

Financing Your Business

Finding the Money You Need

There are several sources to consider when looking for funding. It is important that you explore all of your options before making a decision.

Personal Savings

Most new businesses are started with the primary source of capital coming from personal savings and other forms of personal equity such as profit sharing plans, credit cards, home equity loan, loan against cash value of life insurance, and stock & bonds.

Friends and Relatives

Many entrepreneurs look to private sources such as friends and family when starting out in a business venture. Oftentimes, money is loaned at no interest or with low interest which can be beneficial when getting started.

Banks and Credit Unions

The most common source of funding, banks and credit unions will provide a loan if you can show that your business is sound. Collateral and business acumen is required.

Other

Venture capital groups (these generally do not provide initial funding), angels, private stock offerings (contact the SEC for requirements), and government programs are additional sources of capital that a business owner can investigate.

Borrowing Money

It is often said that small business has a difficult time borrowing money. This is not necessarily true. Banks are in the business to make money, and the way they make money is by lending money. However, it is the inexperience of small business owners in financial matters that prompts many small business loan requests to be turned down. To be successful in obtaining a loan, you must be prepared and organized. You must know exactly how much money you need, why you need it and how you can pay it back. You must be able to convince your lender that you are a good credit risk. Requesting a loan when you are not prepared makes a statement to your lender. That statement is ... "High Risk!"

Types of Business Loans

Terms of loans may vary from lender to lender, but there are two basic types of loans: short-term and long-term. Generally, a short-term loan has a maturity of up to one year. These include working capital loans, accounts receivable loans and lines of credit. Long-term loans have maturities greater than one year but usually less than seven years. Real estate and equipment loans may have

maturities of up to 25 years. Long-term loans are used for major business expenses such as construction or purchasing real estate, durable equipment, furniture, fixtures, and vehicles.

SBA Financial Programs

The Small Business Administration (SBA) offers a variety of financing options for small businesses. However, it rarely makes a direct loan to an individual or company. The agency is primarily a guarantor - it guarantees loans made by banks and other private lenders to small business clients. The SBA Microloan Program is one exception where small loans up to \$35,000 can be made directly to the entrepreneur.

SBA loan programs are generally intended to encourage long-term small business financing, but actual loan maturities are based on the ability to repay, the purpose of the loan proceeds, and the useful life of the assets financed. Short-term loans, however, are available through the SBA to help small businesses meet their short-term and cyclical working capital needs.

How Your Loan Request Will Be Reviewed

When reviewing a loan request, the lender is primarily concerned about repayment. To help determine this ability, loan officers will order a copy of your credit report from a credit-reporting agency. Using the credit report, your personal financial statement, list of collateral to be offered as security for the loan, and past three years federal income tax returns, the lending office will consider the following issues:

- Have you invested savings or personal equity in your business totaling at least 20 percent of the loan you are requesting?
- Remember, a lender will not finance 100 percent of your business. Also, the percentage could increase depending upon the industry classification of your business.
- Do you have a sound record of credit-worthiness as indicated by your credit report, work history and letters of recommendation?
- Do you have sufficient experience and training to operate a successful business?
- Have you prepared a business plan that demonstrates your understanding of and commitment to the success of the business?
- Does the business have sufficient cash flow to make the monthly payments on the amount of the loan requested?

**Some of this information obtained from:
U.S. Small Business Administration
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108 Rockwell Hall
600 Forbes Ave
Pittsburgh, PA 15282-0103
Phone: (412) 396-6233
Fax: (412) 396-5884
duqsbdc@duq.edu



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