WHERE TO FIND
the money you need

Finding start-up capital for a new business is challenging. Most new businesses are started with initial capital coming from personal savings and other forms of personal equity. Others look to private sources such as friends and family when starting their business ventures.

Venture capital firms provide start-up capital for new companies in exchange for equity or part ownership. This source of financing may be difficult to obtain for service or retail oriented concerns and may involve giving up some control to investors.

Grants are often publicized as a way to get capital. However, very few grants exist to actually start a business. They are typically for a narrowly defined purpose and for non-profit businesses.

Banks and credit unions are the most common source of funding. These entities provide financing if you can show a sound business plan and the ability to repay the loan.

To be successful in obtaining a loan, be prepared and organized. Questions that a lender will ask you include:

How much money do you want?

How will the loan be used?

How long will it take to repay the loan?

How will the loan be repaid?

What collateral do you have to offer?

How much are you investing in the business?

Match your financing with the needs of the business. Short-term loans to finance working capital line of credits or accounts receivable are usually paid back in less than one year. Long term loans have maturities over one year and finance business expansions, equipment or real estate purchases.

Approval of your loan request will depend on a number of variables. Improve your chances of obtaining a loan by preparing a written loan proposal. Your loan proposal should contain elements such as a comprehensive business plan, statement indicating purpose of loan, amount of loan, list of collateral, cash flow projection, and, if an established business, a balance sheet and income statement for previous three years. (See Business Plan section of this booklet)

Lenders often analyze the "Six Cs" in loan requests:

1. **Character** - Resumes and references are checked to see if management has the experience and determination necessary to successfully run the business.

2. **Credit** - Personal and business credit reports are reviewed to see if the individuals are willing to repay debts. This is also an indication of an individual's character.

3. **Capital** - How much money are you putting into the deal? Lenders will not finance 100% of your business. You should expect to put in 20-40% of the project.

4. **Capacity** - The ability of the business and management to operate at a level sufficient to make debt payments.

5. **Collateral** - Assets pledged to secure the loan. This will include business as well as personal assets.

6. **Conditions** - Outside influences that will affect the business such as the local economy and competitors.

Most importantly, does the business have sufficient cash flow to make the monthly payments on the loan request? If not, is there a secondary source of funds available to service the debt?

Take time to talk to your banker about your financial needs. Each bank has different requirements, time frames and guideline for business lending. Looking for financing is like obtaining any other commodity-shop around. Follow these tips when working with your lender:

- *Make an appointment.*
- *Dress appropriately.*
- *Be on time.*
- *Present a complete proposal (30 minutes or less).*
- *Be strong, positive and tell the truth.*
- *Find out when you can expect an answer.*
- *Follow up with a thank you letter and/or a phone call.*

The professional relationship that you develop with your lender may be your most important relationship.

If your loan is rejected, get the reasons in writing. Find out if you are "turned down" or if there are problems that can be corrected before approaching another lender.

One alternative to traditional financing is leasing. Advantages of leasing include: usually a lower down payment, longer maturity, and protection against product obsolescence. There may be tax advantages with leasing. Disadvantages include higher finance costs and no ownership after all payments are made.