



Financing Your Business Start-up

This information summary focuses on ways a small business can raise money and explains how to prepare a loan proposal.

One key to a successful business start-up and expansion is your ability to obtain and secure appropriate financing. Raising capital is the most basic of all business activities. But, as many new entrepreneurs quickly discover, raising capital may not be easy; in fact, it can be a complex and frustrating process. However, if you are informed and have planned effectively, raising money for your business will not be a painful experience.

Finding the Money You Need

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

- Personal savings: The primary source of capital for most new businesses comes from savings and other forms of personal resources. While credit cards are often used to finance business needs, there may be better options available, even for very small loans.
- Friends and relatives: Many entrepreneurs look to private sources such as friends and family when starting out in a business venture. Often, money is loaned interest free or at a low interest rate, 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 proposal is sound.
- Venture capital firms: These firms help expanding companies grow in exchange for equity or partial ownership.

Borrowing Money

It is often said that small business people have a difficult time borrowing money. This is not necessarily true. Banks make money by lending money. However, the inexperience of many small business owners in financial matters often prompts banks to deny loan requests. Requesting a loan when you are not properly prepared sends a signal to your lender. That message is: High Risk!

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 will pay it back. And you must be able to convince your lender that you are a good credit risk.

SBA Loan Maturities

SBA loan programs are generally intended to encourage longer 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. However, maximum loan maturities have been established: twenty-five years for real estate; up to ten years for equipment (depending on the useful life of the equipment); and generally up to seven years for working capital. Short-term loans are also available through the SBA to help small businesses meet their short term and cyclical working capital needs. For additional information, go to

<http://www.sba.gov/financing>

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 purchasing real estate and facilities, construction, durable equipment, furniture and fixtures, vehicles, etc.

How to Write a Loan Proposal

Approval of your loan request depends on how well you present yourself, your business, and your financial needs to a lender. Remember, lenders want to make loans, but they must make loans they know will be repaid. The best way to improve your chances of obtaining a loan is to prepare a written proposal.

A good loan proposal will contain the following key elements:

- **General Information**
 - Business name, names of principals, Social Security number for each principal, and the business address.
 - Purpose of the loan - exactly what the loan will be used for and why it is needed.
 - Amount required - the exact amount you need to achieve your purpose.
 - Business Description - History and nature of the business, details of what kind of business it is, its age, number of employees and current business assets.

- Ownership structure - details on your company's legal structure.
- **Management Profile**
 - Develop a short statement on each principal in your business; provide background, education, experience, skills and accomplishments.
- **Market Information**
 - Clearly define your company's products as well as your markets.
 - Identify your competition and explain how your business competes in the marketplace.
 - Profile your customers and explain how your business can satisfy their needs.
- **Financial Information**
 - Financial statements, balance sheets and income statements for the past three years. If you are starting out, provide a projected balance sheet and income statement.
 - Personal financial statements on yourself and other principal owners of the business.
 - Collateral you would be willing to pledge as security for the loan.

How Your Loan Request Will Be Reviewed

When reviewing a loan request, the lender is primarily concerned about repayment. To help determine this ability, many loan officers will order a copy of your business credit report from a credit-reporting

agency. Therefore, you should work with these agencies to help them present an accurate picture of your business. Using the credit report and the information you have provided, the lending officer will consider the following issues:

- Have you invested savings or personal equity in your business totaling at least 25 percent to 50 percent of the loan you are requesting? (Remember, a lender or investor will not finance 100 percent of your business.)
- Do you have a sound record of creditworthiness as indicated by your credit report, work history and letters of recommendation? This is very important.
- Do you have sufficient experience and training to operate a successful business?
- Have you prepared a loan proposal and business plan that demonstrate your understanding of and commitment to the success of the business?
- Does the business have sufficient cash flow to make the monthly payments?

SBA Financial Programs

The SBA offers a variety of financing options for small businesses. Whether you are looking for a long-term loan for machinery and equipment, a general working capital loan, a revolving line of credit, or a micro-loan, the SBA has a financing program to fit your needs. For additional information, go to:

- <http://www.sba.gov/financing>
- http://www.sbaonline.sba.gov/starting_business/startup/guide.html