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# Raising Capital in an Economic Slump

## *Six Questions that are Answered*

By: Aaron Dyer

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Foreclosure, falling stocks, and the whisperings of the dreaded recession are a part of the current financial climate. It is a time to be business savvy, but don't be so fearful of these events that you hole up completely. Business continues on, and if you're smart you'll find ways to confront this economic slowdown and emerge the victor from such hard times.

It can be difficult to find investors willing to take the risk of betting on a new venture. It is almost equivalent to betting on the rookie horse in a race. The filly is on the track for the first time and it is anyone's guess what kind of performance one will get out of her. There are a couple things you need to know when going into such a situation. One thing to keep in mind is that you're probably going to have to make greater concessions in order to achieve funding; it is standard during economic slumps.

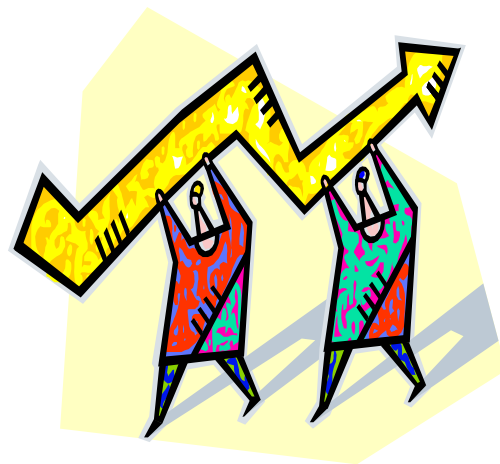
Here are 6 answers to some tough questions that will need to know in order to be prepared and achieve the best financing in hard times.

- *If you have an established business, are you looking for capital in the right place?*

Research options at your local independent banks and see what package, if any, might best suit your needs. Smaller banks are less likely to be hit as hard as the larger banking institutions during times of economic crisis. Businessweek.com reports that these smaller banks aren't as prone to the larger write-downs that the larger banks are incurring. Independent banks are much more prudent with their funds; it is a necessity for them, as they must stay afloat and have less to rely on than the large national banks.

- *Are you questioning the timing of applying for a loan during times of economic distress?*

Quite simply, don't. If you can get the loan, it could prove to be the best time for you and your business. The Federal Reserve has dropped rates for overnight lending. These rate cuts were put into effect in an effort to try and ease the current credit crunch. Banks don't lose out when rates are cut, in fact, they will continue to make the same profits from the spread that they did in the past. These rate cuts would greatly benefit you, as you would gain a lower rate than you necessarily would have if the economy weren't in a downward turn.



- *Worried about your credit? What is "good enough" to get you the financing you seek?*

Your credit history may not be in the best order and now you're in need of financing, what do you do? Well, think outside the traditional financing box and look outside banks for other options. Research such companies as On Deck Capital, who offers loans up to \$100,000 to smaller businesses. They will look at the cash flow of your business rather than your credit rating.

Another option is to secure financing through social lending websites like Prosper.com, but make sure to do your research before getting in too deep with any non-bank institution.

- *What if I don't meet the new credit standards that banks are looking for?*

It's true; you will be under some scrutiny from the lending institutions, especially when they're struggling to protect themselves in an economic storm. Be prepared and know what kind of things they will be looking for. They want to see a business that continues to make profits, as this will be a strong indicator that the payments will be made on time and the lending institution won't have to overextend themselves. In addition, banks are often looking for an already established business. They will look at the history of the company and see if your company will be able to continue to function during tough times.

- *Angels and VC' - Friend or foe to your business?*

Angel investing might prove to be another viable option to help you achieve the financing you seek. Be aware that in times such as these, angel investors are more likely to keep a firmer grasp on their finances, which can translate into them being thriftier with their money. If you manage to find an angel investor during a

time of economic distress be prepared to meet with someone who is going to play it safe. Venture capitalists will also be more selective in the businesses they choose to invest in. They will still expect fast returns on their investment and this could translate into them asking for greater shares of equity in the companies they invest in.

- *What is the government doing?*

When weathering the economic storm, look to government programs or tax incentives to help ease you through. Recently the government put forth an economic stimulus package that might allow room for tax incentives for small businesses to be introduced. Such a plan would allow for a greater number of write off's for investments from \$125,000 to \$250,000. This action would free up a certain amount of funds that could then go towards purchasing new inventory. Basically, it is important to keep abreast of what is going on with the government as it pertains to you. Be knowledgeable on the current happenings and it could greatly benefit you and your business.

Being a smart and savvy individual in business will help greatly in times of need. When others begin to drown in a sea of questions, you will have the answers and see opportunity where others are blinded by the negatives of a downward trend.

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### **About the Author:**

Aaron Dyer is President of Dyer Consulting Group, a small business consulting firm that advises business owners on ways to grow their revenues and increase profitability through better strategic planning and financial management. For more information, and also to sign up for Aaron's future articles, visit [www.DyerConsultingGroup.com](http://www.DyerConsultingGroup.com)

