TYPES OF FINANCING

Financing is typically categorized into two fundamental types: debt financing and equity financing.

**Debt financing** means borrowing money that is to be repaid over a period of time, usually with interest. Debt financing can be either short-term (full repayment due in less than one year) or long-term (repayment due over one year or more). The lender does not gain an ownership interest in your business and your obligations are limited to repaying the loan. Often the lender will require a security interest in assets of your business to help ensure repayment. In smaller businesses, personal guarantees are likely to be required on most debt instruments; commercial debt financing thereby becomes synonymous with personal debt financing. Debt financing is usually available only after a commitment or expenditure of equity financing from yourself and/or others.

Banks are the primary providers of formal loans. Most banks will make a personal loan to good customers with a good credit rating. Commercial banks, savings and loans, credit unions, and finance companies also provide funding. These institutions will require collateral, be concerned with your character and reputation, want to know about the cash flow of the business, and your willingness as the borrower to risk your own money.

**Equity financing** describes an exchange of money for a share of business ownership. This form of financing allows you to obtain funds from investors without incurring debt; in other words, without having to repay a specific amount of money at any particular time. The major disadvantage to equity financing is the dilution of your ownership interests and the possible loss of control that may accompany a sharing of ownership with additional investors. The equity holders or investors are the “owners” of the company and participate directly in the success or failure of the company to the extent of their investment. Types of early stage equity investing include angel investors, venture capital firms, and certified capital companies.

*(Portions taken from CCH Business Owners Toolkit www.toolkit.cch.com)*
DEBUNKING THE GRANT MYTH

You will not be able to start a business without investing your own savings and other assets. You will not find a bank willing to lend you 100 percent of what you need or a government program to fund your business. The man on TV with the question marks all over his coat proclaiming there is LOTS of government money available for you and your business is incorrect.

Wisconsin does have some grant programs but they are very prescribed – available for extremely specific types of businesses doing very specific activities. Many of the grants geared toward entrepreneurial activities center around the creation of a business plan. Call the 1-800-HELPBUSiness helpline or visit the Wisconsin Department of Commerce Web Site www.commerce.state.wi.us or the “business” content area at www.wi.gov for more information on the following grant programs:

Wisconsin Grants

**Entrepreneurial Training Grant** – The Department of commerce has partnered with the SBDC to develop a tuition grant. This grant covers 75 percent of the cost of attending the 12-week entrepreneurial Training Program Course. It is anticipated that after completing the coursework, entrepreneurs will have a comprehensive business plan that fully evaluates the feasibility of the proposed start-up or expansion.

**Early Planning Grant Program (EPG)** - This program helps individual entrepreneurs and small businesses throughout Wisconsin obtain the professional services necessary to evaluate the feasibility of a proposed start up or expansion. Under the EPG program, Commerce provides funding to help cover 75 percent of eligible project costs to hire a qualified, independent third party to develop a comprehensive business. This program is geared towards specific kinds of industries and not typically available to retail or service-type businesses.

**Customized Labor Training Grant (CLT)** - The CLT grant program assists companies that are investing in new technologies or manufacturing processes by providing a grant of up to 50 percent of the cost of training employees on the new technologies. The program’s primary goal is to help Wisconsin manufacturers maintain a workforce that is on the cutting edge of technological innovation.
Community Development Block Grant (CDBG) - The CDBG provides grants to communities who in turn loan money to businesses for start-up, retention, and expansion projects based on the number of jobs created or retained. Communities can create community revolving loan funds from the loan repayments. Check with your county or local economic development organization to see if they have received funding through the CDBG program to establish a “revolving loan fund.” See www.commerce.state.wi.us/MT/MTCountyLEDO.html for more information.

Wisconsin Focus on Energy periodically puts out Requests for Proposal on topics related to renewable energy and environmental conservation. For more information, visit: http://www.focusonenergy.com

Agricultural Diversification and Diversification (ADD). The Wisconsin Department of Agriculture, Trade and Consumer Protection operates the Agricultural Development and Diversification Grant Program. These annual grants (up to $50,000) fund projects that are likely to stimulate Wisconsin's farm economy with new production or marketing techniques, alternative crops or enterprises, new value-added products, or new market research. Visit http://www.datcp.state.wi.us/mktg/business/marketing/val-add/add/index.jsp

Federal Grants

Catalog of Federal Domestic Assistance gives a complete listing of federal grant programs for individuals and businesses. To access this catalog, go to http://www.cfda.gov

(Excerpted from the Dept. Of Commerce)
SMALL BUSINESS LOANS AND GUARANTEES

Small Business Administration (SBA)
http://www.sba.gov/wi/
The SBA does not directly provide grants or loans, but does guarantee business loans made by banks. These loan guarantees assure that, if the borrower defaults, the government will reimburse the lender for the guaranteed portion of the loan. The SBA loan guarantee programs enable banks to extend financing that might not otherwise be available. The SBA also oversees a 504 Loan Program, administered through Certified Development Companies, that funds the purchase of land, building, and equipment in business expansion. For more information and a list of Wisconsin Certified Development Companies, go to the SBA web site (click on <Financing>) or talk to your bank about using an SBA loan guarantee to reduce the risk of a business loan.

Wisconsin Women’s Business Initiative Corporation (WWBIC)
http://www.wwbic.com
WWBIC, with offices in Madison and Milwaukee, offers pre-loan business assistance and micro-loans to small businesses having difficulty obtaining bank financing. This financing is not limited to women-owned businesses. The maximum loan amount is $35,000.

Wisconsin Housing & Economic Development Authority (WHEDA)
http://www.wheda.com/
WHEDA operates three programs of particular interest to entrepreneurs. The Agribusiness Loan helps new or existing businesses obtain financing on favorable terms to produce products using Wisconsin’s raw agricultural commodities. The Link Deposit Loan provides an interest rate subsidy on lender financing to women or minorities for business start-up or expansion. The Small Business Guarantee helps borrowers obtain financing on favorable terms for rural start-up and daycare businesses.

Impact Seven
http://www.impactseven.org/
Impact Seven, a statewide community development corporation, has assembled a group of revolving loan funds to create the Greater Wisconsin Fund. This fund is designed to assist business start-ups or expansion in Wisconsin communities.

Wisconsin Community Action Program Association (WISCAP)
http://www.wiscap.org
WISCAP offers Individual Development Accounts (IDAs) which are dedicated savings accounts opened at participating financial institutions by eligible, working, low-income persons. Deposits made into the IDA are matched on a 2:1 basis. Persons may deposit up to $1,000 of their earnings to their IDA within a two-year period and receive a maximum match of $2,000. Starting a small business is an eligible investment.
Wisconsin Department of Veterans Affairs Personal Loan Program (WDVA)
http://dva.state.wi.us/Ben_education.asp
WDVA offers personal loans for veterans of up to $25,000 at low interest rates and 10-year terms, which may be used to finance the purchase of a business or business property. Visit the WDVA web site or call 1-800-947-8387.

Count-Me-In
http://www.count-me-in.org
Count-Me-In is a nationwide micro-lender for women-owned businesses seeking their first business loan. Visit the web site, which also provides access to financial networks, consultation, and education for women-owned businesses.
TECHNOLOGY DEVELOPMENT FINANCING

**Early-Stage Investment Tax Credits.** The Qualified New Business Venture (QNBV) program provides Wisconsin income tax credits to accredited investors and certified venture funds making early-stage investments in businesses designated QNBVs. To find out more about how businesses and investors obtain certification, and how the investor tax-credit program works, go to [http://commerce.wi.gov/Act255/](http://commerce.wi.gov/Act255/)

**Small Business Innovation Research (SBIR) and Small Business Technology Transfer (STTR) Programs** operated by select federal agencies provide R&D funding for U.S. small businesses. More than $1.5 billion is available annually to fund the development of innovations and technologies of designated national interest. To find out more, open: the [SBIR fact sheet](http://commerce.wi.gov/BD-TZ.html)

**The state’s Technology Zone Program** provides tax incentives to expanding technology-driven businesses located in regional technology zones. For information on your region’s Technology Zone Program, visit [http://commerce.wi.gov/bd/BD-TZ.html](http://commerce.wi.gov/bd/BD-TZ.html)

**State Technology Business Financing**

The Wisconsin Department of Commerce operates an array of tax credit and financing programs for technology business development. All funding applications are submitted through the agency’s Area Development Managers who operate in designated regions. To locate your Area Development Manager, go to: [http://commerce.wi.gov/BD/MT-FAX-0901.html](http://commerce.wi.gov/BD/MT-FAX-0901.html)

- **The Technology Development Fund** (TDF) provides low-interest loans to finance R&D activities that will have economic impact in Wisconsin.

- **The Technology Development Loan** (TDL) provides low-interest loans to finance eligible costs of technology commercialization.

- **The Technology Venture Loan** provides up to $250,000 to supplement third-party investor (equity) financing.

- **The Technology Assistance Grant** (TAG) provides up to $15,000 to hire professional services to write a federal R&D grant or business plan designed to attract outside investor financing.

- **The Technology Bridge Grant** funds eligible expenses necessary to keep a research team intact between SBIR/STTR Phase I and Phase II funding awards.

- **The Technology Matching Grant** provides state dollars to supplement and help Wisconsin companies secure federal R&D awards (e.g., SBIR Phase II or FastTrack).
VENTURE CAPITAL AND INVESTMENT BANKING

Wisconsin Venture Capital Companies, Capcos, and Investment Banks.

Guide to Wisconsin's Venture Capital Marketplace
Venture capital companies are pools of capital managed by professional fund managers who invest in growth companies expected earn a desired (usually high) rate of return and achieve multi-million-dollar sales goals. Certified Capital Companies (Capcos) make investments in qualified Wisconsin growth businesses. Investment Banks provide a range of equity capital services. For more information and contacts to venture capital companies, Capcos, and investment banks with operations in Wisconsin.

Wisconsin Life Sciences Venture Conference
http://www.wisconsintechnologycouncil.com
This annual capital matchmaking event for life science growth companies is held each autumn. Companies apply to make investor presentations in late summer.

National Venture Capital Association
http://www.nvca.org
The National Venture Capital Association sponsors training and matchmaking events for investors and entrepreneurs, and posts information on the venture capital industry.

Money Tree Survey
http://www.pwcmoneytree.com/moneytree/index.jsp
PricewaterhouseCoopers, Thomson Venture Economics, and the National Venture Capital Association publish the quarterly Money Tree Survey on venture capital investing trends nationwide.

Thomson Venture Economics
http://www.thomson.com/content/financial/other_brand_overviews/Publications
Thomson Venture Economics publishes benchmark reports on venture capital investment globally, and provides access to ordering investment publications and national directories, including Pratt’s Guide to Private Equity Sources and Directory of Limited Partners.
ANGEL INVESTING

Wisconsin Angel Network
http://www.wisconsinangelnetwork.com
The Wisconsin Angel Network provides a deal-flow pipeline for entrepreneurs of growth companies seeking investor capital. The WAN website offers a secure page for posting a company’s executive summary, where only qualified Wisconsin angel and venture investors have passwords to view the summaries. WAN also has services to video-record a capital-raising presentation to help companies reach a broad range of investors.

Information on Regional Angel Networks
“Angels” are individuals of high net worth who invest in privately held companies. Along with family and friends, angels often participate in the early rounds of financing a growth business—typically preceding venture capital. Angels tend to invest smaller dollar amounts than venture capitalists, often prefer to invest “close to home”, and are generally approached through social contacts and gatekeepers such as attorneys and CPAs. “Angel networks” bring together private investors in a geographical area to evaluate business deals and make investments. Angel networks vary in their organizational structures, due diligence and deal-making procedures. Some angel networks focus their investments in specific technology areas or industry sectors because of investor expertise. Angel networks require submission of a current business plan for investor review. For information on regional angel networks, visit: http://northstareconomics.com/angel_investing.htm

(Excerpted from Wisconsin 2007 Toolkit)