Financing Options for Small Businesses

1.1 Introduction

Welcome to SBA's online training course: Financing Options for Small Businesses.

SBA's Office of Entrepreneurship Education provides this self-paced training exercise as an introduction to financing options for your business. You will find this course easy to follow and the subject matter indexed for quick reference and easy access. It will take about 45 minutes to complete the course. Additional time will be needed to review included resource materials and to complete the suggested next steps at the end of the course.

As audio is used throughout the training, so please adjust your speakers accordingly. Transcript and keyboard shortcuts are available to assist with user accessibility.

When you complete the course, you will have the option of receiving a course completion confirmation from the SBA.

1.2 Course Objectives

The course has four key objectives:

- One, determine the financing needs of your business.
- Two, identify the various financing options for your business.
- Three, explain all the available financing options.
- Four, list the pros and cons of each of the financing options.

1.3 Course Topics

The topics discussed in this course include:

- Determining your financing needs
- Equity vs. debt financing
- Loans
- Grants
- Venture capital
- Angel investors
- Savings, retirement, and other investment accounts
- Crowd funding
- Peer-to-peer lending
- Family and friends, and
- SBA Surety Bond Guarantee Program

Numerous additional resources are identified to assist you. Visit the Resource icon in the course player or locate additional tools, templates, and mentors on SBA.gov after you finish the course.

Let's get started!

1.4 Background

In spite of having the idea and being good at entrepreneurship, it is often difficult to start up a business venture. The financing needs to be in place. Financing is the key element for a startup small-business venture. You have to explore different financing options to be able to arrange for the right financing for your business.

1.5 Determining Your Financial Needs

Before you look into the financing options for your business, the first thing you need to do is to assess your current financial situation thoroughly.

Often this means having a solid business plan with five years of financial projections. You should not only know what you need to get started or expand your business, but also know how your revenue stream will look in order to pay back any debt financing. For most financing, knowing or having a plan for the next five years is essential-at least, as far as revenue, cash flow, growth, and expansion are concerned.

1.6 Questions To Ask

Let's look at a list of questions that you must ask yourself to determine your financial needs.

Click the button below to learn more about the questions.

Do you need more capital or can you manage within the existing cash flow?

If you have trouble paying your obligations on time, you may need an infusion of working capital.

What is the nature of your need?

You should determine whether you need money to start or expand your business or as a cushion against risk.

How urgent is your need?

Whenever possible, it's better to anticipate your needs rather than have to look for money under pressure. It is harder to gain approval for a loan when your company is already in trouble, so plan ahead and secure financing well in advance of a crisis.

How great are your risks?

All businesses carry risk, and the degree of risk will affect both the cost of your loan and the financing alternatives available to you.

In what state of development is your business?

Needs are generally more critical during transitional stages-startup and expansion being two of the most urgent and costliest stages.

For what purposes will the capital be used?

Lenders will need to know your specific intentions for the money to assure themselves that your business will thrive and that repayment is assured.

What is the state of your industry?

Whether your industry is depressed, stable, or fast-growing will have a distinct effect on your search for funding sources. Businesses that prosper in tough economic times will generally receive better funding terms.

Is your business seasonal or cyclical?

Seasonal needs for funding are generally short-term, and consist of smaller loans with a quicker maturation. Loans advanced for cyclical industries, such as construction, are designed to support a business through depressed periods-these industries are sometimes known as “feast and famine” businesses, as the cash flow is often erratic and unpredictable.

How strong is your management team?

Effective management is an important element of business. Your lender will be looking for a strong managerial presence.

How does your need for financing mesh with your business plan?

If you don't have a business plan yet, make it a priority to write one. All lenders will want to see a solid, well-thought-out business plan for the startup and growth of your business.

1.7 Estimating Startup Costs

If you are planning to start a business, it is critical to determine your budgetary needs.

Since every business is different and has its own specific cash needs at different stages of development, there is no universal method for estimating your startup costs. Some businesses can be started on a smaller budget, while others may require considerable investment in inventory or equipment. Additional considerations may include the cost to acquire or renovate a building or the purchase of equipment.

To determine how much seed money you need to start with, you must estimate the costs of doing business for the first few months. Some of these expenses will be one-time costs, such as the fee for incorporating your business or the price of a sign for your building.

Some will be recurring costs, such as the cost of utilities, inventory, and insurance.

While identifying these costs, decide whether they are essential or optional. A realistic startup budget should include only those things that are necessary to start a business.

These essential expenses can be divided into two separate categories: fixed and variable. Fixed expenses include rent, utilities, administrative costs, and insurance costs. Variable expenses include inventory, shipping and packaging costs, sales commissions, and other costs associated with the direct sale of a product or service. The most effective way to calculate your startup costs is to use a worksheet that lists both one-time and recurring costs.

1.8 Debt Financing vs. Equity Financing

After identifying your financial needs, you must arrange for the financing. Thoroughly understanding the basic types of financing can reveal the options that might be most attractive and realistically available to your particular business. Typically, financing can be divided into two categories: debt financing and equity financing.

- Debt financing: Debt financing means borrowing money that must be repaid over a period of time, usually with interest.
- Equity financing: Equity financing means raising money in exchange for a share of ownership in the business.

Click each button to learn more.

Debt Financing

- Debt financing is borrowing money that must be repaid
- Repayment is done over a period of time and with interest
- Lender does not gain an ownership interest in the business
- Loan is often secured by company assets and borrowers' personal guarantee

Sources may include:

- Banks
- Savings and loans
- Credit unions
- Commercial finance companies
- SBA-guaranteed loans
- State and local government programs

Family members, friends, and former associates

Equity Financing

- Equity financing is raising money in exchange for a share of ownership in the business
- Equity financing allows business to obtain funds without incurring debt or having to repay specific amount within specific time

Sources may include investors such as:

- Friends
- Relatives
- Employees
- Customers
- Industry colleagues

The most common source of equity funding comes from venture capitalists.

1.9 Credit History

In order to furnish the costs, you might need to look for credit for your business. Your credit history is an important thing that your prospective creditors would consider before offering credit.

When a small business requests a loan, one of the first things a lender looks at is personal and business credit history. So, before you even start the process of preparing a loan request, you want to make sure you have a good credit history.

Get your personal credit report from credit bureaus such as TransUnion, Equifax, or Experian. You should initiate this step well in advance of seeking a loan. Personal credit reports may contain errors or be out-of-date, and it can take three to four weeks for errors to be corrected. It is up to you to see that the corrections are made, so make sure you check regularly on the progress. You want to make sure that when a lender pulls your credit report, all the errors have been corrected and your history is up-to-date.

If you have been late by a month on an occasional payment, it probably will not adversely affect your credit. But it is likely that you will have difficulty obtaining a loan if you are continuously late in paying your debts, have a debt that was never paid, have a judgment against you, or have declared bankruptcy in the last seven years.

1.10 Collateral

Beyond credit history, another important thing that lenders consider while deciding whether to offer your business a loan is the amount of collateral that you have.

Collateral is an additional form of security which can be used to assure a lender that you have a second source of loan repayment. Assets such as equipment, buildings, accounts receivable, and inventory are considered possible sources of repayment if they can be sold by the bank for cash. Collateral can consist of assets that are usable in the business as well as personal assets that remain outside the business.

You can assume that all assets financed with borrowed funds will be used as collateral for the loan. Depending on how much equity was contributed by you toward the acquisition of these assets, the lender may require other business assets as collateral.

Your home or personal assets may be considered collateral, based on one of the following criteria:

- The lender requires the residence as collateral
- The equity in the residence is substantial, and other credit factors or sources of collateral are weak
- You operate the business out of the residence or other buildings located on the same parcel of land

1.11 Short-term vs. Long-term Financing

There are two types of debt financing-short-term financing and long-term financing.

- Short-term financing: Short-term financing can be in the form of an overdraft, a letter of credit, or a short-term loan.
- Long-term financing: Long-term financing can be in the form of long-term loans or leasing.
- Click each button to learn more.

Short-term Financing

Short-term Financing can be in the form of:

- Overdraft
- Letter of credit
- Short-term loan

The term period for short-term financing is generally less than one year. Such financing provides you with quick ways to get liquidity. It can help you fulfill small economic needs and also allows your business to capitalize on opportunities. However, short-term financing has higher interest rates and, in general, doesn't fulfill long-term capital investment needs.

Long-term Financing

Long-term financing can be in the form of:

- Long-term loan(s)
- Leasing

The term period for long-term financing is more than one year. Periodic repayment is generally the mode of payback. Equipment that is costly can be taken on long-term lease which a business can eventually buy out. Long-term capital needs can be fulfilled through long-term debt. Long-term financing provides stability, but the total interest paid over a long time is higher.

1.12 Loans

The types of debts or loans available to you and the terms of those loans will typically be determined by your business organization scheme-whether you are a limited liability company or an organization of some other kind. So, if you are not an incorporated company yet, you might want to think about the type of incorporation that is best for your company, considering the type of financing you expect to get. Talking to a lawyer or your bank's loan people might help you in this regard.

1.13 SBA Loans

SBA offers a variety of loan programs, including:

- 7(a) General Small Business Loans Program: The 7(a) General Small Business Loans Program is SBA's most common loan program. This loan program includes financial help for businesses with special requirements.
- 504 Loan Program: Also called the Certified Development Company (CDC) 504 Loan, this option provides growing businesses with long-term, fixed-rate financing for major fixed assets, such as land and buildings. It's best for projects $300,000 to $10 million.

Click each button to learn more.

7(a) General Small Business Loans

- SBA's most common loan program
- SBA provides this type of loans to businesses and not to individuals
    - The loan proceeds can be used to:
    - Set up a new business
- Assist in the acquisition, operation, or expansion of an existing business
- The loan repayment period varies from seven to 25 year
- The maximum loan amount under 7(a) is $5 million

The specific terms of fees, interest rates, and percentage of guarantee for an SBA loan are negotiated between a borrower and an SBA-approved lender.

For further information on 7(a) loans program, please click the following link:

LINK: http://www.sba.gov/category/navigation-structure/loans-grants/small-business-loans/sba-loan-programs/7a-loan-program#

504 Loan Program

A 504 loan can be used for:

- No limit to project size, however there is a $5 million limit for SBA backed portion in most cases
- Businesses typically need a minimum 10% down payment
- Maturity terms of 10 and 20 years available
- Interest rates on 504 loans are pegged to an increment above the current market rate for 5-year and 10-year U.S. Treasury issues.
- Fees total approximately 3 percent of the debenture and may be financed with the loan.
- The loan proceeds can be used to:
- The purchase of land, including existing buildings
- The purchase of improvements, including grading, street improvements, utilities, parking lots and landscaping
- The construction of new facilities or modernizing, renovating or converting existing facilities

A 504 loan <u>CANNOT</u> be used for:

- Working capital or inventory
- Consolidating, repaying or refinancing debt
- Speculation or investment in rental real estate

For further information on the 504 Loan program please click the following link:

http://www.sba.gov/category/navigation-structure/loans-grants/small-business-loans/sba-loan-programs/real-estate-and-eq

1.14 SBA Financing Options

- SBA offers a few other financing options that may be relevant to your business needs:
- Disaster Assistance Loans: SBA provides low-interest disaster loans to homeowners, renters, businesses of all sizes, and most private nonprofit organizations. SBA disaster loans can be used to repair or replace the following items damaged or destroyed in a declared disaster: real estate, personal property, machinery and equipment, and inventory and business assets.
LINK: http://www.sba.gov/category/navigation-structure/loans-grants/small-business-loans/disaster-loans
- Export Assistance Loans: There are three loan types that can provide loans, lines of credit, and working capital for businesses that are exporting, plan to export, or who have been negatively impacted by imports.
LINK: http://www.sba.gov/category/navigation-structure/loans-grants/small-business-loans/sba-loan-programs/7a-loan-program/sb
- Surety Bonds: A surety bond is a document signed by the contractor and the surety company that assures the project owner the contract will be completed. Contractors obtain surety bonds from surety companies or agents representing surety companies. SBA helps small contractors by guaranteeing bid, performance, and payment bonds issued by participating surety companies for contracts up to $6.5 million. SBA can guarantee a bond for a contract up to $10 million if a Federal contracting officer certifies that SBA's guarantee is necessary for the small business to obtain bonding.
LINK: http://www.sba.gov/surety-bonds

1.15 More SBA Financing Options

Other SBA Financing Options (con't):

- <u>CAPLines:</u> CAPLines are a special type of 7(a) Loan that provides up to $5 million is designed to help small businesses meet their short-term and cyclical working capital needs. The programs can be used to finance seasonal working capital needs; finance the direct costs of performing certain construction, service and supply contracts, subcontracts, or purchase orders; finance the direct cost associated with commercial and residential construction; or provide general working capital lines of credit that have specific requirements for repayment.
LINK: http://www.sba.gov/content/caplines

- Small Business Investment Companies (SBIC): SBICs are privately owned and managed investment funds, licensed and regulated by SBA, that use their own capital plus funds borrowed with an SBA guarantee to make equity and debt investments in qualifying small businesses. There are over 300 licensed SBICs in operation today. SBICs pursue investments in a broad range of industries and geographies. Some SBICs invest in a particular field or industry in which their management has expertise, while others invest more generally.
  LINK: http://www.sba.gov/category/lender-navigation/sba-loan-programs/sbic-program/small-business-owners-entrepreneurs

Special Programs for Veterans and Military members:

- Military Reservist Economic Injury Loans provide funds to help an eligible small business meet its ordinary and necessary operating expenses that it could have met, but is unable to, because an essential employee was called-up to active duty in his or her role as a military reservist. Additionally, SBA frequently offers special loan programs or fee waivers for veterans.

LINK: http://www.sba.gov/content/military-reservists-economic-injury-loans

Visit http://www.sba.gov to see what programs are currently being offered.

1.16 Loans: Traditional Banks

Traditional banks can be another source from which you can get a loan for your business. Though traditional banks sometimes tend to be more favorable for A-credit businesses, you may also try to get their assistance. The turnaround time for a loan from a traditional bank might just be on the longer side, but the interest rates are mostly on the lower side. It is worthwhile to check with traditional banks as a source of loans for your business.

1.17 Microloans (SBA)

SBA Microloan Program can be another viable source of loans for your business. The Microloan Program provides loans up to $50,000 to help small businesses and certain not-for-profit childcare centers start up and expand.

The U.S. Small Business Administration provides funds to specially designated intermediary lenders which are nonprofit community-based organizations with experience in lending as well as management and technical assistance. These intermediaries administer the Microloan Program for eligible borrowers.

The eligibility requirements are different for each intermediary lender. Microloan proceeds can be used for working capital, inventory, furniture, or equipment, but not for paying existing debts or purchasing real estate.

The maximum repayment term for an SBA Microloan is six years, and the interest rate is between 8 and 13 percent.

1.18 Credit Cards

If your business is young and you don't have lines of credit from banks or other sources, you may use credit cards to finance your business.

- They can give you easy access to small funds for an urgent need. Credit cards can also be a source of working capital for your business.
- You can also purchase necessary equipment through your credit card.

Although it is an easy and quick source of financing for your business, it is important that you watch out for the interest rates and cash advance fees, which are quite high for credit cards and may eat into your profits.

1.19 Veterans' Loans

If you are a veteran or a service-disabled veteran, there are many opportunities for you and your small business. It is important that you certify your small business as Veteran-Owned or Service-Disabled Veteran-Owned, so you can take advantage of the resources designed especially for you. The SBA has 16 resource centers around the country that provide services such as mentoring, training, business preparation and more, exclusively for veterans. As a veteran, you may qualify for Government contracting. Obtaining Government contracts is an excellent way to grow a small business.

The Veterans Entrepreneurship and Small Business Development Act of 1999 established an annual Government-wide goal of not less than 3 percent of the total value of all prime contract and subcontract awards for participation by small business concerns owned and controlled by service-disabled veterans.

If you are not a veteran but are interested in expanding your staff to include veterans, there are several programs that encourage employers to hire veterans as employees.

1.20 Export Loans

Many small businesses think that they are too small to compete in the world market. In fact, 97 percent of all exporters are small businesses. The Federal Government has loans, insurance, and grant programs to help you become an exporter or expand your exporting business.

SBA Export Loan Programs include SBA Export Express, the Export Working Capital Loan, and SBA's International Trade Loan Program.

The Federal Government has several additional loan programs, grant and contract opportunities, and insurance programs for exporters.

To know more about all these, please click the link displayed on the screen.

1.21 Grants

Other than loans, grants can help you in financing your startup business. Grants don't require you to pay them back, but qualifying for a grant can be a little difficult. You can get grants from SBA and other sources, like nonprofit philanthropic organizations.

1.22 SBA Grants

SBA does not provide grants for starting and expanding a business.

Government grants are funded by your tax dollars and therefore require very stringent compliance and reporting measures to ensure that the money is well spent. As you can imagine, grants are not given away indiscriminately.

Grants from the Federal Government are authorized and appropriated through bills passed by Congress and signed by the President. The grant authority varies widely among agencies. SBA has authority to make grants to nonprofit and educational organizations in many of its counseling and training programs but does not have authority to make grants to small businesses.

Some business grants are available through state and local programs, nonprofit organizations, and other groups. For example, some states provide grants for expanding childcare centers, creating energy-efficient technology, and developing marketing campaigns for tourism. These grants are not necessarily free money and usually require the recipient to match funds or combine the grant with other forms of financing, such as a loan. The amount of grant available varies with each business and each grantor.

1.23 Non-SBA Grants

Non-SBA grants are available from non-governmental agencies. In most cases, they are nonprofit organizations and they prefer nonprofit business entities. You have to align your business with the mission of such granting authorities. Once you have identified such an organization, you have to write a solid proposal. Some of the non-SBA grants that might be available to you are grants from state and local agencies, Federal funding for specific missions, opportunity fund, amber grants, and love a local business grants.

1.24 Venture Capital

Apart from loans and grants, there are other financing options for your business. Let’s look at each of them.

Venture capital is one such important source of financing. It is a type of equity financing that addresses the funding needs of entrepreneurial ventures which, for reasons of size, assets, and stage of development, cannot seek capital from more traditional sources, such as public markets and banks. Venture capital investments are generally made as cash in exchange for shares and play an active role in the company invested in.

1.25 SBIC (SBA)

In 1958, Congress created the Small Business Investment Company (SBIC) program to facilitate the flow of long-term capital to America’s small businesses. SBA does not provide capital directly to businesses. Instead, SBA partners with private investors to capitalize professionally managed investment funds (known as "SBICs") that finance small businesses.

The structure of the program is unique. SBICs are privately owned and managed investment funds. They are licensed and regulated by SBA. They use their own capital plus funds borrowed with an SBA guarantee to make equity and debt investments in qualifying small businesses. The U.S. Small Business Administration does not invest directly in small business through the SBIC program, but provides funding to qualified investment management firms with expertise in certain sectors or industries.

And your small business can get venture capital investments from such SBICs.

1.26 Venture Capital: Pros and Cons

Going for venture capital investments in your business has its own pros and cons.

The good thing about it is that venture capital, which you can raise, is money that you can keep. You don't need to repay or take account of interest rates. You don't need to attach collateral for raising venture capital. It can help your business grow quickly. Venture capital funding is generally committed and long term.

The flip side is that in return for the capital investment, the venture capitalist would own a stake in your business and might at times, depending upon the amount of investment, make controlling decisions. So, raising venture capital amounts to giving up a share in your business. It can be a cumbersome and lengthy process for you to find a suitable venture capitalist that is willing to invest in your business.

1.27 Angel Investors

Angel investors are another source of financing for your business.

Business "angels" are high-net-worth individual investors who seek high returns through private investments in startup companies. Private investors generally are a diverse and dispersed population who made their wealth through a variety of sources. But the typical business angels are often former entrepreneurs or executives who cashed out and retired early from ventures that they started and grew into successful businesses.

These self-made investors share many common characteristics:

- They seek companies with high growth potentials, strong management teams, and solid business plans to aid the angels in assessing the company's value. (Many seed or startups may not have a fully developed management team, but have identified key positions)
- They typically invest in ventures involved in industries or technologies with which they are personally familiar
- They often co-invest with trusted friends and business associates. In these situations, there is usually one influential lead investor ("archangel") whose judgment is trusted by the rest of the group of angels
- Because of their business experience, many angels invest more than their money. They also seek active involvement in the business, such as consulting and mentoring the entrepreneurs. They often take bigger risks or accept lower rewards when they are attracted to the non-financial characteristics of an entrepreneur's proposal

1.28 Angel Investors: Pros and Cons

Seeking angel investors to finance your business has its advantages and disadvantages.

One of the advantages is that angel investors may provide you the needed capital right at the startup stage of your business. They generally agree to flexible investment agreement terms compared to traditional sources of funding. Angel investors, often successful entrepreneurs themselves, add business acumen to your venture. They may agree to invest in your business, even if it is a risky venture, if they like your idea. Angel investors are often ready to look beyond mere financial return.

On the other hand, angel investors generally are not ready to make follow-up investments. They can be costly at times and want higher returns on their investment. An angel investor may often want to be involved in the decision-making process of your business and you may virtually lose control. It can be a difficult task to find out angel investors as they usually operate behind-the-scenes.

1.29 Retirement Accounts

Your retirement account can be another source of financing for your startup business.

You may have built up considerable amount of money in your 401(k) at a job or in your IRA, and now you want to start a business or turn your sideline venture into a full-time activity. You can use the money in your retirement account as capital for your business. You can roll over the proceeds from your retirement account to own a business.

Rollovers as Business Startups (ROBS) are a way to optimize the use of money in your retirement account as a funding mechanism to start a business. It works if you have a 401(k) or other qualified retirement plan account with a balance that is sufficient for your funding needs and you adhere to the tax rules.

You have to incorporate your new business and have that corporation set up a qualified retirement plan (usually a profit-sharing plan permitted under the terms of the plan to invest in employer stock). Then, you have to roll over your 401(k) or other retirement account to the new retirement plan. Note that the rollover is tax-free. That plan then buys shares in your corporation, i.e., the plan becomes an owner of your business.

1.30 Retirement Accounts: Pros and Cons

Financing your business with your retirement account has its own advantages and disadvantages.

The benefit is that by rolling over your retirement account into financing your business, you can avoid taxation on your retirement funds. Another benefit is that without bothering about your credit history, you can get access to necessary funds for your small business venture.

The main drawback of using your retirement account to finance your business is that you are putting your life savings at risk. If the business fails to perform at the expected level, then you will lose your livelihood as well as your savings.

1.31 Reverse Mortgages and Home Equity Loans

Reverse mortgages and home equity loans can also be sources of financing for your business.

If you are above 62, you can avail yourself of reverse mortgages. It is a way of converting the equity in your house into cash. The lender will pay you the cash, which you don't need to pay back as long as you are occupying the property. The cash needs to be repaid only in case of your death, or if you choose to sell or vacate your property.

Home equity loans are funds that you can obtain through an encashment of your equity in the property that you live in. Unlike reverse mortgages, there is no specific age at which you qualify for a home equity loan. However, for this source of financing, you need to make regular repayments.

The proceeds from a reverse mortgage or home equity loan are something that you can use to finance your small business.

1.32 Crowd Funding

Yet another source of financing for your business is crowd funding.

Crowd funding is a collective cooperation of people who network and pool their money and resources together, usually via the Internet, to support efforts initiated by other organizations. Crowd funding, as its name implies, aims to reach a funding goal by aggregating many small investors.

Since the JOBS Act was brought into effect in April 2012, it has become easier for small businesses to raise money online via crowd funding. Crowd funding can now be used as an equity source in addition to the other forms of crowd funding; however, the rules for this are still being determined by the SEC (Securities and Exchange Commission). Previously, small businesses were limited to seeking investment from SEC-accredited investors only; now non-accredited investors (i.e., you and I) can invest in a startup to the tune of up to $1 million a year.

1.33 Crowd Funding: Pros and Cons

Crowd funding can give you access to financing for your unconventional business venture which might not get funding otherwise. It also creates community awareness and publicity regarding your venture. The time involved in raising the financing through crowd funding is relatively less than with forms of conventional financing.

If you cannot hit the right chord, you might end up with no funds at all. If your crowd-funding campaign fails, your reputation may be harmed. There is also pressure to deliver at top speed. Your business needs to show positive results in a short time because the investors brought together through crowd funding won't want to wait long.

1.34 Peer-to-Peer Lending

Peer-to-peer lending can be another source of financing for your business.

Peer-to-peer-lending (or P2P) essentially involves sharing your idea with other people in hopes that they will invest in your business. Sites like Prosper or Lending Club connect people who want to lend money with those who need to borrow-often in increments as low as $25. You determine how much you need to borrow, define the purpose of the loan, and post your listing online.

In this way, if you find takers, you might have a source of financing for your business.

1.35 Peer-to-Peer Lending: Pros and Cons

Financing your business through peer-to-peer lending gives you the advantage of choosing from a host of lenders and settling for repayment terms that you feel will suit you. It also makes it possible to avoid the lengthy process of taking a loan from a conventional source.

The disadvantage of this kind of financing is that the terms of lending can often be vague and the lender may have certain hidden terms of lending. You should check carefully before going ahead with this model of financing.

1.36 Family and Friends as Source of Financing

Family and friends can be a viable and easy source of financing for your business. Entrepreneurs who lack a strong credit history or don’t want the hassle of dealing with banks or private lenders often turn to family and friends to finance their business.

Through family and friends, you can possibly get quicker access to cash with fewer hoops to jump through. However, on the flip side, if your business fails or you are tardy in repaying the money, you may be headed for some conflict with your family and friends.

Here are a few points to remember while financing your business with loans from family and friends.

You must carefully choose your financier. A financier with a bit of business knowledge will always help. Also, make sure to elaborate the risks and benefits of the investment to your financier. Even when securing financing from family and friends, you should have due diligence and passion for the business. It always helps. Instead of asking for the maximum, you should always be realistic and ask only for as much financing as you think is absolutely necessary. You must decide whether you want the financing from family and friends as a loan or as an investment in exchange of a share in your business. It’s always good to have an agreement and repayment plan, because, after all, it’s a business transaction.

1.37 Bonding: SBA's Surety Bond Guarantee (SBG) Program

Apart from various sources of financing, you can use assistance in bonding to keep your small business venture afloat.

SBA has the Surety Bond Guarantee (or SBG) Program to help you to get bonding from surety companies.

A surety bond is a document signed by the contractor and the surety company which assures the project owner that the contract will be completed.

Contractors obtain surety bonds from surety companies or agents representing surety companies. Most public construction contracts and many private contracts require surety bonds, so if you're a construction or service contractor bidding on a project, you'll probably need a surety bond.

SBA guarantees bid, performance, and payment bonds issued by surety companies. This Federal guarantee encourages surety companies to bond small businesses that are having difficulty obtaining bonding on their own.

1.38 How to Research

We have discussed many of the financing options here. Still, a little bit of research will always help you.

You can find more alternative options for financing your business.

You should always pay due diligence to research about the lender's background and track record. This will help you choose the right financier for your business.

You can also use the SBA's loan and grants search tool to locate a suitable financing option and financier for your business; access it by clicking the link displayed on the screen.

1.39 Summary

That was a lot of information. Determining your financing needs will be your first step in looking for financing options for your business. In this course, you have learned how to:

- Determine the financing needs of your business
- Identify various financing options for your business
- Explain all available financing options and
- List the pros and cons of each of the financing options

1.40 Next Steps

Now what should you do? Follow these steps to find a suitable financing option for your business.

- Step 1 - Analyze the financial situation of your business. You have to do this to determine the financial needs of your business. You must arrive at the exact amount of financing that you need and the purpose for which you need it.
- Step 2 - Create a solid business plan. It is the business plan and its viability that the investors are going to look at when you approach them for financing.

- Step 3 - Evaluate the financing options that you learned in this course. Evaluate the pros and cons of each of the options and decide on the financing options that suit your business best. You can also use SBA's financing options search tool.
- Step 4 - Approach the investors. After you have decided on the financing option that best suits your business, you must approach the investors and negotiate with them to secure the investment.
- Step 5 - Step up your business. Once you have secured the financing, you can concentrate on using it best to expand your business. Enjoy the success of your profitable business.

1.41 Resources

SBA has a broad network of skilled counselors and business development specialists. Below is a short description of our resource partners:

- Small Business Development Centers (SBDCs) are associated with institutions of higher education - universities, colleges, and community colleges. More than 900 SBDCs offer no-cost, extensive, one-on-one, long-term professional business advising, low-cost training, and other specialized services such as procurement, manufacturing, and technology assistance, which are critical to small business growth.
- SCORE offers free, confidential small business advice from successful entrepreneurs. SCORE is a nationwide program and boasts more than 12,000 volunteers to give you guidance to grow your business.
- Women's Business Centers (WBCs) provide free management and technical assistance to help women and men start and grow small businesses. There are over 100 WBCs located throughout the U.S. and Puerto Rico.
- SBA's 84 District and Branch offices connect entrepreneurs to resources, products, and services that can help them start, manage, and grow their business. These offices are located in all 50 states, Puerto Rico, the U.S. Virgin Islands, and Guam.
- The SBA Learning Center is an online portal that hosts a variety of self-paced online training courses, quick videos, web chats, and more to help small business owners explore and learn about the many aspects of business ownership. Content is filtered by topic, so no matter what the stage of your business, or the kind of insight you need, you can quickly get answers.
- Find your local resource using our handy ZIP-code tool by visiting www.sba.gov/local-assitance.

1.42 Have a Question?

- Call SBA - 1-800 U ASK SBA (1-800 827-5722)
- E-mail SBA - answerdesk@sba.gov
- Locate a SCORE counselor, SBA district office near you, or an SBDC office near you at www.sba.gov/local-assistance
- To provide feedback, comments or suggestions for other SBA online content, please use the following email: learning@sba.gov

1.43 Certificate

Congratulations on completing this course. We hope it was helpful and provided a good working knowledge of financing options for your business. Click the certificate to receive a course completion confirmation from the U.S. Small Business Administration.

2. Recommendations

A.C.T. NOW!

The Article, Course and the Tools below are related to the course you just completed. They are provided to help you take action on your path to entrepreneurial success. You can also get in-person assistance for all of your business needs through a local resource center. And if you liked the course, please help spread the word by sharing it with your friends!

Read an SBA Article.

If you're planning to start a business or expand an existing business, the *SBA Loans* article might help. SBA participates in a number of loan programs designed for business owners who may have trouble qualifying for a traditional bank loan.

LINK: http://1.usa.gov/1hOke4R

Take Another Course.

The *How To Write A Business Plan* Online course explains the importance of business planning, defines and describes the components of a business plan, and provides access to sample plans and resources to help you develop your own business plan.

LINK: http://1.usa.gov/1hYCURr

Try a Tool.

There are two tools you can try out; the Access Financing Tool and the SBA Loan Lender Search Tool. Click the link to open the tools in a new window.

- Accessing Financing LINK: http://1.usa.gov/1gwGiF9
- SBA Loan Lender Search LINK: http://1.usa.gov/1iiPg9L

Find local assistance!

SBA has a broad network of skilled counselors and business development specialists.

LINK: http://1.usa.gov/1kihdhJ