

## **Ask SCORE**

By Willy Campbell

### **Find The Right Financing For Your Business**

Finding the right type of financing, or finding ANY financing for that matter, is often one of the most difficult parts of starting and building a solid small business. You may have a terrific Business Plan and be a talented workaholic, but finding funding is another matter. Business owners often start with too little money (in financial circles this is known as “undercapitalized”). Statistics show that it is the single most common reason that new businesses don’t make it.

Sources and types of small business financing fall into a few broad categories. It will be either debt or equity financing from institutional or informal sources. Debt financing is a loan you pay back. Common sources include family and friends, personal credit cards, home equity lines of credit, commercial bank loans and bank loans backed by the U.S Small Business Administration (SBA).

With equity financing you offer investors shares of your business in return for cash. Unlike loans, however, you are not required to pay the money back. But...these investors now own part of your business and will want a return on their investment. As a part owner they will also represent themselves as part of management.

Not to be overlooked for an existing business is working your relationship with your suppliers. They want you to succeed – so much so that they may provide special payment terms, discounts or even direct loans.

Banks are historically the most common agent for loans to small business. They set their loan rates according to the Federal Government’s prime rate and adjust that rate for the risk they perceive in your business and the length of the loan. The great majority of small business loans made by banks call for collateral, usually 30% or more of the amount of funds required. Start-ups face a daunting task of obtaining funds because many times the owner has no business history and usually very little business history. Without significant collateral, obtaining a start-up loan from a bank can be exceedingly difficult.

Enter the SBA 7(a) Loan Guarantee Program. The SBA will guarantee up to 85% of a loan made by a bank (up to \$1,000,000) if it is satisfied with the applicant’s Business Plan and that other requirements are met. The bank submits the application, the bank makes the loan, and the SBA assumes the great majority of the risk. Go to [www.wba.gov/services/financialassistance/index/html](http://www.wba.gov/services/financialassistance/index/html) for all the details on funding basics, estimating costs, eligibility standards, 7(a) loan programs and more.

There are two SBA pilot programs that are of major significance to start-ups seeking financing: The Community Express loan program administered locally by the Women’s Business Center of Fayetteville works with several lenders that require no collateral for loans under \$50,000. The Patriot Express loan program is a new SBA initiative for

veterans and their spouses that is administered through major banks (several local Pinehurst banks are already on board). It too offers no, or low, collateral conditions and promises a very rapid application turn-around.