



## Financing the Business

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## How Much to Finance?

In many cases, it is a good idea to start small. At the start of a business, the owners are learning what works and doesn't....It is not a good idea to invest more than necessary to get the business started. Get advice from experts about the feasibility of the location and products first. Use VR, PASS and other possible grant sources before considering financing.



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## Common Types of Financing

- Bank – Secured Loan
- Bank – Small Business Administration (SBA) Loan
- Bank – State or Local Revolving Loan (if available)
- Bank – Home Equity Line
- Credit Cards
- Asset Based (Factored) Lender
- Floor Plan
- Other types of financing



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## Bank – Secured Loan

**Secured Loan – Commercial Lending**

- Banks generally require real property, business assets, investments or some other type of security greater than the value of the loan.
- Banks are not generally not that interested in what the business is, or how strong the business plan is, unless the business has a history.
  - Commercial vs. Merchant banking models.
- Banks will loan against the value of the equipment that will be purchased.



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## Bank – Secured Loan

**SBA Secured Loan**

- Banks use their own criteria and credit parameters.
- SBA guarantees ½ the loan amount.
- Generally these loans are secured with property or equipment.
  - SBA documents say a loan should not be declined because of a lack of security
- A business plan is required
- Owner must have at least 10% of the required money.



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## Bank – Secured Loan

**Home Equity Line**

- The most common way to finance a small business.
- Not a long-term solution. As soon as possible refinance using business assets.
  - No separation of business and individual assets
  - Everything is at risk



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## Bank – Unsecured Loans

State/Local Government backed loans

- Only available in some states/cities.
- Often only for specific purchases.
  - Technology
  - Telecommuting
  - Adaptive equipment
- Generally controlled by a government body but funds are generally managed by a partner bank.

Signature Loans



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## Credit Cards

- Very common
- Not usually a good solution.
  - Increasing interest rates
  - Inflexible terms
  - Mixing business and personal money
- OK in some specific cases



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## Asset Based Lending (Factoring)

- Specialized Lending
- Lending based on a business's Current Assets
  - Accounts Receivable
  - Inventory
- High hidden costs
  - Cash Management
  - Collections
  - Audits/staff time
  - Specialized reporting



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## Floor Planning

- Retail Only
- Fast turn items
  - No interest for up to a year
  - Pay as the products are sold
- Requires Monthly Reporting

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## Other Lenders

- Pawn Brokers
- Car Title Loans
- Pay Day Loans

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## Before looking for Loans:

- Work out the feasibility of the business.
- Get professional advice about location, market and products.
- Plan the Business.

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**When looking for Loans:**

- Be organized.
- Individualize business plans, feasibility information, loan package proposals to the bank or lender.
- If unsure or are asking for a significant amount, take an expert with you (Accountant, Business Planner, Consultant).
- Know what you are asking for and why.
- Ask for what you need – but remember cash flow

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**Common Mistakes:**

- Asking for the wrong amount
- Talking to the banker before you are ready
- No business plan or weak business plan
- No real marketing data
- Lack of organization in launching the business

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