Entrepreneurship-Based Development Capital Sources

Kyle Arganbright, Chief Operating Officer and Co-Founder - Sandhills State Bank

Glennis McClure, Program Manager – Nebraska Enterprise Fund
“I do admire a small business owner with a sense of humour.”
How do Banks work?

Banks take money in the form of deposits, increase the price, and sell that money in the form of loans.

Different models exist in banking, and all serve a purpose.
Share of Bank Assets

- Small & Mid-Sized Banks: 20%
- Giant Banks: 60%
- Large Banks: 21%

Share of Small Business Lending

- Small & Mid-Sized Banks: 54%
- Giant Banks: 27%
- Large Banks: 19%

Source: Federal Deposit Insurance Corporation Data, 2nd Quarter 2012
Notes: Small banks are defined as those with $1 billion in assets or less; mid-sized banks as those between $1 and $10 billion in assets; large banks as those with $10 to $100 billion in assets; and giant banks as those with more than $100 billion in assets.
Change in Share of Assets Devoted to Small Business Lending, 2009-2012

Source: Federal Deposit Insurance Corporation Data
Notes: Small banks are defined as those with $1 billion in assets or less; mid-sized banks as those between $1 and $10 billion in assets; large banks as those with $10 to $100 billion in assets; and giant banks as those with more than $100 billion in assets. (All size categories in 2009 dollars.)
Bank Stakeholders

- Shareholders
- Regulators
- Customers
Bank Stakeholders

- Shareholders
- Regulators
- Customers
- Community
What a Bank wants...

A bank wants comfortably margined loans that don’t introduce unnecessary risk to the institution.

Most banks want to grow our economy, some banks want to grow local economies.
What a Bank needs.

**Tangibles**
- 20% Down Payment on Hard Assets
- Lines-of-Credit Vary by Ability to Repay

**Intangibles**
- Experience (Competency or Character)
- Market Opportunity (Need)
- Collateral
LOCAL Capital: A Gap Financing Tool

**THEN**

- Local Stock Exchanges
- Exclusively Local Banks
- Lightly Regulated

**NOW**

- International Public Stock Exchanges
- Fewer Local Banks
- A Few More Regulations
Will LOCALS Participate?

Next, from what you know or have heard, how would you rate economic conditions in each of the following areas -- as excellent, good, only fair, or poor? How about ...

<table>
<thead>
<tr>
<th></th>
<th>Excellent</th>
<th>Good</th>
<th>Only fair</th>
<th>Poor</th>
<th>No opinion</th>
</tr>
</thead>
<tbody>
<tr>
<td>In the city or area you live in</td>
<td>10%</td>
<td>39%</td>
<td>35%</td>
<td>15%</td>
<td>1%</td>
</tr>
<tr>
<td>In your state</td>
<td>7%</td>
<td>30%</td>
<td>39%</td>
<td>22%</td>
<td>1%</td>
</tr>
<tr>
<td>In the United States</td>
<td>5%</td>
<td>20%</td>
<td>44%</td>
<td>30%</td>
<td>2%</td>
</tr>
<tr>
<td>In Europe</td>
<td>4%</td>
<td>14%</td>
<td>25%</td>
<td>40%</td>
<td>17%</td>
</tr>
<tr>
<td>In the world as a whole</td>
<td>2%</td>
<td>11%</td>
<td>41%</td>
<td>41%</td>
<td>5%</td>
</tr>
</tbody>
</table>

Gallup, June 11-12, 2012

GALLUP®
Next, from what you know or have heard, how would you rate economic conditions in each of the following areas -- as excellent, good, only fair, or poor? How about ...

% Excellent/Good minus % Poor, in percentage points

<table>
<thead>
<tr>
<th></th>
<th>Democrats</th>
<th>Independents</th>
<th>Republicans</th>
</tr>
</thead>
<tbody>
<tr>
<td>In the city or area you live in</td>
<td>41</td>
<td>35</td>
<td>27</td>
</tr>
<tr>
<td>In your state</td>
<td>23</td>
<td>15</td>
<td>7</td>
</tr>
<tr>
<td>In the United States</td>
<td>8</td>
<td>-3</td>
<td>-27</td>
</tr>
<tr>
<td>In Europe</td>
<td>-7</td>
<td>-15</td>
<td>-49</td>
</tr>
<tr>
<td>In the world as a whole</td>
<td>-22</td>
<td>-20</td>
<td>-46</td>
</tr>
</tbody>
</table>

Gallup, June 11-12, 2012
Where to find LOCAL Capital?

- Local Citizens & Businesses
- Local Investment Clubs
- Local Foundations
- Alumni
The How of LOCAL Capital

- Purpose and Pitch
- Solicitation
- Accredited Investors
- Crowdfunding
- Structure
What could Banks do better?

1. Familiarize themselves with alternative forms of financing.
2. DRIVE local investment vehicles – including revolving loan funds, community investment groups, and local “Angel” investors.
3. Aggressively support initiatives that minimize the startup costs in their communities.
4. Educate and cultivate.
5. Be creative.
How many entrepreneurs do you know that can “Grow their Own”?
▪ NEF - a Statewide Intermediary since 1994.

▪ Certified by the US Treasury as a Community Development Financial Institution (CDFI) in 1998.

Making sure that Nebraska micro and small businesses have access to capital, training and technical assistance.  NEF’s Mission
The Opportunity Finance Industry

- CDFIs are mission-driven - $30B in assets – capital provided principally by the private sector.*

- CDFIs serve all 50 states (5 in NE)

- Currently more than $5 billion annually in loans, investments, and financial services (both urban & rural)*

*Opportunity Finance Network, 2012
85% of businesses are microenterprise (factoring in non-employers). Over 90% of businesses in rural counties are microenterprise.

In Nebraska, if 1 in 3.5 micro businesses hired one employee, the state would be at full employment. (Association for Enterprise Opportunity, 2011)
Micro & Small Business Development Services are Key

**Business training & planning**
- Business plans
- Marketing plans
- Accounting
- Mentors & networking

May include one-on-one technical assistance or counseling

**Financing**
- Micro / small business loans
- Leverage private financing
Entrepreneurs that worked with microenterprise development organizations and received micro business loans had:

- Higher business survival rate
- Higher revenues
- Employment growth
- Growth in owner’s draw

2004-2009 five year outcomes study by At the Five Year Mark: Outcomes Reported by US Microenterprise Clients
NEF’s BUSINESS SUPPORT FLOW CHART

NEF Leverages Capital
From Federal, State & Local Sources

- Micro / Small Business Assistance
- NEF Gap Financing Products for Micro / Small Businesses

- NEF Program Partner Assistance
- Business Resource Directory
NEF Program Partners

- 9 Programs Statewide
- All provide business development services
- 2304 participants last year
- FY ending 6-31-12: 178 total loans for $3.2M

Programs serving rural -
NEF Financing Assistance

- NEF Direct Loan
- REAP Loan
- Local Revolving Loan Fund

- NEF CD Loan Guarantee
- NED Inc. loan
- First National NE Loan

Rief Design & Mfg, Bancroft, NE

Chandler Sandhill Honey, Anselmo, NE
NEF Collaborates

• Common Purpose
  ▫ *To facilitate assistance & financing or investments for small businesses success*

• Value each Partner
  ▫ *It’s not competition*

• Clear Communications
  ▫ *Determine financing gaps*
  ▫ *Minimize risk to lenders*
www.nebbiz.org
402.685.5500