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## Capital Opportunities Guide *for* Small Businesses

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This Capital Opportunities Guide is published by the North Carolina Small Business and Technology Development Center (SBTDC), a business and technology extension program of the UNC System. SBTDC counselors work with small and midsize businesses throughout North Carolina to help them become more competitive, create new jobs, and improve the economy.

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### **About the SBTDC**

The Small Business and Technology Development Center (SBTDC) is a business and technology extension program of the UNC System, administered statewide by NC State University and operated in partnership with the U.S. Small Business Administration. Since 1984, the SBTDC has helped over 140,000 North Carolina business owners and prospective entrepreneurs make better business decisions. The SBTDC has 16 offices across North Carolina staffed by specially trained professionals. For more information, visit [www.sbt dc.org](http://www.sbt dc.org).

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## Chapter 3: Financial institutions

### Commercial banks

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Commercial banks are usually one of the least expensive providers of loan capital and among the largest sources of credit to small businesses. This source of financing will be most helpful for a business that has demonstrated it can operate profitably. Banks are most interested in financing firms that can show an ability to repay the loan. This usually means a company must have a strong positive cash flow or assets that can be easily liquidated as collateral. The evaluation will consist of a detailed analysis of the company's income statement, balance sheet, and cash flow statement. Banks also consider factors such as the content of the business plan and experience of the management. If a business has no consistent operating history or cannot demonstrate that funds will be available to repay the loan, it may be difficult to procure financing using this method.

Payment terms from commercial banks are usually up to five years until maturity but can then be renegotiated to 10 or 15 years. Most debt is secured, although some unsecured lines may be available. Personal guarantees are almost always required, resulting in exposure of the borrower's personal assets in the event of a business failure. Even if the business is formed as a corporation, the limited liability feature is superseded by a personal guarantee.

The interest rate on a loan is typically expressed as a percentage in excess of the prime rate. Prime is the rate the nation's largest banks charge their best customers. The prime rate itself will vary according to economic conditions; it is primarily dependent on the rate the banks themselves are charged by the Federal Reserve to borrow money. The percentage over prime that a customer is charged is based on the banker's perception of the risk taken by granting the loan.

Prime rates can be found at [wsj.com/mdc/public/page/2\\_3020-moneyrate.html](https://www.wsj.com/mdc/public/page/2_3020-moneyrate.html)

Lending institutions have different policies towards risk. Some are inclined to follow relatively conservative lending practices; others engage in more creative banking practices. Banks borrow money elsewhere at a lower rate and lend it out at a higher rate; therefore, the commercial bank's primary concern is a borrower's ability to cover principal and interest repayments. Although bankers are interested in all financial aspects of a borrowing firm, hard assets provide their primary insurance if the business fails.

According to the SBA Office of Advocacy's 2020 report on small business lending activities, the total number of small business loans increased from 26.1 billion in 2016 to 27.1 billion in June 2020. The full report is available at <https://advocacy.sba.gov/2022/07/12/small-business-lending-in-the-united-states-2020/>.

The North Carolina Banking Commission currently regulates 108 state-chartered, commercial banks and 24 trust companies (or limited purpose banks). Since 1994, the SBA Office of Advocacy has ranked the small business lending behavior of every commercial bank in each state to help depositors and borrowers identify the banks in their state that are friendly to small businesses. Four factors are used to rank the small business lending activities of each bank:

- Ratio of small business loans to total assets.
- Ratio of small business loans to total business loans.
- Dollar value of small business loans.
- Number of small business loans.

The top North Carolina banks, ranked according to the above criteria and by total small business loans (<\$1 million) issued, is available at: [www.sba.gov/sites/default/files/files/bk\\_13nc\(1\).pdf](http://www.sba.gov/sites/default/files/files/bk_13nc(1).pdf). It is important to note that banks that participate in SBA loan programs and that extensively utilize secondary markets have received artificially low rankings in the first table. Therefore, borrowers should also consult the list of SBA preferred or certified lenders provided in the next section of this guide.

### Savings institutions

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Savings and loans (S&Ls) and savings banks primarily focus on the area of home mortgage lending. Savings institutions have *not* traditionally been aggressive in pursuing commercial loans unrelated to real estate, such as lines of credit and unsecured loans. While state-regulated institutions can invest up to 15% of their total assets in commercial loans without making a special application to the North Carolina Administrator, Savings Institutions Division, the portfolios of most do not approach this limit. Savings institutions may be more aggressive in the area of commercial real estate loans, which are not included in this limit. These institutions can also provide indirect sources of business financing, such as home equity loans or second mortgages.

For the most current list of savings institutions in North Carolina, contact:

*NC Commissioner of Banks*

*316 W. Edenton St., Raleigh, NC 27603*

*4309 Mail Service Center, Raleigh, NC 27699-*

*4309 919.733.6918*

*[www.nccob.org/public/](http://www.nccob.org/public/)*

- *To view a list of state-chartered banks (both commercial banks and trust companies), visit [www.nccob.org/Online/brts/BanksAndTrusts.aspx](http://www.nccob.org/Online/brts/BanksAndTrusts.aspx).*
- *To view a comprehensive list of banks in North Carolina ranked by assets, visit <https://www.ibanknet.com/scripts/callreports/fiList.aspx?type=statebank&state=37>*

## Non-bank lenders

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Finance companies offer a growing alternative for the financing needs of small businesses. They usually assume higher risk, and therefore charge higher interest rates, than commercial banks.

The major differences between the lending approaches of banks and finance companies are the criteria they use to evaluate borrowers and the level of risk these institutions are willing to assume.

## Asset-based lenders

Over the past several decades, business lending by finance companies has increased at a faster rate than business lending by commercial banks. Increasingly, finance companies are providing asset-based lending services. Instead of focusing on a firm's historical operating record and cash flow, finance companies will lend money based on a percentage of the value of the company's equipment, inventory, or accounts receivable. Asset-based lending is secured lending in which money is loaned using the borrower's assets as collateral. The lender's risk is mitigated by closely monitoring the quality and performance of the asset.

Asset-based lending is especially useful when the company confronts issues such as high growth or seasonal variations in business. In these environments, traditional unsecured lending is unlikely to satisfy all financing needs, and asset-based lending becomes a viable alternative. This method of lending is generally focused on providing secured working capital loans, with the amount that can be borrowed determined by established percentages of the advance against accounts receivable or inventory. By borrowing against its accounts receivable, a company can accelerate its cash collection cycle and improve its ability to purchase additional inventory to build sales. The resulting improvement in cash flow can be accomplished without giving up any ownership control.

In a traditional arrangement, the asset-based lender typically extends credit against 75–80% of eligible receivables, with 20% serving as a reserve, but percentages may vary. Eligibility is generally determined by the quality of the receivable. As the invoices are paid, the amounts received are applied against the borrower's loan.

## Purchase order financing

Purchase order financing is another example of asset-based lending. This type of financing may be attractive to a company that has stretched its credit relations with vendors and has reached its lending capacity at the bank. The inability to finance raw materials to fill all orders would leave a company operating under capacity. The asset-based lender finances the purchase of the raw material, and the purchase orders are then assigned to the lender. After the orders are filled, payment is made to the lender, and the lender then deducts its costs and fees and remits the balance to the company.

The interest cost of this source of financing can be relatively expensive. Terms can be as low as prime plus 3% or as high as prime plus 10%. Asset-based lenders usually require first liens on assets and almost always require personal guarantees. Lenders may also move quickly to

liquidate collateral where necessary. The advantage of this type of financing is that it is available to companies that have a strong asset base but lack sufficient cash flow to qualify for a traditional loan.

## Asset-based lender members of the Carolinas Chapter of the Commercial Finance Association

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### Bank of America Commercial Finance Business Credit Division

101 South Tryon St., NC1-002-30-23  
Charlotte, NC 28255  
704.386.8956  
[www.bankofamerica.com](http://www.bankofamerica.com)

### Branch Banking & Trust Co. (BB&T)

200 W. 2nd St., POB 1245  
Winston-Salem, NC 27101  
336.733.2724  
[www.truist.com](http://www.truist.com)

### Business Alliance Capital Corp

(acquired by Santander Bank) 214 Carnegie Center, Ste. 302  
Princeton, NJ 08540  
609.897.8940 or 800.246.1089  
[www.santanderbank.com](http://www.santanderbank.com)

### CIT Commercial Credit

2 Wachovia Center 301 South Tryon St.  
Charlotte, NC 28202  
704.339.2928  
[www.cit.com](http://www.cit.com)

### The Commercial Finance Group

230 Pond View Lane Fort Mill, SC 29715  
704.226.2455  
[mpierce@cfgroup.net](mailto:mpierce@cfgroup.net)  
[www.CFGroup.net](http://www.CFGroup.net)

### GE Capital Solutions

[gecapsol.com](http://gecapsol.com)

### GMAC Commercial Finance

8801 J.M. Keynes Dr., Ste. 360  
Charlotte, NC 28262  
704.510.2300

[www.gmfinancial.com/en-us/business-financing.html.com](http://www.gmfinancial.com/en-us/business-financing.html.com)

### HSBC Business Credit (USA), Inc.

227 West Trade St., Ste. 2050  
Charlotte, NC 28202  
704.358.2015  
[www.us.hsbc.com](http://www.us.hsbc.com)

### Lighthouse Financial Corp.

POB 3545, 925 West Market St.  
Greensboro, NC 27402  
336.272.9766  
[www.lighthousefinancialabl.com](http://www.lighthousefinancialabl.com)

### MidFirst Business Credit

3460 Preston Ridge Rd., Ste. 550  
Alpharetta, GA 30005  
770.491.8345  
[www.midfirstbusinesscredit.com](http://www.midfirstbusinesscredit.com)

### PNC Business Credit

4720 Piedmont Row Dr., Ste. 300  
Charlotte, NC 28210  
704.551.8509  
[www.pnc.com](http://www.pnc.com)

### RBC

804 Green Valley Rd., Ste. 104  
Greensboro, NC 27408  
336.443.6870  
[www.rbcbank.com](http://www.rbcbank.com)

## US Bank

*800 Nicollet Mall  
Minneapolis, MN 55402  
[www.usbank.com/index.html](http://www.usbank.com/index.html)*

## Wells Fargo

*301 South College  
St., Charlotte, NC  
28202-6000  
704.383.1351  
[www.wellsfargo.com](http://www.wellsfargo.com)*

## Specialized asset-based lenders

A number of asset-based financing sources restrict their operations to various areas. For example, some smaller and flexible asset-based lenders may choose to finance produce from a foreign country, while others may focus on an industry such as frozen fish. This is often because the lenders feel comfortable in this industry, due past success or other reasons. These lenders can sometimes fill a gap for funding necessary for businesses that need much smaller loans.

## Factors or factoring companies

A factor is a person or company who assists businesses that are expanding and experiencing a cash shortage by purchasing the business's accounts receivables. In factoring, the receivable is purchased at a discounted rate, and the factor pays the business immediately. This is beneficial to all parties because the business needs cash now and is willing to pay a fee to get it. There are two types of accounts receivable sales: recourse and non-recourse factoring. In a recourse transaction, the business retains part of the risk of customer default and is ultimately responsible for any shortfall. In a non-recourse situation, the factor takes on all the rights and obligations of the receivable, including the risk of default by the customer.

Factors charge a fee that is usually 2–6% of the receivable. The calculation of this fee depends on the following variables: volume, size, and number of invoices; customers' credit; location of the customers; and length of time of payment. Some companies charge an additional fee if the customer is late on payment, while others have one flat rate. Upon payment by the customer, the remaining value (10–30%), minus the fee, is sent to the business.

There are two methods of factoring, called traditional and spot. With traditional factoring, the finance company obtains the rights to an entire stream of receivables. This is best for companies with at least \$1 million in annual sales. Spot factoring is the buying and selling of a single or small number of businesses accounts. Businesses that only use factoring for a limited time or purpose, such as seasonal employers, often prefer the spot factoring method.

In addition to traditional factoring companies, The Receivables Exchange ([www.receivablesexchange.com](http://www.receivablesexchange.com)) allows companies to post and sell their invoices online, where buyers compete by bidding for invoices.

While a business can receive cash quickly, this may be expensive, and typically works best for larger, more established businesses.

It is important to keep in mind that, unlike banking, there are no regulatory agencies overseeing the business practices of factoring companies. Most factors will provide prospective clients with a list of former and current clients, as well as references from local lending institutions.



## Factor members of the Carolinas Chapter of the Commercial Finance Association

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### Accord Financial, Inc.

POB 6704  
Greenville, SC 29606.6704  
864.271.4384 or  
800.231.2757  
accord@accordfinancialus.com  
www.accordfinancialus.com

### Truist

Commercial Loan  
200 S College St., 2nd Floor  
Charlotte, NC 28202-2005  
704.954.1000  
www.truist.com

### CIT Group

2 Wachovia  
Center 301 South  
Tryon St.  
Charlotte, NC  
28202  
704.339.2200  
www.cit.com

### GE Capital Solutions

Business Financing  
Solutions 44 Old  
Ridgebury Rd.  
Danbury, CT 06810  
203.796.1000

### Riviera Finance

8307 University Executive Park Dr., Ste. 228  
Charlotte, NC 28262  
704.510.0112 or 800.693.7157  
www.rivierafinance.com

## Leasing companies

A typical lease involves three parties: the seller of equipment (vendor), the one who will use the equipment (lessee), and the leasing company (lessor). The leasing company buys the equipment from the vendor and leases it for a specified period of time to the business owner. Leases are best used by businesses that cannot afford the initial capital cost to buy the equipment. Usually almost 100% of the cost of the equipment can be financed, and therefore no down payment is required.

There are also certain tax benefits to leasing that are dependent on the structure of the lease. There are two types of leasing arrangements, capital and operating. In a capital lease, the lessee (person taking possession of the property) assumes the obligation to purchase the equipment under the lease. This is generally regarded as a form of medium-term debt financing. Both the value of the asset and the related debt are recorded on the lessee's financial statements. Under an operating lease, the lessee pays a fixed monthly payment for a specified period of time, after which there exists no further obligation, and the lessor retains ownership of the equipment. Neither the asset nor the debt is recorded on the lessee's financials.

Usually, the leasing company will require small business owners to personally guarantee the lease. Typically, a leasing company requires that a business be in existence for at least two years and have a strong cash flow history. There are leasing companies that work with new businesses if the owner has strong personal resources and good personal credit. Terms range from short-term to long-term, depending on the underlying asset. For more information, please refer to the Equipment Leasing and Finance Association's (ELFA) website at [www.ELFAonline.org](http://www.ELFAonline.org).

## NC members of ELFA dealing in small market transactions

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### Truist

POB 31273  
Charlotte, NC 28231  
704.954.1774 or  
800.532.0354  
[www.truist.com](http://www.truist.com)

### RBC Bank

3400 Croasdaile Dr., Ste. 304  
Durham, NC 27705  
919.687.3750  
[www.rbcbank.com](http://www.rbcbank.com)  
800.677.5677  
[www.eplus.com/web/BaseRenderer.aspx?id=1](http://www.eplus.com/web/BaseRenderer.aspx?id=1)

### Bank of America Leasing and Capital Group

121 West Trade St. / NC1-005-15-01  
Charlotte, NC 28255  
704.388.1999  
[www.bankofamerica.com/small\\_business/business\\_financing](http://www.bankofamerica.com/small_business/business_financing)

### First Citizens Bank and Trust Commercial Leasing

3127 Smoketree Ct., Raleigh, NC 27604  
Mailing: POB 29519, Raleigh, NC 27626  
888.323.4732  
[www.firstcitizens.com](http://www.firstcitizens.com)

### ePlus, Inc.

13595 Dulles Technical Dr.  
Herndon, VA 20171  
703.984.8400

### Salem Group

209 Mercantile Dr.  
Winston-Salem, NC 27105  
336.744.5999  
[www.salemgroup.com](http://www.salemgroup.com)

### Springs Leasing Corporation

POB 667817  
Charlotte, NC 28266-7817

704.357.3020 or 800.622.1633

[www.springsleasing.com](http://www.springsleasing.com)

### Volvo Financial Services–North America

POB 26131  
Greensboro, NC 27402-6131  
336.931.4000 or 877.865.8623  
[www.volvo.com/commercialfinance/na/en-us/](http://www.volvo.com/commercialfinance/na/en-us/)  
Specialty: Truck Construction Equipment & Buses

## Non-members with special purposes

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### Alliance Capital Ventures (ACV)

8623 Tullamore Park  
Circle Charlotte, NC  
28226-2680  
704.491.6248  
[www.alliancecapitalventures.com](http://www.alliancecapitalventures.com)  
*Special Purpose: Venture capital leasing (assisting companies who recently received venture capital to establish equipment lines).*

## Credit unions

A credit union is a member-owned, nonprofit institution formed to encourage saving and offer low-interest loans to its members. Members are usually people working for the same employer, belonging to the same association, or living in the same community.

According to the most recent report on small business lending by the Federal Reserve Board of Governors,<sup>3</sup> outstanding loans to businesses by credit unions increased consistently in recent years. Between 2017 and 2021, credit union outstanding loans to business members increased 51.8%, although the ratio of outstanding loans to credit union assets was fairly stable over this period.

Business loan holdings of federally insured U.S credit unions, 2017–21			
Year	Number of credit unions	Total business loans to members (billions of dollars)	Member business loans over total assets
2017	5,693	63.97	4.74
2018	5,477	65.96	4.61
2019	5,308	71.73	4.72
2020	5,162	83.99	4.80
2021	5,027	97.08	4.91

Note: Business loans include loans regardless of the size of the loan at origination, which differs from the definition for commercial banks and savings banks.

Source: Quarterly Credit Union Reporting Forms (June 30).

Much of credit union lending to member businesses has been subject to a statutory cap of the lesser of 1.75 times actual net worth or the net worth required to be well-capitalized, which for most credit unions equates to 12.25% of total assets. As of June 2021, 5.1% of credit unions had outstanding loans to businesses totaling in excess of 80% of their cap.

For a list of credit unions in North Carolina, please refer to the NC Department of Commerce's Credit Union Division Annual Report at [www.nccud.org/credit-union-directory](http://www.nccud.org/credit-union-directory).

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North Carolina Credit Union  
Division

*205 W. Millbank Rd., Ste.  
105  
Raleigh, NC 27609  
919.571.4888  
cud.nc.gov/*

North Carolina Credit Union League

*323 West Jones St., Ste. 200  
Raleigh, NC 27603  
919.457.9053  
800.525.7087  
www.carolinasleague.org/*

## Community development credit unions (CDCUs)

CDCUs are member-controlled financial cooperatives that can effectively finance community-based entrepreneurs in low-wealth and/or minority communities. CDCUs are relatively easy to charter at the state or federal level and can provide a full range of lending services with assets of \$5 million.

North Carolina has one of the highest concentrations of minority, community-based credit unions in the country. Fifteen active community development credit unions are located throughout the state, serving more than 33,000 members combined. For a complete list, consult <https://www.carolinasmallbusiness.org/>.

CDCUs are designed to stimulate economic growth in low-income areas by offering business and consumer loans at reasonable rates of interest.

The North Carolina Minority Support Center was formed in 1990 to support the work of CDCUs throughout the state by offering technical assistance and providing capital support. The Center is the only statewide CDCU intermediary of its kind in the country.

## Veteran Direct Loan Program

The Support Center offers a Veteran Direct Loan Program to further its commitment to providing small business loans to underserved businesses in North Carolina. This program is a “no-equity” requirement small business loan program that targets existing and new businesses across the state owned by veterans and service-disabled veterans.

Eligible veteran borrowers must meet the following criteria:

- *Veteran (other than dishonorable discharge).*
- *Service-disabled veteran.*
- *Reservist and National Guard, active and retired.*
- *Active-duty military.*
- *Current spouse of above, or spouse of service member or veteran who died of a service-related disability.*

Loan purposes may include the purchase of commercial real estate or equipment, expansion/improvements, and working capital. The minimum loan amount is \$5,000 and the maximum is \$200,000. Loan terms range from 12 months to a maximum of 60 months (longer term amortizations may be offered on real estate transactions). Interest rates may range between 6–9%; rates may vary depending on the borrower’s financial condition and the prime lending rate.