Financing Your Business **ENTR 3-7**

Think Critically

1. What are some of the challenges you might encounter if you get equity financing from friends and/or family members?

2. Why is a secured loan easier to get than an unsecured loan?

3. Why would a bank be more willing to grant an SBA-guaranteed loan to a new business?

True or False

______ 1. Money loaned to a business with the understanding that the money will be repaid is called equity capital.

______ 2. Debt capital is money invested in a business in return for a share of the business's profits.

______ 3. Net worth is the difference between what you owe and what you own.

______ 4. Venture capitalists are usually interested in companies that have the potential of earning hundreds of millions of dollars within a few years.

______ 5. Your company's debt-to-equity ratio measures how much money you can safely borrow.

______ 6. Banks require collateral for most unsecured loans.

______ 7. Equity capital is money invested in a business without expectation of a share of the profits.

______ 8. A solid business plan is needed for a bank loan but not for SBA loan assistance.

______ 9. Most SBA loan assistance is made by guaranteeing loans made by commercial banks.

______ 10. Entrepreneurs may be able to get financial assistance from their state or local governments.

Multiple Choice

______ 1. To calculate net worth, you should (a) prepare a personal financial statement, (b) prepare a pro forma financial statement, (c) calculate debt-to-equity ratio, (d) none of these.

______ 2. Things that you own are called (a) liabilities, (b) net worth, (c) equity, (d) assets.

_____ 3. Money invested in a business in return for a share of the business's profits is (a) investment capital, (b) equity capital, (c) venture capital, (d) debt capital.

_____ 4. Venture capitalists are individuals or companies that (a) make a living investing in startup companies, (b) have few requirements for lending money, (c) are sponsored by the SBA, (d) help small businesses find investors.

_____ 5. Unsecured loans are (a) backed by collateral, (b) usually interest free, (c) usually paid back within a short period of time, (d) easier to get than secured loans.

_____ 6. A line of credit (a) is a type of secured loan, (b) has a fee whether or not money is borrowed, (c) is a type of debt capital, (d) all of these.

_____ 7. If a business wants to make improvements to increase profits, it will usually get a (a) line of credit, (b) long-term loan, (c) startup loan, (d) short-term loan.

_____ 8. A bank may turn down a loan application for a new business because the entrepreneur (a) is too confident, (b) has previously owned a business, (c) is investing too little personal money in the business, (d) none of these.

_____ 9. MESBICs lend money to small businesses that are (a) in redevelopment areas, (b) in manufacturing industries, (c) owned by members of ethnic minorities, (d) in rural areas.

_____ 10. Although similar to borrowing from the SBA, the restrictions are tighter for borrowing from (a) HUD, (b) state governments, (c) the EDA, (d) local governments.

Problem Solving

1. Explain the difference between debt capital and equity capital.

2. What are some of the ways entrepreneurs can get equity capital? (List three sources)

3. Where can entrepreneurs look for debt financing? (List five sources)

4. Do you think it is better for an entrepreneur to finance a business with debt capital or equity capital? Explain your answer.