When previous generations needed capital to launch or expand their winery or vineyard, they typically set up a meeting with the bank with which they did business, completed a lengthy form, agreed to pay fees and then prepared to wait several weeks as committee members considered their application. If you were a good customer with good credit, chances are you got the loan. If not, you’d be told to use your own savings or try elsewhere, like with a rich relative. For some borrowers, the Small Business Administration (SBA) absorbed the risk of the loan, but the process still went through a bank.

While traditional forms of borrowing are still the norm, increasing competition is coming from so-called alternative lenders, which are quickly gaining acceptance among the next generation of winemaking entrepreneurs.

Consider that 14% of Millennial-age small-business owners (those born from the early 1980s to the early 2000s) have turned to nontraditional lending services, according to a Bank of America report released in 2014. Just 1% of Baby Boomers and 3% of Gen-Xers have received funding from nontraditional sources.

The report also notes that Millennial owners of small businesses are nearly five times as likely as Gen-Xers to have received past funding from a peer-to-peer network, while Boomers (25%) were more than twice as likely as Millennials (10%) to have received funding from a home equity loan or another form of personal debt. On the flip side, 67% of Millennial small-business owners are concerned that credit availability will impact their business over the next 12 months, while fewer than half (48%) of Gen-Xers and 36% of Boomers had this concern. Friends and family are an important funding source for Millennials, as 30% report they’ve received a loan from such sources in the past, often representing the first round of funding.

### Crowdfunding

Elaine Jurun is planting some 3,500 vines on her 10 acres in Enumclaw, Wash. After graduating from the University of Washington with a viticulture degree, she purchased land largely with her own savings. In January 2015, realizing she needed working capital for her Goldfinch Vineyards and without even considering applying to a traditional lender, Jurun turned to the crowdfunding site Kickstarter (www.kickstarter.com). While she hopes her location will attract tourists from Seattle, with no previous wine-industry experience, not much collateral and having depleted her own savings, it would have been tough for her to obtain a traditional lender’s support.

“It’s a generational thing,” Jurun said. “I want to build my business as organically as possible. People
who support a project by crowdfunding are usually very enthusiastic. They want to be a part of something.” Her goal is to raise $10,000, mainly for trellises and other basic supplies and equipment. At the time of this writing, she’d received pledges for a few hundred dollars but was only two weeks into her campaign.

Her investors are currently being rewarded with a wine glass set and other promotional items, and are welcome to come for a guided tour of the vineyard.

“It’ll be some time before we produce wine,” she said. “I want to thank them for their support.” Once her business is more established, Jurun said she may consider working with a bank.

Wine-based projects are rare on crowdfunding sites, but some $64 million has been pledged to 3,400 food-based businesses, according to Kickstarter. Even the SBA endorses crowdfunding and has published several reports on the phenomenon, including the online training course “Introduction to Crowdfunding for Entrepreneurs,” posted at www.sba.gov.

There is usually no cost to launch a crowdfunding campaign and results come relatively quickly; a campaign can reach its goal in less than 30 days. If your project is successfully funded, the site will collect fees from the total amount raised. (Kickstarter takes a 5% fee plus payment-processing fees between 3% to 5%.) If the campaign fails, there are typically no fees. (Note: Crowdfunding is not to be confused with microlending, which is intended to help impoverished people start enterprises.)

Crowdfunding is not without risks. Frauds have occurred on each side of the equation and it is up to individuals to protect themselves. The lender has no idea if the borrower will remain true to his campaign promise and has little recourse if he doesn’t. Should a campaign not meet its goal, all contributions are returned. PayPal has entered the crowdfunding space by offering a convenient and secure way for users to accept payments and keep fees low. It also has a loan package.

Due diligence is minimal among crowdfunding enthusiasts, who

AT A GLANCE

+ While traditional bank lending products make up the majority of small-business loans, alternative lenders can be an attractive option.
+ Millennial entrepreneurs are more comfortable than previous generations with alternative lenders.
+ Alternative lenders offer small businesses fixed-term loans and revolving credit lines.
+ Due diligence is minimal in crowdfunding, but generally only small amounts of capital are pledged.
+ ROBS allow entrepreneurs to use their retirement funds to invest in their business.
tend not to overly concern themselves with business basics. They’re generally only supplying a very small amount of capital and are in it more for the excitement of being part of a venture that appeals to them, such as an up-and-coming vineyard. Most will not ask for items such as a profit-and-loss statement or a five-year sales projection.

**OTHER ALTERNATIVES**

Lending Club (www.lending-club.com) and OnDeck Capital Inc. (www.ondeck.com) are two prominent alternative lenders. They cater to those who need fast cash, and who may not qualify for traditional bank loans (thus, interest rates with these lenders are higher than for bank customers with good credit histories). Each is now a publicly traded company, giving further legitimacy to the alternative-lending industry.

Such lenders offer fixed-term loans and revolving credit lines for small businesses. They underwrite, process and service small-business loans through an online platform.

Lending Club operates as an online marketplace, similar to a matchmaker, facilitating loans to U.S. consumers and businesses. It also offers investors an opportunity to fund the loans. OnDeck carries most of the risk of its loans on its own balance sheet.

**WHAT ABOUT CREDIT UNIONS?**

Credit unions (CUs) were established to provide financial services to individuals and entities of modest means, and to support the development of local communities. For the most part, CUs are not involved in exotic, hard-to-understand lending products.

“Credit unions tend to have a particular culture and higher level of awareness about how developments, such as supporting a local vineyard or winery, can positively impact the local community,” said Mark Dobberstein, business sales strategy manager at United Federal Credit Union in St. Joseph, Mich. “Most vineyards and wineries are trying to become destinations and not necessarily generate mass product for sale. Beyond traditional loan requirements, a credit union may have a deeper connection to helping them achieve those goals – not just receive funding.”

In 2014, Technology Credit Union (Tech CU) completed a $1.4 million SBA-guaranteed commercial loan for Sera Fina Cellars in Amador County, Calif., for the purchase of vineyards, a winery and a tasting room.

“A lot of banks have tightened underwriting requirements,” said Brian Evans, Tech CU’s vice president and SBA business development manager. “Credit unions tend to have a particular culture and higher level of awareness about how developments, such as supporting a local vineyard or winery, can positively impact the local community.”
ment officer. “Some have gotten out of the wine business. Tradition-
al lending options may not always be possible for wineries. SBA loans are another option because they’re government-guaranteed.”

The differences are in service and in which lenders understand the wine business. An SBA loan, which will be processed through a bank or credit union, can help emerging and established winer-
ies with funding to purchase or refinance real estate, construction, vineyard development or equip-
ment acquisition and leasing.

SOMETHING COMPLETELY DIFFERENT

Randy Biehl, co-founder and president of Eveningside Vine-
yards near Buffalo, N.Y., annually produces 1,500 cases of wine from the winery’s 21 acres. After a 30-year government career, Biehl utilized a Rollover as Business Startups (ROBS) structure, using one-third of his 401(k) plan assets to finance construction of a winery building.

“This is a highly specialized maneuver and can only be done with the help of an expert,” said Biehl, who added that the two-
month process had to be coor-
dinated with the Eveningside 401(k) plan while also meeting IRS requirements. A specialist attorney was contracted through Guidant Financial, a niche lender in Bellevue, Wash., to structure the transaction.

ROBS allow entrepreneurs to use their retirement funds to fund their business without tax penal-
ties. The transaction is based on the Employee Retirement Income Security Act of 1974 (ERISA). “While the money is tied to the winery, it is not a loan,” Biehl said.

A WORD ON CLOSING

Borrowing from any source is not easy, so it’s helpful to maintain the basics: Keep good records. Pay your taxes and other bills on time. Be sure each of the partners has a good credit history. Have a writ-
ten business plan noting what can make your enterprise succeed. Before going ahead, give your-
self the acid test: Would you lend money to your business?

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Comments? Please e-mail us at feedback@vwmmedia.com.