



# Funding Your Small Business

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New York Immigration Coalition  
[nyic.org](http://nyic.org)



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## How to Use this Guide

A key aspect of launching or growing a small business is understanding the funding options that are available to help you meet the needs of your business.

Immigrant - owned small businesses account for 33.8% of self-employed residents in New York State and it is our goal to connect this community with relevant information and resources dedicated to assisting immigrant small business owners and entrepreneurs.

This guide will be a tool for immigrant small business owners to use as an introduction to establishing business credit, an overview of funding options, and an outline of a general loan application. The funding options you choose will have an impact on your business structure and financial future. It is important to consider how funding can help you reach your business goals and cover your financial needs.

This guide does not cover requirements such as licenses or permits. This guide should be used as a general overview to business funding concepts. Please review our Immigrant Small Business Guide at <https://www.nyic.org/immigrant-small-business-guide/> for additional resources.

## Understanding Business Credit

Before deciding on funding for your business, you want to establish business credit. **Business credit**, much like personal credit, lets lenders know if it is safe lending to you. It helps lenders to measure the creditworthiness, or the extent to which a business is suitable to receive financial support. Lenders know this by looking at your business' financial history and ability to pay debts.

Business credit should be opened in the business's name. This ensures that your business and personal credit are separate. This is important because:

- Separate credit lines keeps your personal credit safe from any negative impacts your business may face
- Your business can begin to build a credit and improve your chances of securing loans and other sources of funding
- You can better identify business expenses for taxes

## Credit History

Credit history impacts funding opportunities, insurance rates, and helps potential business partners, suppliers, and vendors decided if they are willing to work with your business. Credit history lets partners and lenders know if your business can grow and be profitable.

Lenders also use credit history to determine whether to approve a business for loans. Both personal and business credit histories are considered when determining eligibility for a loan.

When credit reporting agencies such as Experian, Equifax, and Dun & Bradstreet evaluate your credit they often use the following **factors**:

Years in Business	Credit lines applied in the last 9 months	Credit lines opened in the last 6 months
Number of late payments	Industry and Company size	Payment history for previous 12 months

## How to Establish Business Credit

### Choose a Business Structure

- All business structures separate your business from your personal credit except a sole proprietorship
- You can learn more about business structures here: <https://www.nyic.org/immigrant-small-business-guide/>

### Get an Employer Identification Number (EIN)

- An EIN is also known as a Federal Tax Identification Number. It is used to identify a business entity. Your business needs an EIN so you can file taxes, open a business bank account, and apply for business credit, permits, and licenses
- You can apply for an EIN using this IRS tool: <https://www.irs.gov/ein>

### Open a Business Bank Account

Opening a business bank account is important for separating your personal and business expenses. Banks can also act as references for credit applications

### Establish Credit with Vendors/Suppliers

Purchasing supplies, ingredients, or other materials from vendors and suppliers helps build your credit

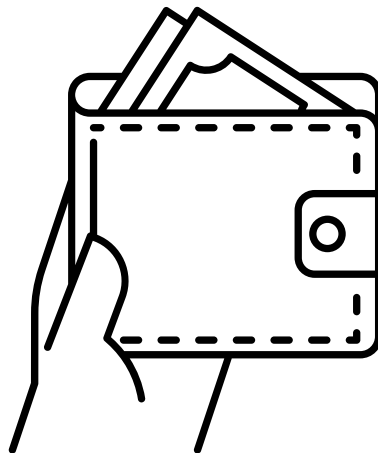
## Self Funding

**Self Funding, or Bootstrapping,** is when you finance your business with your own resources. It is not common for new business owners to have the cash resources to fully fund their business, so they must consider other assets like stocks or investments, personal credit cards, or loans.

Self-Funding allows business owners the freedom to make decisions and to collect 100% of profits from sales and investments. It is important to remember that with self-funding the business owner has to assume all the risks and responsibilities associated with the business.

When self-funding you want to ensure your business is profitable as soon as possible. You want to be able to replenish the money you put into the business.

Instead of turning to investors or banks, Bootstrappers will often ask their family & friends for support or crowdfund.



## Friends and Family

Friends and family are often the first sources of support for small business owners because of their personal connection to you and their belief in your goals and abilities.

Due to the barriers that some businesses face when applying for loans and securing investors, financial support from friends and family is often a key resource. They can financially support your business through gifts, loans, or investments. They can also provide money with no strings attached or a loan that offers a more flexible repayment schedule.

Always be honest with the risks and responsibilities involved with your business and create clear terms when borrowing funds. Consider these important steps when seeking support from friends and family:

<b>Be Specific</b>	<ul style="list-style-type: none"><li>• Ask for a specific amount of money for a specific goal</li></ul>
<b>Be Transparent</b>	<ul style="list-style-type: none"><li>• What are your investments?</li><li>• What are your commitments?</li><li>• What are the risks involved?</li></ul>
<b>Have Written Agreements that Outline Loan Terms</b>	<ul style="list-style-type: none"><li>• Loan amount including interest rates</li><li>• Purpose of loans</li><li>• Repayment terms- one lump sum or regular payments; the amount of each repayment</li><li>• Repayment Timeline outlining when repayment begins and a clear repayment deadline</li><li>• Consequences of non-payment</li></ul>

## Crowdfunding

Crowdfunding is when you raise funds for business projects and expenses from the community. This is often done through online platforms.

There are two main types of crowdfunding that you can utilize for your small business:

- **Donation-Based Funding** - raising funds from individuals to support your business without receiving anything in return. This low-risk, high-reward method is perfect for small businesses
- **Reward-Based Funding**- contributors receive tokens, products, or services in exchange for their donation. For example, if you need to raise for a new oven for your bakery, you can give them discount tickets for a free cupcake once they for donating

## Pros and Cons of Crowdfunding

Crowdfunding platforms provide multiple benefits such as increasing brand awareness, helping establish a customer base and reducing personal financial risk. You can also research companies with similar crowdfunding campaigns to see what incentives they offer and whether they were successful.

However, success with crowdfunding can vary depending on your ability to reach potential donors.

Platforms such as Kickstarter, Indiegogo, and GoFundMe are great tools for crowdfunding. You can post information about a product or service, set a funding goal, and determine a time limit. However, certain platforms do not release the funds if goals aren't met and require platform and transaction fees for credit and debit cards.





## Crowdfunding: Platforms

Platforms	Pros	Cons
<p>KickStarter <a href="http://www.kickstarter.com">www.kickstarter.com</a></p>	<ul style="list-style-type: none"><li>• Award based platforms that allows you to award supporters with incentives such as merchandise and discounts</li><li>• Most popular crowdfunding platform</li></ul>	<ul style="list-style-type: none"><li>• Can only access funds if you reach your goal</li><li>• Platform fee of 5%</li><li>• Payment transaction fees (3%-5%)</li></ul>
<p>GoFundMe <a href="http://www.gofundme.com">www.gofundme.com</a></p>	<ul style="list-style-type: none"><li>• 0% platform free</li><li>• You can keep every donation whether or not you reach your goal</li><li>• 24/7 expert support available</li></ul>	<ul style="list-style-type: none"><li>• Credit and Debit Card Transaction fees</li></ul>
<p>Indiegogo <a href="http://www.indiegogo.com">www.indiegogo.com</a></p>	<ul style="list-style-type: none"><li>• Ability to choose a fixed funding goal (all or nothing goal) or flexible funding (you received funds whether or not you met your goal)</li><li>• Indiegogo InDemand lets you continue raising money after your fundraising campaign ends</li></ul>	<ul style="list-style-type: none"><li>• Charges a 5% platform fee</li><li>• Fee for third-party payment processing</li></ul>

## Grants

A grant is a form of funding that's given to a business for a specific purpose. Funds can come from public institutions like government agencies, banks/credit unions, or nonprofits.

When taking out a loan lenders want you to demonstrate your ability to repay the loan, but an agency that offers grants wants your business to align with its mission or a specific initiative. Unlike loans, grants require no repayment and usually do not impact business decisions.

Another benefit of grants is that they usually require no credit standard to qualify for one. However, grants often have stricter eligibility restrictions that can be difficult to meet, tax implications, and requirements on how the grant is used. As most are given based on how well the business aligns with the funder's mission or initiative, grant applications are very competitive with low success rates.



## Loans

When self-funding your business is not an option, **loans** are a common alternative. Business loans help you increase cash flow, purchase expensive equipment, and help your business grow.

Unlike traditional business loans, small business loans are often at lower interest rates, flexible down payments, and easier loan applications.

### Things to consider when deciding to take out a loan:

- Use of Funds
  - Lenders want a clear idea of how you plan to use funds, so be clear about exactly why you need the loan
- Payment Amount
  - Can you afford the monthly repayment amount of the loan you are taking out?
  - Will you be able to make interest-only payments?
  - Can you defer the loan repayments if needed?
- Cost
  - Can you afford interest expenses?
  - Is there a fee for paying off the loan early?
- Timing
  - The best time to apply for a loan is when you do not need the funds. The loan application process is long, so it is important to know your needs in advance



## Steps to Apply for a Loan

<p><b>Check with your Lenders</b></p>	<ul style="list-style-type: none"> <li>• First, start with local banks or credit unions that you have an existing banking relationship with. If a bank is not an option, city and state-sponsored loans and Community Development Financial Institutions are good alternative lenders</li> </ul>
<p><b>Determine Loan Request amount</b></p>	<ul style="list-style-type: none"> <li>• Determine how much you need to cover your expenses</li> <li>• Determine if your cost is one-time or recurring</li> </ul>
<p><b>Consider requirement of lender</b></p>	<ul style="list-style-type: none"> <li>• Understand what documents you will need to submit for your application</li> </ul>
<p><b>Determine Purpose (How you will Use Funds)</b></p>	<ul style="list-style-type: none"> <li>• For example:             <ul style="list-style-type: none"> <li>◦ Purchase new equipment or supplies</li> <li>◦ Purchase or rent a building/storefront</li> <li>◦ Pay employees</li> </ul> </li> </ul>
<p><b>Calculate your loan repayment amount</b></p>	<ul style="list-style-type: none"> <li>• Be sure you can afford the monthly payments before you agree to a loan</li> <li>• Determine how you will repay the loan and if you want a long-term or short-term repayment timeline</li> <li>• Confirm if can you adjust the amounts you pay each month or if it is the same every time</li> </ul>

## Small Business Loan Application General Checklist

Once you are ready to apply for a loan you will need to prepare *Financial* and *Business* documents for your loan application.

### Financial Documents

You will need your most recent

- Personal and business tax returns
- Financial statements including
  - Profit & Loss statement, balance sheet, and statement of cash flow
- Personal statements include
  - Social security number or ITIN number, income, credit history, transaction history, and payment and checking account information

### Business Documents

- Business structuring and legal documents
  - Articles of incorporation
  - Business registration and licenses
  - Bylaws and operating procedures
  - Copy of your business lease if you are renting a space or leasing any equipment critical to your business
- Business Plan
  - This is an opportunity for you to express to lenders that your business is worth the investment. This will include your financial projections, mission statement, and strategy.

For more information on the financial and business documents needed for loan applications please visit: <https://www.sba.gov/funding-programs/loans/7a-loans>

# NYS Community Development Financial Institutions (CDFIs)

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Community Development Financial Institutions offer support to immigrant, women-owned, and low-income communities through low-interest loans, grant opportunities, and financial services such as one-on-one coaching and training programs.

CDFIs are a great resource to not only access funding but to gain valuable knowledge on starting, funding, and growing your small business. Below are NYS based CDFIs that can support you on your business journey:

<b>Accompany Capital</b> <a href="http://Accompanycapital.org">Accompanycapital.org</a>	<b>BOC Capital</b> <a href="http://Boccapital.org">Boccapital.org</a>
<b>Renaissance Economic Development Corporation</b> <a href="http://renaissance-ny.org">renaissance-ny.org</a>	<b>Pursuit</b> <a href="https://pursuitlending.com/">https://pursuitlending.com/</a>
<b>TruFund Financial Services</b> <a href="https://www.trufund.org/">https://www.trufund.org/</a>	<b>You can find a list of additional CDFIs in New York State by visiting</b> <a href="https://www.nyscdfi.org/nyscdfis">https://www.nyscdfi.org/nyscdfis</a>