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VETERAN ENTREPRENEURSHIP: Access to Capital Challenges and Opportunities

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ENTREPRENEURSHIP

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Veteran Entrepreneurship: Access to Capital Challenges and Opportunities

By

Institute for Veterans and Military Families (IVMF)

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About the Report:
This report is published by the Institute for Veterans and Military Families. The report is an IVMF research effort developed with support from the Center of Excellence for Veteran Entrepreneurship through Bank of America and First Data, aimed at informing the current dialogue and efforts to advance veteran entrepreneurship. Principal authors of this report are Rosalinda Maury, Brice Stone, Kicia Sears, and Andrew Sander. Any views expressed in this paper are of the authors only.

About Institute for Veterans and Military Families (IVMF)
Syracuse University's Institute for Veterans and Military Families (IVMF) is the first national institute in higher education singularly focused on advancing the lives of the nation's military, veterans and their families. Through its professional staff and experts, the IVMF delivers leading programs in career and entrepreneurship education and training, while also conducting actionable research, policy analysis, and program evaluations. The IVMF also supports veterans and their families, once they transition back into civilian life, as they navigate the maze of social services in their communities, enhancing access to this care working side-by-side with local providers across the country. The Institute is committed to advancing the post service lives of those who have served in America's armed forces and their families. For more information, visit ivmf.syracuse.edu.

About Center of Excellence (CoE) for Veteran Entrepreneurship
The Center of Excellence (CoE) for Veteran Entrepreneurship creates, collects, organizes, and shares knowledge, resources, and networks to advance entrepreneurial opportunities for transitioning service members, veterans, and their families. The CoE functions as the hub of veteran business ownership, leveraging Syracuse University resources, networks, the Institute for Veterans and Military Families (IVMF), and their partners and pulling together relevant stakeholders into a cohesive ecosystem focused on veteran- and spouse-owned small business.

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Summary

The search for capital to support small businesses is a challenge for all potential entrepreneurs, regardless of veteran status. As the analysis in this paper indicates, both veterans and nonveterans exhibit many similarities, with some key differences that invite further inquiry. First, veterans tend to not rely upon personal assets as collateral for their businesses, and they tend to be conservative concerning cosigning or guaranteeing loans for their businesses. Both veterans and nonveterans predominantly use personal savings or assets to start/acquire their own businesses, though veterans are more likely to have issues with their own personal credit history than nonveterans; nearly 3.5 times more likely than nonveterans. The results also indicated that veterans exhibit a higher percentage of being turn downed for a request made for credit, 24 percent, compared to nonveteran respondents at 18 percent. These percentages imply that veterans are 30 percent more likely to be turned down for a request made for credit than nonveterans. This issue is reinforced by veterans claiming their personal credit history is the primary reason they expected to be denied for a business loan if one was requested, creating important barriers to entry or successful expansion among the veteran business owner population.

For anyone, the initial startup phase is one of the most difficult and risky in the lifecycle of a business. Though many small businesses are created each year, a significant number of small businesses close as well. Though veterans acquire substantial skills and knowledge during their tenure in military service that are transferrable to the business world, this experience also may create additional issues that create unique barriers to starting a new business. The credit history of some veterans may be more a reflection of having to relocate themselves and/or their families on multiple occasions over their military tenure. This credit history limitation can take time to overcome or can continually prohibit a potentially successful entrepreneur from entering private business, short-term and long-term. There can be other limitations for veterans in terms of acquiring capital which are more closely associated with the service tenure or lack of business experience than their capability to successfully manage/oversee a business entity.

Using results from the 2016 Survey of Consumer Finance, find that:

- Both veteran (84%) and nonveteran (82%) business owner respondents predominantly use personal savings or assets to (start/acquire) their businesses
- For those growing a business, personal savings or assets are the most frequently used option to finance the ongoing operations or improvements in this business during the past year (55% for veterans and 51% for nonveterans). Veteran business owner respondents tend to use business loan from a bank or savings institution (23%) and credit card (personal or business) (13%) predominantly as their secondary options; similarly, for nonveteran respondents (31% and 19% respectively).
- On average, veteran business owner maintain three accounts or loans with an average interest rate of 12.6 percent. A large percentage of these accounts were from commercial banks (68%), finance or loan company (27%), credit unions (19%), and savings and loan or savings banks (10%).
- In general, veteran and nonveteran business owner respondents have not been turned down for a credit request. It should be noted that veteran respondents do exhibit a higher percentage of being turn downed, 24 percent, compared to nonveteran respondents at 18 percent. These percentages imply that veterans are 1.297 times more likely to be turned down for a request made for credit than nonveterans.

- Veteran business owner respondents identified only two reasons for not being able to get as much credit for which the business applied: personal credit history and firm not in business long enough (included young management).
- Of those that were denied credit, a substantial percentage of veteran business owner respondents successfully secured the full amount requested by applying elsewhere (41%), especially compared to nonveteran respondents (26%). However, the majority of veteran business owner that were denied credit did not reapply (59%)
- The majority of veteran and nonveteran business owner respondents pay their credit cards off each month (65% for both). However, 17 percent of veteran business owner respondents sometimes pay off total balance of credit cards each month (compared to 19% of nonveteran business owner respondents) and 18 percent of veteran business owner respondents hardly ever pay off total balance of credit cards each month (compared to 16% of nonveteran business owner respondents)
- The majority of veteran and nonveteran business owner respondents indicated that they take average financial risk or no financial risk (72% for veteran business owners and 70% for nonveteran business owners). However veteran business owner respondents are more financially risk averse than nonveteran business owners. Roughly about 31 percent of veteran business owner respondents indicated that they are not willing to take any financial risks (this compared to 21% of nonveteran business owners).

In recent years, there have been attempts to address this issue through various programs and funding initiatives, and although helpful to some veteran entrepreneurs, this solution may not be the right fit for every business owner. The degree to which an influx of capital is useful to a small business depends almost entirely on whether or not the business is both in a position to accept it as well as equipped to put that capital to its best use. There are still some nuances to the issue of access to capital and the concept of capital readiness needs to be further explored through research, so that solutions can be designed and implemented that will better prepare veteran entrepreneurs.

Introduction

Military service and small business ownership have shared a distinct connection that dates back more than a half-century. According to the most recent data, veterans remain more likely to own a business than nonveterans.[1] Although veteran entrepreneurial activity varies by age and length of prior service[2], veteran entrepreneurs also tend to out-earn nonveteran entrepreneurs overall.[3] This may come as no surprise to some, as high-performing entrepreneurs tend to demonstrate good decision-making in chaotic environments, confidence, independence, and high self-efficacy and achievement[4]— traits that are developed and enhanced through military service.[5]

Skills aside, veteran entrepreneurs may still encounter challenges at any stage of their journey as a business owner. In an earlier IVMF study, we reported that over 75 percent of the veteran participants reported encountering challenges in starting or growing their business.[6] The top three challenges cited were accessing capital, limited or no professional networks, and difficulty developing relationships with mentors.[7]

This paper describes how veterans report financing their businesses, their potential difficulties accessing capital, and the potential reasons they may encounter credit and loan denials. We conclude with a discussion on the possible implications and put forward a preliminary argument for further study that would explore some of the more nuanced aspects of access to capital barriers.

Veteran Entrepreneurs – Motivations, Challenges, and Resources

Reasons for Pursuing Entrepreneurship[8]

- Dissatisfaction with civilian workforce/ limited employment options
- Recognizing Business Opportunity
- Financial and Personal Independence
- Flexibility
- Family and Work-Life Balance

Entrepreneur Skills Enhanced by Military Service[9]

- Teamwork
- Leadership & Management
- Strong Work Ethic/Self-Discipline
- Perseverance

Resources Veteran Entrepreneurs Find Most Helpful[10]

- Education
- Mentorships
- Business Planning/Business Plan Write-Up
- Networking/Peer Network
- Information On/From Conferences and Workshops

- Social Media/Website
- Marketing Strategies

Three Central Barriers Facing Veteran Entrepreneurs[11]

- Access to Financial Capital
- People and Social Capital (supportive networks/ mentors)
- Navigating Resources and Decision Making

Method

The paper presents analyses of data from the 2016 *Survey of Consumer Finances (SCF).* Sponsored by the U.S. Federal Reserve Board in cooperation with the U.S. Treasury Department, the SCF is a triennial statistical survey of the balance sheet, pension, income, and demographic characteristics of families in the United States. The survey also includes information on the use of financial institutions. The 2016 SCF has a sample of 31,240 observations. Within this, the veteran sample size is 5,251, of which 23.3 percent are business owners.[1] The nonveteran sample size is 25,989, of which 26.2 percent are business owners.

Results

The following tables and figures are results from the 2016 Survey of Consumer Finance. The information provides deeper insights on veteran business owners' characteristics and experiences with sources of capital and credit denial, attitudes towards credit cards and savings, and attitudes towards financial risk.

Business Characteristics/Demographics

On the surface, a comparative analysis of veteran and nonveteran business owners surveyed in the 2016 SCF reveals minor differences, particularly in regard to business leadership and acquisition. A significant majority of veteran (93%) and nonveteran (92%) business owners assume active management roles. Similarly, nearly three in every four veteran (74.46%) and nonveteran (76.54%) business owners started

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[1] It should be noted that general representation of veteran business owners in this survey to the veteran business owners in the general population is unknown. Therefore the findings from this survey maybe limited to this sample and may not be generalizable to the general veteran business owners population.

their own business. Of those remaining, however, veteran business owners were slightly more likely to have bought or invested (19.26%) or inherited (5.52%) their business, compared to nonveteran business owners (15.88% and 3.96%, respectively). Most veteran and nonveteran business owners only own one business (89% for veteran and 83% for nonveteran business owners). The majority of veteran (78%) and nonveteran (75%) business owners have less than five workers (including full time and part time employees). Nearly half of veteran and nonveteran business owners are sole proprietorships (46% and 45%, respectively), followed by limited partnership/limited liability partnership (28% and 30%, respectively).

Sources of Capital for Veteran Business Owners

Over 92 percent of veteran business owner respondents do not use personal assets as collateral for their businesses, nor have they cosigned or guaranteed any loans for the business. This is notably higher than nonveteran respondents, at just over 87 percent.

Table 1. Are you (or your family living here) using personal assets as collateral or have you cosigned or guaranteed any loans for this business?

	Veteran Business Owner	Nonveteran Business Owner	Total
Yes	7.66%	12.96%	12.15%
No	92.34%	87.04%	87.85%

Of those that did use collateral, the majority guarantee a loan for their business (over 53 percent for veteran and 56 percent for nonveteran business owners). Veterans seem to rarely use both avenues for the business loans compared to nonveterans; 7 percent for veteran respondents and 21 percent for nonveteran respondents.

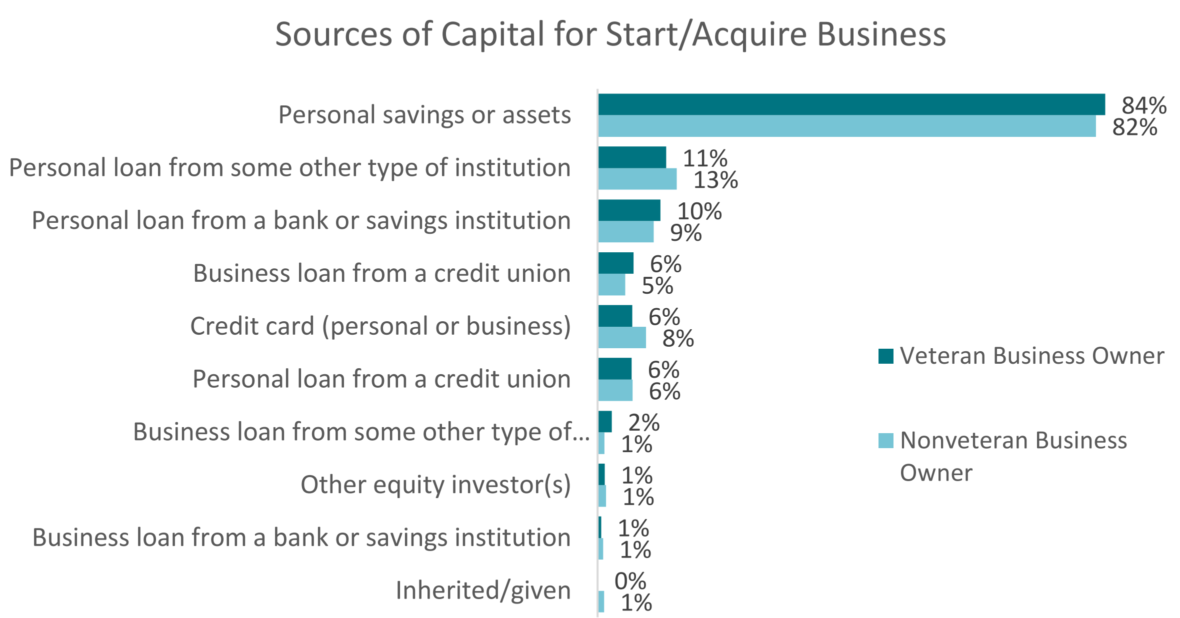
Table 2. Which of these did you do? Collateralize a loan; guarantee a loan; or both?

	Veteran Business Owner	Nonveteran Business Owner	Total
Collateralize	39.63%	22.42%	24.08%
Guarantee	53.59%	56.15%	55.90%
Both	6.78%	21.43%	20.02%

Both veteran and nonveteran business owner respondents predominantly use personal savings or assets to (start/acquire) their businesses. This is followed by personal loan from some other type of institution or investor and personal loan from a bank or savings institution for both veterans and nonveterans.

Table 3. What sources of money were used to (start/acquire) this business?

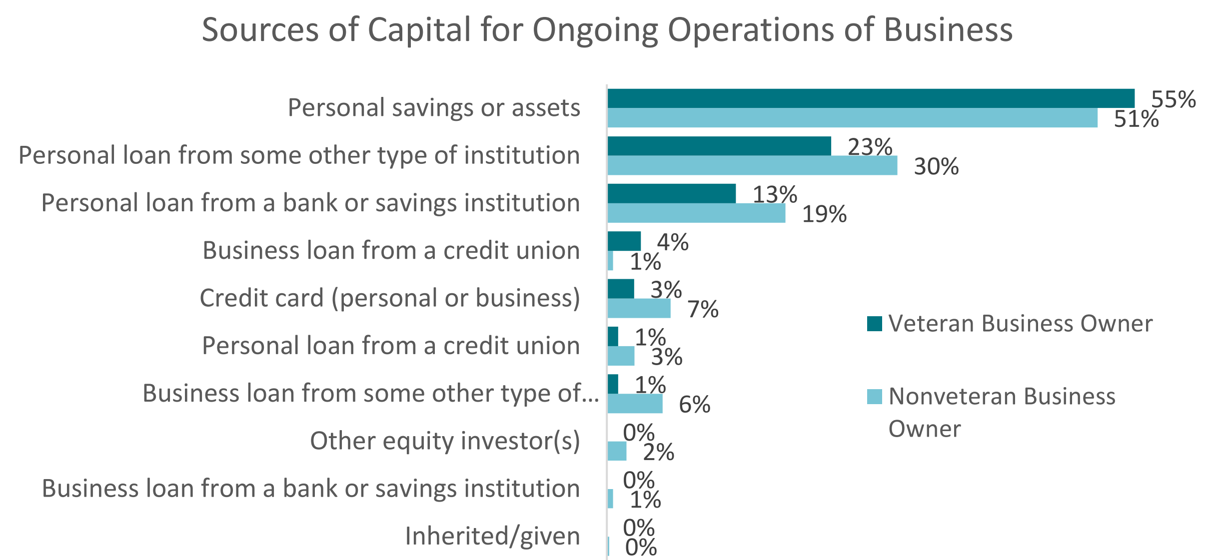
	Veteran Business Owner	Nonveteran Business Owner	Total
Personal savings or assets	84.00%	82.45%	82.67%
Credit card (personal or business)	5.72%	8.02%	7.68%
Personal loan from a bank or savings institution	10.40%	9.31%	9.47%
Personal loan from a credit union	5.61%	5.78%	5.76%
Personal loan from some other type of institution	11.33%	13.08%	12.83%
Business loan from a bank or savings institution	0.58%	0.92%	0.87%
Business loan from a credit union	5.96%	4.59%	4.79%
Business loan from some other type of institution or investor	2.34%	1.12%	1.29%
Other equity investor(s)	1.17%	1.40%	1.36%
Inherited/given	0.12%	1.08%	0.94%



When asked the sources of capital for ongoing operations or improvements, once again, personal savings or assets are the most frequently used option to finance the ongoing operations or improvements in this business during the past year, over 62 percent for both veteran and nonveteran respondents. Veteran business owner respondents tend to use credit card (personal or business) and business loan from a bank or savings institution predominantly as their secondary options; similarly, for nonveteran respondents.

Table 4. What external sources of money were used to finance the ongoing operations or improvements in this business during the past year?

	Veteran Business Owner	Nonveteran Business Owner	Total
Personal savings or assets	54.69%	50.84%	51.39%
Credit card (personal or business)	13.38%	18.50%	17.77%
Personal loan from a bank or savings institution	2.82%	6.62%	6.08%
Personal loan from a credit union	0.00%	0.66%	0.57%
Personal loan from some other type of institution or investor	0.00%	2.03%	1.74%
Business loan from a bank or savings institution	23.24%	30.11%	29.13%
Business loan from a credit union	3.52%	0.66%	1.07%
Business loan from some other type of institution or investor	1.17%	5.77%	5.11%
Other equity investor(s)	1.17%	2.88%	2.64%
Inherited/given	-	0.23%	0.20%



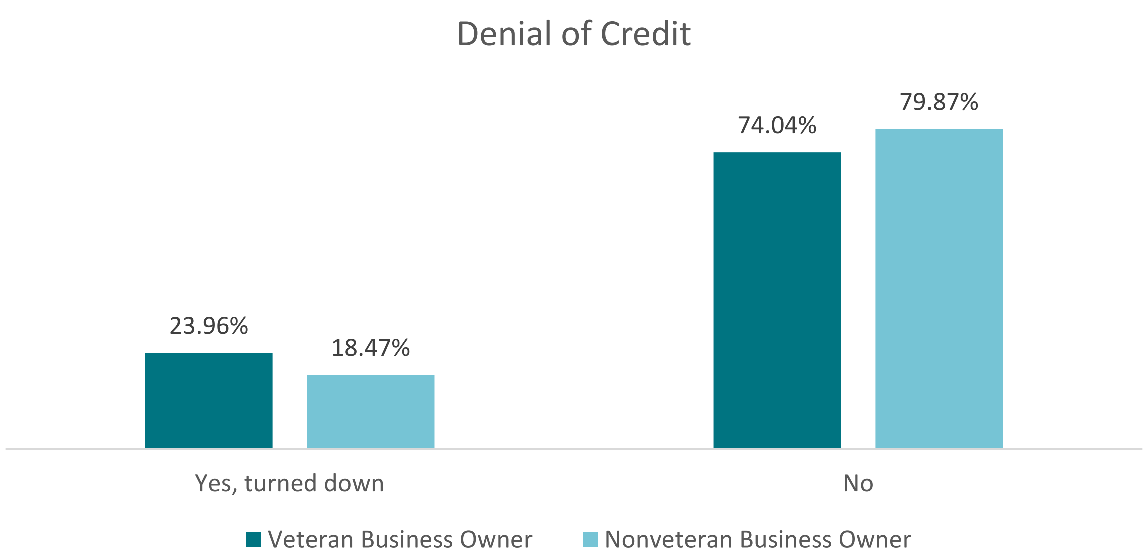
On average, veteran business owner maintain three accounts or loans with an average interest rate of 12.6 percent. A large percentage of these accounts were from commercial banks (68%), finance or loan company (27%), credit unions (19%), and savings and loan or savings banks (10%).

Denied Credit for Veteran Business Owners

While a majority of veteran and nonveteran business owner respondents have not been turned down for a credit request, nearly one in four (24%) of veteran business owners have been turned down by a lender or creditor. Veteran business owners appear to experience higher rates of being turn downed compared to nonveteran business owners (18%). These percentages imply that veterans are 1.297 times (30%) more likely to be turned down for a request made for credit than nonveterans.

Table 5. In the past twelve months, has a particular lender or creditor turned down any request (the business/any of the businesses) made for credit, or not given the business as much credit as requested?

	Veteran Business Owner	Nonveteran Business Owner	Total
Yes, turned down	23.96%	18.47%	19.13%
Yes, not as much credit	.	1.66%	1.46%
No	74.04%	79.87%	79.41%



A substantial percentage of veteran business owner respondents successfully secured the full amount requested by applying elsewhere (40.57%), especially compared to nonveteran respondents (25.65 percent). Over 50 percent of the nonveteran respondents did not obtain the full amount requested compared to the veteran respondents, all of whom obtained the full amount requested, either by reapplying to the same institution or by applying elsewhere.

Table 6. Did the business later obtain the full amount requested, either by reapplying to the same institution or by applying elsewhere?

	Veteran Business Owner	Nonveteran Business Owner	Total
Yes, By Applying Elsewhere	40.57%	25.65%	27.73%
Did Not Reapply	59.43%	23.28%	28.31%
No	.	51.07%	43.96%

Veterans business owner respondents identified only two reasons for not being able to get as much credit for which they applied: personal credit history (59.43%) and limited firm longevity or management experience (42.69%). Though nonveteran business owners with a limited business track record saw comparable challenges (42.69%), overall, they experienced considerably less difficulty with personal credit history (17.15%). The major limiting factors for nonveteran respondents were credit history, not otherwise specified (19.99%) and questionable ability to renew or repay (12.3%).

Table 7. On the most recent occasion, what reasons were given for being turned down for credit?... for being unable to get as much credit as the business applied for?

	Veteran Business Owner	Nonveteran Business Owner	Total
Insufficient collateral or no guarantee available	.	1.27%	1.10%
Credit history, not otherwise specified	.	19.99%	17.20%
Business credit history	.	2.65%	2.28%
Personal credit history	59.43%	17.15%	23.04%
Firm would fail institution's formula or guidelines (included owner too young (age), lack of business	.	0.87%	0.75%
Ability to renew/repay questionable	.	12.30%	10.59%
Firm not in business long enough (included young management)	40.57%	42.69%	42.39%
Large amount of outstanding loans, overextended	.	0.64%	0.55%
Firm too highly leveraged, too little equity	.	0.04%	0.04%
Firm in decline or risky industry	.	1.55%	1.34%
Bad fit between institution and firm	.	0.09%	0.08%
Tax lien, judgments - personal or business/ lawsuits	.	0.04%	0.03%
Inadequate documentation provided	.	0.07%	0.06%
Federal rules or regulations make loan difficult or impossible	.	0.05%	0.05%
Didn't approve of purpose for which money was to be borrowed	.	0.59%	0.51%

Fear of Denial/ Reasons for Not Seeking Credit

An overwhelming majority of both veteran and nonveteran business owner respondents (95% or more) expressed little reservation to apply for credit out of fear of denial.

Table 8. Was there any time in the past twelve months that (the business/any of the businesses) thought of applying for credit at a particular place, but decided not to because it was thought it might be turned down?

	Veteran Business Owner	Nonveteran Business Owner	Total
Yes	2.35%	4.08%	3.82%
No	97.65%	95.92%	96.18%

Among veteran business owners, expectations for being denied a credit application boiled down to three primary reasons: personal credit history (49.44%), firm not in business long enough (34.15%), and questionable ability to renew or repay (16.41%). By comparison, while nonveteran business owner expectations varied more widely, they expressed vastly lower expectations for denial due to personal credit history (9.5%), lower expectations due to limited firm longevity (22.94%), and only slightly lower expectations for an ability to renew or repay (14.46%). More than one in four nonveteran business owners (25.25%) also cited unspecified credit history as an expectation for denial and, not otherwise specified, was identified for 25.25 percent of nonveteran respondents and no veteran respondents.

Table 9. On the most recent occasion, why did you expect to be turned down?

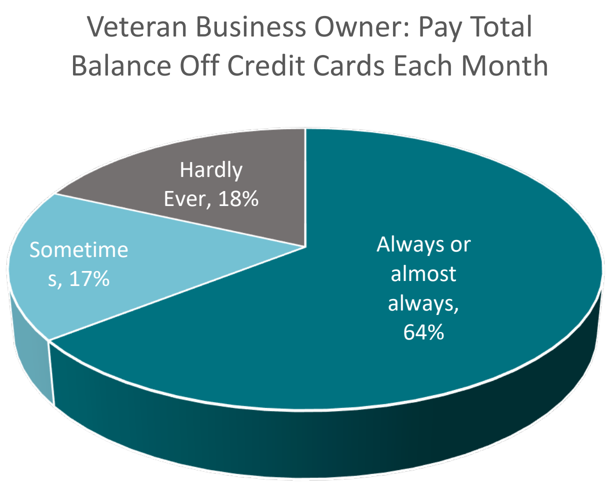
	Veteran Business Owner	Nonveteran Business Owner	Total
Insufficient collateral or no guarantee available	.	4.39%	3.97%
Credit history, not otherwise specified	.	25.25%	22.86%
Business credit history	.	0.11%	0.10%
Personal credit history	49.44%	9.50%	13.28%
Poor balance sheet or financial situation (included embezzlement, fraud, theft)	.	0.16%	0.15%
Firm would fail institution's formula or guidelines (included owner too young (age), lack of business	.	5.08%	4.60%
Ability to renew/repay questionable	16.41%	14.46%	14.65%
Firm not in business long enough (included young management)	34.15%	22.94%	24.00%
Large amount of outstanding loans, overextended	.	1.15%	1.04%
Firm in decline or risky industry	.	3.06%	2.77%
Bad fit between institution and firm	.	8.02%	7.26%
Tax lien, judgments - personal or business/lawsuits	.	0.78%	0.70%
Prejudice or discrimination (not specified or other)	.	5.11%	4.62%

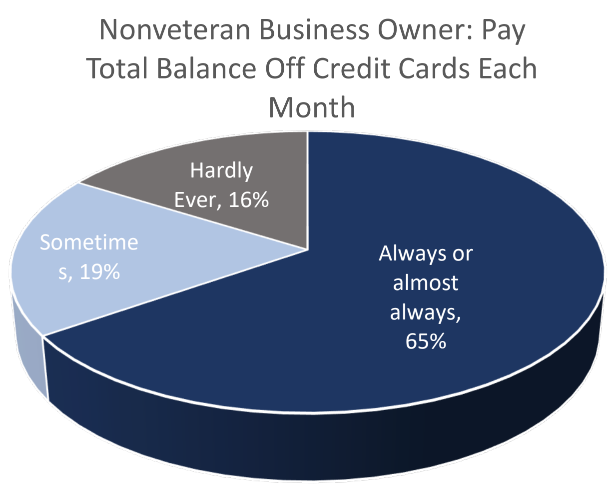
Attitudes towards Credit Cards, Savings, and Financial Risk

Credit card behaviors and attitudes towards savings and financial risk are important aspect of any business owner. In general, the majority of veteran and nonveteran business owner respondents pay their credit cards off each month (65% for both). However, 17 percent of veteran business owner respondents sometimes pay off total balance of credit cards each month (compared to 19% of nonveteran business owner respondents) and 18 percent of veteran business owner respondents hardly ever pay off total balance of credit cards each month (compared to 16% of nonveteran business owner respondents)

Table 11. Thinking only about Visa, MasterCard, Discover, American Express cards you can pay off over time, and store cards, do you almost always, sometimes, or hardly ever pay off the total balance owed on the account each month?

	Veteran			Non-Veteran		
	No Business	**Business Owner**	**Total**	**No Business**	**Business Owner**	**Total**
Always or almost always	61.37%	64.46%	61.74%	55.25%	65.31%	56.88%
Sometimes	14.95%	17.33%	15.24%	19.01%	18.58%	18.94%
Hardly Ever	23.68%	18.21%	23.02%	25.74%	16.10%	24.17%





There is a variety of reasons for saving for any business owner. The top reasons indicated for savings with veteran business owner respondents were retirement/old age (42%); emergencies, rainy days, other unexpected needs, security, independence (24%); for the children/family (6%); and for the future (5%). Similar reasons were listed for nonveteran business owner respondents: retirement/old age (43%); emergencies, rainy days, other unexpected needs, security, independence (23%); for children education (7%); and for the future (5%).

The majority of veteran and nonveteran business owner respondents indicated that they take average financial risk or no financial risk (72% for veteran business owners and 70% for nonveteran business owners). However veteran business owner respondents are more financially risk averse than nonveteran business owners. Roughly about 31 percent of veteran business owner respondents indicated that they are not willing to take any financial risks (this compared to 21% of nonveteran business owners).

Table 12. Which of the statements .. comes closest to the amount of financial risk that you are willing to take when you save or make investments?

	Veteran			**Non-Veteran**		
	No Business	**Business Owner**	**Total**	**No Business**	**Business Owner**	**Total**
Take substantial financial risks expecting to earn substantial returns	2.91%	3.74%	3.00%	4.17%	5.73%	4.38%
Take above average financial risks expecting to earn above average returns	11.56%	24.41%	13.01%	16.05%	24.37%	17.16%
Take average financial risks expecting to earn average returns	42.48%	40.86%	42.30%	36.11%	48.75%	37.80%
Not willing to take any financial risks	43.06%	30.99%	41.69%	43.67%	21.15%	40.67%


Financial Risk
Veteran Business Owner
Nonveteran Business Owner
4%
6%
24%
24%
41%
49%
31%
21%
Take substantial financial risks expecting to earn substantial returns
Take above average financial risks expecting to earn above average returns
Take average financial risks expecting to earn average returns
Not willing to take any financial risks

Sources of Financial Capital for Veteran Owned Businesses

The table below lists common requirements, limitations, pros and cons with various funding options for veteran-owned businesses, as well as a framework for the funding options as it relates to the stage the business is in. The phases are here defined as follows:

- Startup phase – when entrepreneurs seek to transform a business idea into a scalable business solution;
- Growth and expansion phase – the phase when entrepreneurs to increase business operations and increase revenue
- Maturity and sustainment phase – when entrepreneurs see stable profits after several cycles.[12]

Table 13. Sources of Financial Capital for Veteran Owned Business

				Life Cycle Stage		
Funding Option	**Pros**	**Cons**	**Common Requirements/Limitations**	**Startup**	**Growth and Expansion**	**Maturity and Sustainment**
Debt Financing (Loans)	Maintain Ownership	Possible High Rates	Short (18 months), intermediate (3 years), or long (5 years+) loans, good credit rating preferable but options available for lower ratings; usually offer collateral	X	X	X
Equity Financing	No Interest Payments	Partial Loss of Ownership	Can lose your seat on a board; decentralized control with various ownership possibilities as a result of financing	X	X	X
Small Business Loans	Lower Down Payment; Low Fees	Time Consuming, Initial Fee could be preventative	Collateral to cover the amount of the loan as well as giving up a small share of your company (20%) if payment issues occur		X	X
Government Grants	No Loans	Time Consuming, limited options	Limited options; often for specific business types		X	X
Angel Investors	Business Expertise; Helpful investors	Partial Loss of Ownership; Loss of control	Funding available usually less than $1m; can take a large stake in company and kick out owners; expect 20-30% ROI		X	
Venture Capital	Large Investments; willingness to invest in unproven businesses	Partial Loss of Ownership; divested control	Funding available is usually less than $1m, expected 25%-35% ROI; only 0.07% of businesses receive VC; Moonshots Capital & Scout Ventures are Veteran owned		X	
Crowdfunding and Crowdfunded Loans	Maintain Ownership	Time Consuming	Crowdfunding: money is returned if goal is not met, will take portion if goal is not met Crowdfunded Loans: Flexible payments but traditional legal obligations	X	X	
Lines of Credit & Business Credit Cards	Quick Access	Possible High Interest Rates	Interest rates 10%-30%, include personal income with business revenue; Purchase limits	X	X	

				Life Cycle Stage		
Funding Option	**Pros**	**Cons**	**Common Requirements/Limitations**	**Startup**	**Growth and Expansion**	**Maturity and Sustainment**
Vendor Credit	Cash Retention	High Costs	Limited to the vendor's capabilities		X	X
Merchant Cash Advance	Minimal Paperwork, quick, no collateral	High Costs, no oversight	Quick cash; greater payment than original loan; businesses assessed as high risks pay more		X	
Rollover for Business Startups (ROBS)	Don't Pay Penalties	Risk Retirement	Business must be a C corporation, must have $50k in retirement fund, must be one of the qualified retirement plans - 401(k), 403(b), SEP, TSP, Keogh, Traditional IRA)	X	X	

Notable Funding Options for Veteran Entrepreneurs

Veterans looking to start a business are in a position that allows them to utilize funding options directed specifically towards veterans while also taking advantage of funding mechanisms that serve the larger population. However, navigating the often complex funding methods can be burdensome and confusing. This section seeks to simplify the navigation process for veterans and shed light on the most relevant funding options for veteran entrepreneurs at various stages of the business life cycle.

Startup Phase

Veterans in the initial planning stages of getting a business off the ground are well placed to take advantage of funding mechanisms that have developed alongside the increasing prevalence of American entrepreneurship. With the advancement of information technology, veterans are able to take advantage of innovative funding options that accompany more traditional offerings, but not without sacrificing risk. Web-based options like Crowdfunding are on the lower end of risk, followed by Small Business Loans, while Rollover for Business Startups are significantly more risky for veteran entrepreneurs in the startup phase.

Small Business Loans remain a strong option for Veteran entrepreneurs – they often function as a funding mechanism geared towards businesses at initial phases of development. Small Business Loans acknowledge the unique challenges that face entrepreneurs with limited resources by carrying lower fees, payments, and interest rates than more established organizations. However, like other loans for larger organizations, entities that offer small business loans still require preferential credit and collateral to manage risk when providing funds. [13]

The United States Small Business Administration (SBA) provide preferential loan guarantees to veterans as part of a program to decrease the barriers to capital for veteran-owned businesses. SBA offerings will cut payments and provide favorable rates to small business with at least 51% of ownership consisting of veterans. The SBAs Veteran Advantage program works to minimize costs incurred by veterans whom participate in the Express Loan Program, the 7(a) Loan Program, and loans under $125,000. Notably, the SBA does not directly supply loans to veterans, but provides guarantees to participating institutions such as banks and credit unions that do provide loans to veterans. The SBA can work to provide funds of a few hundred thousand dollars. [14]

Within the private sector, firms such as StreetShares – a veteran owned company – offer veteran-oriented funding methods. StreetShares offers normal loans delivered in a lump sum up to $100,000, a line of credit up to $100,000 that only requires payments on used credit, and up to $500,000 in contract financing for future earnings.[15] Veterans further benefit from these options by paying minimal fees and payments as well as gaining access to more preferential deals offered by StreetShares partners such as Amazon Web Services and the Armed Forces Financial Network. [16] Qualification and risk are similar to that of more traditional loans in that business/personal credit scores and income are important factors that determine applicant's qualifying status as well as legal obligations to repay creditors.

Crowdfunding is another private sector service for veterans as they seek to take businesses off the ground; typical users are primarily owners of startups whom seek to take their businesses into the expansion stage. Users can fund projects by joining a crowdfunding service – such as Indiegogo or GoFundMe – and create a page detailing their product or service while explaining how increased funding will benefit the project. In addition to donations, users can also use crowdfunding to seek and provide loans. Sites like WeFinance allow users to detail a proposed loan's use as well as provide ideal interest rates and payment types that fit their needs. Other users can then use the site to look at initiatives that interest them and then decide to provide a loan towards that initiative.[17] While crowdfunding sources that act as grants such as GoFundMe do not carry much risk, loan-based finance options such as We Finance still expect users to repay loans on time and entail similar legal obligations of traditional financing organizations.[18]

Rollover for Business Startup (ROBS) funding is perhaps the riskiest option for veterans at the startup stage. ROBS utilizes abundant funding available in a retirement account and transfers those funds to the desired business account. Notably, the business must be a C corporation and the retirement account must have at least $50,000. Acceptable retirement accounts include a standard 401k, IRA, 403b, Simplified Employee Pension, a Thrift Savings Pension, and Keogh plans. ROBS plans are administered by private sector entities – such as Guidant and FranFund - that manage the application of retirement funds to the business accounts. The quick access to large amounts of funds is an attractive option but use of funds with a negative unintended effect could jeopardize retirement savings. Another downside to pursuing ROBS funding are the costs associated with opening and maintaining the accounts. An initial fee around $5,000 and monthly fees close to $130 can add up.[19]

Growth or Expansion of Business

While there are significant challenges and opportunities for veteran entrepreneurs in the startup stages, the expansion stage of the business cycle offers greater possibilities for veteran entrepreneurial success. Expanding businesses past the startup and growth strongly suggests that an entrepreneurial project has potential to become a more permanent business. While growth is exciting, this transition often requires taking on more risk. Receiving greater amounts of cash from enthused partners can help to sustain business expansion, but the potential to lose control or pay heavily– primarily when working with Angel Investors and Venture Capitalists – remains significant throughout this process. If managed correctly, utilizing these private sector funding options can help veteran entrepreneurs transform their projects into a more permanent business.

Angel Investors are useful to because they combine the ability to supply large amounts of funds with an interest in the success of a project. Unlike traditional funding options that supply large amounts of money, such as banks, Angel Investors and are generally more willing to take greater risks when investing. However, to account for the larger risks associated with lending to a company in its infancy, Angel investors usually require a 20-30% of return on investment and normally supply less than $1,000,000; they often can take ownership stakes in a company as part of lending terms.[20] Consequently, Angel Investors prefer to invest in organizations that have demonstrated success or shown great potential for creating future returns. Therefore, the threshold for receiving angel funding is considerably high for veteran entrepreneurs. They are compelled to differentiate their business projects as worthy of funding that while demonstrating these projects' proven success, which can be challenging.[21] Veterans can take advantage of angel investors geared towards veterans by utilizing networks like Vet-Biz, an organization that matches veteran entrepreneurs with investors seeking to provide $50k-$1 million in funding. Vet-Biz differentiates itself from other investors by providing operational assistance and mentoring to veteran entrepreneurs, leveraging a wide network of business leaders and veterans with various expertise.[22]

Venture Capitalists also specialize in financing entrepreneurs whom might lack long-term demonstrated business success. However, venture capitalists usually seek to fund organizations with a strong business plan or early demonstrated commercial success but lack large-scale commercial experience. Usually, venture capitalists work within a venture capital group, an organization that specializes in pooling various funding sources to funds business with worthy ideas. Similar to angel investors, in return for providing large amounts of money to a business, Venture Capitalists require high returns on investment and often require significant ownership stakes in the company. This allows VC groups to maintain a close relationship with the entrepreneur if the firm performs well, thus ensuring greater joint success. At the same time, if a business does not perform to the VC group's desired level, the VC firm can sell the firm to make up some of the losses. VC groups differ from Angel Investors primarily due to their tendency to supply larger amounts of money, usually amounts greater than $1,000,000.[23] VC groups catering to veterans have developed alongside traditional VC groups funding increasing amounts of startups. Organizations like Moonshot Capital – a veteran owned VC group managing over $10m in investments- specialize in funding veteran organizations during their first or second funding rounds.[24]

Grants – A Solution for all stages of the Life Cycle

Grants are a helpful supplemental funding option available to veterans at all stages of the business life cycle. Both the government and private sector supply varying amounts of grants to small business and entrepreneurs as well as offer specific options for veterans. However, in some forms, grants can be competitive and attract many different entrepreneurs; therefore, a crowded field means it is more difficult for proven and successful veteran entrepreneur to receive funds. However, the increasing amount of grants open to the public and offered by both private and governmental organizations signifies greater opportunities for veterans.

StreetShares, the company specializing in small business loans, offers Veteran Small Business Awards of $15,000, $6,000, and $4,000 to eligible veteran entrepreneurs in the food and beverage industry. Selection criteria are the following: the strength of the business model, the use of funds, the team and company history, the fit of the organization within its sector, and the influence of the entrepreneurial project among the military-connected community. Veterans must submit a 300-word essay detailing the business and provide a short video showing the project while detailing why the project should win. Due to the lack of stipulations associated with the awards (no loan-type agreements, no credit requirement, and no income requirement) many entrepreneurs seek out these types of competitions and compete solely based on the merit of their projects.[25]

On the governmental side, there are several specific targeted offerings to technology and research-based veteran-connected organizations. The SBA operates a program known as the Small Business Innovation Research (SBIR) – an offering that seeks to award funds to organizations engaged in Federal Research and Development. Notably, much of basic and applied research often occurs within large research institutions that conduct research to seek greater theoretical knowledge.[26] SBA's Small Business Technology Transfer (STTR) program supplements the SBIR program by seeking to award large amounts of money to small business that partner with larger research institutions around technology development. SBA seeks to take small businesses' more practical orientation to spur innovation development while taking advantage of these larger institutions' resources. [27] These grants are effective for entrepreneurs within all stages of the business life cycle.

Both of these programs are administered by the SBA on behalf of individual Federal agencies that want to use research to spur commercialization for eventual Agency use. With the need for research-based startups and small business offerings in the private sector, veteran-connected entrepreneurial organizations working to produce everything from the next big iPhone app to an innovative biofuel can take advantage. Previous relationships between participating entities and governmental partners have included agencies from the likes of the Department of Agriculture to the Department of Homeland Security. Various funding options range from between $150,000 to $1,000,000 at different stage; funding is primarily designed to refine research areas and determine commercialization prospects for projects. [28][29] With new calls for proposals occurring all the time, ample opportunity remains for veteran-connected organizations to take advantage of these SBA programs and develop exciting entrepreneurial projects. The downside to these awards is that the opportunities are specifically targeted to certain types of science and technology organizations, which prevents other entrepreneurs' participation. Additionally, delays in the approval of funds within agencies can delay delivery of funds to entrepreneurs.

Community Development Financial Institutions

With the proliferation of new funding options available to various groups of the U.S. population, Community Development Financing Institutions, or CDFIs, stand out as a distinct entity amid other options. CDFIs are unique due for combining public and private dollars to offer financing options specifically to underserved members of the population. CDFIs exist to provide funds to these individuals who may not be able to receive financing support from more established lending institutions across the country. CDFIs often function as traditional institutions such as banks or credit unions while as well serving a purpose more akin to venture capital funds or micro-loan funds.

CDFIs are inherently local and are designed to help the most vulnerable and at-risk communities within a specific area. The U.S. government offers several initiatives designed to incentivize institutions across the country to provide financing options for underserved populations. The U.S. Treasury operates a dedicated CDFI fund that issues Bank Enterprise Awards, a cash grant to FDIC-insured institutions that offer loans to communities where minimally 30% of residents are under the national poverty line and unemployment is minimally 1.5 times greater than the national average. The Treasury's CDFI funds also operates a New Markets Tax Credit program designed to incentivize private entities to invest in development projects in distressed areas. Under this program, tax credits are issued to participating entities that invest in distressed areas for economic development opportunities.

Currently, veterans are not considered a protected class by the U.S. Treasury, yet many CDFIs, particularly in heavily veteran-concentrated areas, consider veterans as an underserved population. Moreover, in some cases veterans may also fall into a protected class depending on their poverty or minority status. Some CDFIs recognize veterans as a traditionally underserved population and specifically target this group. CDFIs can be instrumental at addressing not only the access to capital challenge but also most central barriers facing veteran entrepreneurs.

Discussion/ Conclusion

The issues impacting the success of veterans' business ventures are complex and require a nuanced solution that does not attempt to paint with a broad brush. Although an influx of capital earmarked for veteran businesses is helpful, and many organizations have already begun attempting to fund veteran-owned businesses more purposefully, it is only one part of the solution. The money doesn't mean much if the business is not ready to take it on. Many businesses—not even just those founded by veterans – are simply too young or underdeveloped to put the money to its best use (as displayed in tables 7 and 9), veterans may be turned down for credit at higher rates than comparable nonveterans and one of the most significant reasons given for that denial, both for both veteran businesses and nonveteran businesses, was that the firm "was not in business long enough." Nearly all formal—and most informal—funding sources will be far more comfortable investing in a business with a proven concept, be it in the form of customers/sales, or at the very least a strong business plan. Interestingly, particularly with funding initiatives aimed at providing capital to start-ups and/or veteran businesses, it is possible to obtain capital while *still* being too young or unproven. Although it is the responsibility of the financial institutions to ensure the businesses to whom they lend are able to handle the funding, it is equally the responsibility of the business owner to understand whether or not they are ready to handle an influx of capital, and have a detailed and reasonable plan for the deployment of said capital. In some cases, the simplest solution to the capital conundrum is to wait and develop the idea or the business to ensure it is absolutely ready, and an attractive opportunity for a potential investment, regardless of who the lender/investor may be.

Further, the capital must come when the business owner is both educated on the various types of capital and experienced enough to have some insight as to what is best for the company, i.e., what the business can handle with regard to an influx of capital. This includes exploring alternative funding options that are specific to veterans as well as those that involve a level of commitment to financial education and readiness –such as veteran-focused organizations and community development financial institutions. It is the responsibility of the business owner not only to educate themselves on the market for their business idea and develop a solid business plan, but also to understand the landscape of funding options. However, there are resources available to help veteran entrepreneurs navigate the various options available to them, as well as opportunities for further education. This knowledge increases the likelihood that when a funding opportunity arises for the business, the veteran entrepreneur will be more qualified to consider and evaluate it.

As the evidence cited here suggests, it is not an exaggeration to say that for business owners, particularly veteran business owners, accessing financing to establish or expand their business venture(c) continues to be one of the most exigent challenges to success. Anecdotally, business owners may consider it to be *the most* important challenge. However, as we have discussed, access to capital is important, but simply opening these barriers is not enough, and may not have the desired results if the business, or the business owner, is not prepared to put it to appropriate use.

Financial education, both regarding personal finances as well as business finances, is an absolutely critical piece of the solution. Without knowledge on the landscape of available capital, the various related costs and benefits, and a detailed plan for putting the funds to use, an influx of capital will not help the business, and may even create more complications for the business owner.

A complex problem requires a nuanced solution. To that end, we propose further research on both the nuances of access to capital challenges specific to veteran business owners as well as the issue of capital readiness, in order to design a solution or set of solutions that addresses each aspect of the problem.

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