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How to Overcome Barriers in Obtaining Capital for New Business

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In the summer of 2020, I had the unique opportunity to open a consulting business when the firm I had worked at for many years would be closing. My colleague and I would have three months to prepare to be in full operation with 12 clients and seven employees on payroll. It was a great position to be in, except we knew we would need a substantial amount of capital to be ready. We needed a $250,000 Line of Credit (LOC) to pay professional liability and workers compensation insurance premiums, equip our team with computers and software licenses, and cover payroll expenses until our first client payments would come in. Our team was remote, so we would not need to pay for office space.

Our business plan was solid, our clients were secured, and we had decades of experience on our team—but it was not enough to convince most conventional banks that we were worthy of that $250,000 LOC. In fact, it would prove very difficult for me and my female business partner to obtain any type of traditional loan, despite high credit scores and having contracts in place that would represent over $2.5 million in gross revenue for 2021. We even had trouble obtaining a business credit card with a credit limit higher than $15,000.

Cashflow is key to any small business but especially for those who need employees or subcontractors/vendors. In the real estate industry, clients typically pay their consultants in arrears, often 30-60 days after services are performed. For anyone trying to launch a business, the initial capital required to maintain cashflow while equity is developed is often the barrier that prevents those businesses from launching.

We first approached the banks with whom we did our personal banking, but we were rejected. We reached out to several more banks before conceding to hiring a "broker" who helped identify a bank (M&T) who would provide a LOC of $150,000, in conjunction with the U.S. Small Business Administration (SBA). The SBA guarantees loans for small business when a bank thinks the loan is too risky, and in this case was key to obtaining the loan. The $150,000 LOC was less than we hoped for, but we were scheduled to close just in time for our launch, so we accepted it.

At this time, the SBA and many banks were overwhelmed with PPP lending which ended up having a major impact on the timeline for our LOC. The LOC closed 23 days late, forcing us to obtain short term loans with less desirable terms and substantially higher interest rates to cover our first two payrolls. These short-term loans were only available for payroll expenses, not the insurance premiums and other expenses required at the inception of the business. For those, we turned to friends and family for assistance and tapped into loans available through our 401(k)s to maintain cashflow in our first 60 days.

Traditional loans, including personal loans or credit cards, require a huge amount of personal risk and may be unattainable for those who have less access to collateral with which to guarantee loans. When it comes to microloans ($50,000 or less), the SBA is a great resource for women, with 57.4% of the SBA Microloan program's loans going to women-owned or women-led businesses.[1] Latin America and the Caribbean have the highest number of self-employed women globally.[2]

Although the number of small and medium size enterprises (SMEs) owned by women has grown over the past few years, only 30% of female-led SMEs that seek loans are approved, because of the very high requirements for collateral, personal guarantees, and high interest rates.[3] In addition, women often receive less than men when pursuing business loans.[4] This lack of access to capital not only prevents women from starting businesses, but also from growing them.[5] Women-owned firms are less likely to receive all the funds they request and are more likely to be approved at smaller banks than large ones.[6] Crowdfunding is a relatively successful option for women[7] seeking start-up money but isn't necessarily a good fit for every type of business.

While reflecting upon the experience, I thought of how many women in a similar position might not have taken the same risk or would have given up when meeting so much resistance. While entrepreneurship may be a great opportunity for women who are seeking flexible and equitable workplaces, the financial insecurity associated with starting a business may be a deterrent for many. The moral of our story is to tap your personal and professional networks and don't let fear hold you back. You've got the expertise and CREW has got your back!

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1) https://www.fundera.com/blog/women-entrepreneurs-arent-getting-funded

2) https://americasquarterly.org/article/how-banks-can-break-down-barriers-for-women/

3) https://americasquarterly.org/article/how-banks-can-break-down-barriers-for-women/

4) Overall, men receive an average loan size of $43,916 while women receive an average loan size of $38,942 – almost $5,000 less. https://www.fundera.com/blog/women-entrepreneurs-arent-getting-funded

5) Only 22% of women-owned firms had at least $1m in annual revenues in comparison to 36% of men-owned firms. https://www.newyorkfed.org/newsevents/news/regional_outreach/2017/an171130

6) https://www.newyorkfed.org/newsevents/news/regional_outreach/2017/an171130

7) Women have a 69.5% success rate of crowdfunding for their businesses while men have a 61.4% success rate. https://www.fundera.com/blog/women-entrepreneurs-arent-getting-funded