantly higher risk and lower loan amounts.

An often-overlooked Internet option are peer-to-peer business lenders. These lenders eliminate the middleman, such as banks, to connect borrowers with individuals and institutional investors. Unfortunately, the cost of borrowing with peer-to-peer financing can be higher than conventional financing.

Free funds

What business wouldn’t benefit from the “free” funding possible with grants and loans? However, while loans must be repaid, there’s usually no repayment of grant amounts. Most often, a business receiving a grant goes through an application process to show they qualify, they then agree to spend the money in whatever manner agreed to. Best of all, funds obtained as a grant don’t have to be repaid unless the operation violates the terms of the grant.

When seeking government grants, a good place to begin is grants.gov, a centralized online site for finding and applying for federal government grants from a number of agencies. When it comes to other grants, the U.S. Chamber of Commerce maintains a website of available grants at uschamber.com.

Good credit = Affordable funding

Things go a lot easier when potential lenders take a risk based on your business’ credit history and capability of repaying. With strong business credit, a business can often borrow at a lower cost, with more favorable terms—even in today’s economic climate. In fact, many small greenhouse operations with good credit have discovered it’s possible to get loans without an onerous and often-embarrassing personal guarantee. **GT**

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