

TECHNIQUES FOR OBTAINING FINANCING

Starting or expanding your business? Or going into a cash crunch time? Invariably, you will come across cash flow challenges in your small business. Prior to determining which of the following best meets your needs, take a hard look at cash you need, when you can pay it back and whether you can afford to lose the funds or the collateral. Your accountant/financial planner can help you determine whether and the extent to which there are tax implications and/or benefits. If you do not have a financial counselor, you should consult one on a fee basis, or you can contact a local SBA/SCORE office for further assistance.

Personal Resources (aka Bootstrapping)

Savings: Never invest from your own pocket more than you think you can afford to lose.

Investments: Almost anything you have can be offered as collateral for a loan.

Mortgages: A second deed of trust or mortgage on the home can work as a low-cost source of funds. Banks will also set up a flexible line of credit using a mortgage as the base.

Credit Cards: Visa, Master Card, and other plastic are a quick source of cash up to the limit of the credit card. Interest rates are usually high.

Overdrafts: A bank credit line allows you to overdraw on your checking account up to an approved limit. Must have collateral value in assets.

Insurance: Life insurance policies have a cash value that can be borrowed against for any purpose at interest rates that are usually well below commercial rates.

Other Sources

Others: Friends, relatives, and business contacts are traditional sources of funding for small businesses.

Trade Credit: After you have established a track record with a supplier you usually can have a routine trade-credit for 60 to 90 days. Most suppliers require payment on delivery from new businesses.

Private Placement: Publicly offer shares in your business to up to 35 individuals without having the expense, red tape, and stringent reporting procedures that go with Securities and Exchange Commission Regulations.

Venture Capital: Private organizations are willing to provide funds to on-going and promising businesses but will want to have a positive say in the future ownership in the business.

Banks: The usual source of funds is from a bank. *A full business plan and personal financial are required.*

Small Business Administration (SBA)

Guaranty Loan: SBA will guarantee to private banks loans for small businesses after the requester has been turned down by a bank. Such loans require all that the bank wanted plus additional information.

Direct Loan: SBA will issue directly to existing businesses. These require extensive background information on the past three years' business operations.