

Financing Your Home Business

By Elena Fawkner

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A Home-Based Business Online <http://www.ahbbo.com>

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So, you have a great idea for a business and, more importantly, the know-how to bring it into creation. The only thing you're missing is the cold hard cash to get started. What are your options?

Assuming you don't have a ready line of credit, an expansive bank manager, wealthy relatives or a substantial stash of retirement savings you're willing to risk, you're going to have to do some serious homework and legwork. Fortunately, there are a number of sources of finance for the fledgling small business entrepreneur, at least one of which may be right for you.

SBA LOANS

Available only to U.S.-based businesses (but look for similar programs in your own country if you're outside the U.S.), the SBA (the U.S. Small Business Administration) has assisted thousands of entrepreneurs start their own small businesses. The SBA doesn't issue grants (money you don't have to pay back) or make loans directly, rather, it guarantees loans made by private lenders thereby reducing or eliminating the risk inherent in new business ventures and making lenders more willing to lend.

The primary consideration for the SBA is repayment ability from the cashflow of the business as well as "good character, management capability, collateral and owner's equity". You will be expected to personally guarantee your loan. This means your personal assets are at risk.

As for the types of businesses eligible for SBA loans, the SBA imposes the following criteria: the business must be "for-profit" (all

that means is that your business has a profit motive, not that it has actually generated a profit yet), be engaged in business in the United States, there must be "reasonable" owner equity (what's reasonable will depend on the circumstances) and you are expected to use alternative financial resources first, including your own assets where practicable.

The SBA also imposes limitations on the use of loan proceeds. For example, although the proceeds can be used for most business purposes (the examples given by the SBA include "the purchase of real estate to house the business operations; construction, renovation or leasehold improvements; acquisition of furniture, fixtures, machinery and equipment; purchase of inventory; and working capital"), you can't use the loan proceeds for financing floor plan needs, to pay existing debt, to make payments to the business owners or to pay delinquent taxes etc.

As a general rule, loans for working capital must be repaid within seven years and loans for fixed assets must be paid for by the end of the economic life of the assets (but not to exceed 25 years).

Interest rates are negotiated between the borrower and the lender but the SBA imposes maxima which are pegged to the Prime Rate.

Finally, the SBA charges lenders a guaranty and servicing fee for each loan approved, and there is nothing preventing the lender oncharging these fees to the borrower. The guaranty fee for a loan of \$150,000 or less is 2% of the guaranteed amount; over \$150,000 but below \$700,000, it's 3% and above \$700,000 it's 3.5%. The annual servicing fee is 0.5% which is calculated on the then-current loan balance.

Where the borrower meets the SBA's credit and eligibility requirements, it will guarantee up to 85% of loans \$150,000 and less and up to 75% of loans above that amount (up to a maximum of \$1,000,000).

For more information about the various SBA loan programs, visit the SBA website at <http://www.sba.gov> .

PRIVATE GRANTS

At present, there are no U.S. government grants offered for small business. If you're outside the U.S. check with your own government about the availability of small business grants. You never know!

Various corporate grantmakers make grants available for small business though. For more information, visit <http://www.fdncenter.org/funders/grantmaker/index.html> .

ANGEL INVESTORS

Angel investors are good souls with a healthy sense of self-interest. Figuring they can get a higher return if they're prepared to take a bit of a risk, they're also often successful entrepreneurs themselves and want to give their fellow travellers a hand up.

Think of funding from an angel investor as a bridge or gap-filler between being a start-up and qualifying for venture capital. The kinds of dollars we're talking about here are between about \$150,000 and \$1.5 million. Beyond that point you're in low venture-capital territory.

The SBA estimates that there are around 250,000 angels in the U.S., funding about 30,000 companies a year. So, how do you hook up with one? Not an easy task, unfortunately. It comes down to networking. Start by talking to professional and business associates - they will often know someone who knows someone etc.. Also, check out ACE-net if you're prepared to sell a security interest in your company. It's an internet-based listing service for securities offerings of small, growing companies. The website is at <https://acenet.sr.unh.edu/pub/> .

VENTURE CAPITAL

You're in the big leagues now. Generally you're in the ballpark of millions (of dollars that is) rather than thousands. Venture capital firms look for their return on investment from capital appreciation rather than interest (unlike banks, for example). They're generally looking for a return of 500-1,000% on exit.

It won't surprise you to learn that venture capitalists are particularly leery of internet-based businesses right about now and not surprising. It also serves them right. But if you have a solid business plan and strong growth potential, this could be an option for you longer term.

One of the common concerns about this form of financing, however, is that you may have to part with an unacceptable amount of control over your own business. In return for their risk, venture capital firms will usually want some control over how the business is run and a say in business decisions. A venture capitalist will expect a seat on the board, for example.

It's important to remember, though, that it's in the venture capitalist's best interests for your business to succeed, so giving up some control in exchange for outside expertise may well be something worth thinking about.

To find venture capitalists, get a hold of "Pratt's Guide to Venture Capital Sources" for a listing of 1,500 or so including names,

contact details and areas of interest. Of course, you'll find no shortage of information online as well.

For most readers of this article, your best bet would be to start out by investigating the various loan programs offered via the SBA (or your country's local equivalent). But don't overlook more obvious, close to home sources first. If you have family funds at your disposal (for example) and you're confident that your business will succeed (and unless you're confident about that, don't get into debt with *anyone*, let alone family members), better to start out slow and ease into outside sources of financing as your business (and, more importantly, your business's cashflow) can support it. After all, Uncle Jack is much more likely to be understanding about the occasional cashflow crunch than Uncle Sam.

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