

Sources of Capital

Types of Capital

1. **Debt** (borrowing). Carries a legal obligation to repay the investment within a specified time period, with interest.
2. **Equity Capital** (investment by an individual *Angel* investor or Venture Capitalist in exchange for shares).

Objective of Capital Providers

◆ LENDERS:

- ◆ No Risk
- ◆ Low Return

◆ EQUITY INVESTORS:

Find winners for their funds

- ◆ Low Risk
- ◆ High Return

A Comparison of Capital Classes

Source	Amount	Pros	Cons
DEBT Personal Savings	na	You retain control of business.	Risk losing savings
Family and Friends	Limited	Already know you	Failure means frosty reception at family affairs
Commercial Bank	\$50k and up	You retain control of business.	Assets will be taken if you default.
Government Lender	\$25k and up	More willing to lend	8%. Assets <i>may</i> be taken if you default.
EQUITY Angel Investor	\$25k-\$500k	Cannot take your home. Will mentor.	You have to share control. Angels want out in 3-8 years.
VC Fund	\$2-20m	Can connect to partners/ buyers	Same as for angels; may replace you as CEO
Crowdfunding	\$100 and up	Easy to access	Requires wow! video and social media campaign.

