

FINDING THE MONEY YOU NEED



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

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 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.

GETTING A LOAN

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. You must be able to convince your lender that you are a good credit 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 purchasing real estate and facilities, construction, durable equipment, furniture and fixtures, vehicles, etc.

HOW YOUR LOAN WILL BE REVIEWED

When reviewing a loan request, the lender is primarily concerned with repayment. Loan officers judge loan applications based on what is commonly referred to as the five C's of Credit.

Character

Lenders will order a copy of your credit report and look at debt repayment trends. They want to know simply if you pay your bills and if you pay them on time. If there are blemishes on your report, explain them.

Cash Flow

Lenders will look at historical and projected cash flow statements to determine whether you will be able to repay the loan and still have money to adequately run the business. Include written justification for your projections in your loan proposal.

Collateral

Collateral is an asset (something you own) which a lender may claim to satisfy a loan in the event the loan is not repaid according to the required terms. Often the assets purchased with the loan may serve as collateral. If the business does not have enough collateral, the bank will look to personal assets.

Capitalization

Capitalization refers to the basic resources of the company including the owner.

Conditions

Factors that affect the success of the company, yet are external to the business, will also be considered by the lender. Examples include government regulation, competition and industry trends.

PERSONAL CREDIT

Before approaching a bank or investor for a loan, you should know the condition of your credit report. To check on your personal credit, you can order your free annual credit report online at annualcreditreport.com, by calling 1-877-322-8228, or by completing the Annual Credit Report Request Form and mailing it to: Annual Credit Report Request Service, P.O. Box 105281, Atlanta, GA 30348-5281. When you order, you need to provide your name, address, Social Security number, and date of birth. To verify your identity, you may need to provide some information that only you would know, like the amount of your monthly mortgage payment.

A Warning About “Imposter” Sites

The Federal Trade Commission (FTC) advises consumers who order their free annual credit reports online to be sure to correctly spell annualcreditreport.com, or link to it from the FTC's website to avoid being misdirected to other websites that offer supposedly free reports, but only with the purchase of other products. While consumers may be offered additional products or services while on the authorized website, they are not required to make a purchase to receive their free annual credit reports.

Credit Card Merchants

If you are interested in accepting credit cards from your customers, you should begin by contacting your bank's Merchant Bankcard Services, Retail banker. Your banker will instruct you on how to accomplish this. Many sales are lost each year by retailers who do not accept credit cards.

Source: Alamance Community College Small Business Center



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