

DPO's: Raise Equity to Qualify for Loans

[Home](#) / [Small Business Lending](#) /[← Previous](#)

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Submitted by [Cutting Edge Capital](#)

Most traditional lenders evaluate borrowers against several characteristics when deciding on whether to award a loan. These characteristics are often referred to as the five “C’s”, which include **cash flow, credit, customers, collateral**, and often, character. For many businesses, especially small and medium-sized businesses, it can be very difficult to demonstrate sufficiently high marks in each of these categories to qualify for a loan.



Turning to alternative lenders, the situation is not necessarily any easier. Non-bank lending organizations and government loan programs often have demanding qualifications as well.

One way that companies can increase their chances of qualifying for loans is by raising equity through a **Direct Public Offering**, or DPO.

A DPO is a financing tool that allows companies to self-underwrite and self-administer public securities offerings in one or more states. Various referred to as “**do-it-yourself IPO's**” and securities-based crowdfunding, DPOs allow companies to raise capital directly from their fans, customers, and supporters, as well as outside investors. Using a DPO, a company can market and advertise its offering publicly by any means it chooses—through advertising in newspapers and magazines; at public events and private meetings; on the internet; and through social media channels.

The equity raised in a DPO can increase creditworthiness and provide a way for companies to secure debt financing from traditional lenders and other sources. A terrific example of this is Oakland-based **People's Community Market**, a community grocery that is using a DPO to raise \$1.2 million in equity to secure a below market-rate loan from the **California FreshWorks Fund** (CFWF).

People's Community Market decided to use a DPO after it received a Letter of Interest from CFWF stating that it would potentially finance up to two-thirds of the project, on the condition that it raise one-third of the project's financing through other equity sources. Further, believing that People's Community Market was needed by the community, as well as a sound financial investment, CFWF provided a grant to cover the initial cost of a DPO.

Nearly eighteen months later, People's Community Market has raised all but \$20,000 in its offering and is on the road to quickly reaching its goal of \$1.2 million. After it completes its DPO, it will begin the formal loan application process to CFWF for the remaining capital needed to break ground on the project.

While there is no guarantee that People's Community Market will receive a loan from CFWF, it is likely that their loan application will score highly because the business has been able to raise a substantial portion of the equity for the project through its own means. This demonstrates the ability of the management team (character), the financial health of the venture at project initiation (cash flow and collateral), and the overall viability of the idea (customers/conditions). Therefore, it is much more likely that the loan will be awarded upon review of the company's application.

At [Cutting Edge Capital](#) we are working with businesses across the country to use DPOs as a stand-alone capital raising strategy, as well as a strategy that can be used in conjunction with traditional loans and alternative forms of financing acquired through services like [FundWell](#). As the People's Community Market example demonstrates, DPOs provide a pathway for companies to improve their creditworthiness, access other forms of financing, and meet their overall fundraising goals.

[Cutting Edge Capital](#) provides small and mid-sized businesses with the information, tools, and expertise they need to raise capital in a way that fits with their unique business model and long-term goals. As experienced business lawyers, entrepreneurs, and finance experts, the CEC team has identified capital raising strategies that allow businesses to solicit non-traditional sources of funding. In addition to being a great way to raise capital, these strategies allow businesses to build public support and recognition at the same time they are raising funds.