

## Options for Business Financing

© Ray Brun, MBA, CPA, SPHR, (Sr.Prof.HR Mgr.)

Facilitator and Owner of The Alternative Board East Bay North chapter, [www.TABeastbaynorth.com](http://www.TABeastbaynorth.com)

Author of [How Small Businesses Capture Talent](#), *164 Strategies for Recruiting and Hiring Winners*

Financing is a critical element of starting or expanding a business. Many businesses tend to first think of their business banker for funding; however, there is a plethora of financing options available to small and medium-sized businesses. The solution to winning the business financing game is finding and selecting the option best suited for your individual business—something achieved through research and knowledge.

Going to the bank and taking out a loan is still always an option. However, if you are in the early stages of starting or expanding your business, you might not have enough equity to obtain the most beneficial and profitable terms. Lack of capital and equity may affect your financing dramatically—you might incur higher interest rates or even be turned down by the institution.

For most U.S. small businesses, a Small Business Administration (SBA) loan is the most advantageous financing available. For the most part, SBA loans offer lower down-payments and longer re-payment terms than many other financing options. They are available for small businesses that might not be qualified for business loans through traditional lending channels. SBA eligibility requirements, available funds and SBA-backing amounts vary from loan program to loan program, but those terms are designed to accommodate a diverse number of small business financing needs.

In addition to the numerous special purpose loans, the primary and most versatile loan program offered through the SBA is the 7a loan. Delivered through commercial lending sources, the 7a Loan Program<sup>1</sup> can be utilized for most general business purposes. There are multiple versions of the 7a loan that are designed for more targeted business needs.

The 504 Loan Program<sup>2</sup> is a variation of the 7a available for small businesses to acquire real estate, machinery or equipment for expansion or modernization. This program provides long-term, fixed-rate financing through Certified Development Companies (CDC)— private, nonprofit corporations established to contribute to the economic development of their communities or regions. Another version of the 7a is the Microloan or 7(m) Loan Program<sup>3</sup>. Primarily to provide short-term loans for up to \$35,000, the 7(m) loan is intended for working capital or the purchase of inventory, supplies, furniture, fixtures, machinery and/or equipment—proceeds cannot be used to pay existing debts or to purchase real estate. The funding is delivered through nonprofit organizations with experience in lending and technical assistance.

If the SBA is not a resource you are interested in exploring, angel investors can be a viable option for acquiring start-up or expansion capital. Angel investors are individuals with some degree of financial net worth who are prepared to fund entrepreneurial businesses showing the potential for high growth. However, with angel investors you may be giving up some control of

your company. Angel investors are commonly regarded as a type of “silent partner.” Even though they are not directly running the company, they did invest in it—which can mean they may want to reserve the right to have some say in business decisions.

Angel investors generally do not actively solicit these investment opportunities. Should you decide to pursue an angel investor to finance your business, start by articulating that within your own networks. Clearly identify the investment figure you are looking for, as well as the type of involvement you want your angel investor to have in the business. Interacting with business professionals (including business bankers, CPAs, attorneys, business brokers, venture capitalist groups), industry associations, university entrepreneur programs and even web-based investment registries can give you a great start to locating an investor that is right for you.

If you are looking for an alternative to obtaining your business financing from a “stranger”, you might also consider borrowing from your family or friends. By taking a loan from someone you know personally, you will most likely not have to provide the qualifications mandatory with other loan sources. It is also feasible that you may have more leeway in working out pay-back terms and timeframes. On the other hand, it is a very individual and personal decision to involve friends or family in business affairs. Be sure that you are 100% comfortable with mixing business into your existing relationship before any actions are taken.

Bottom line—the bank is not your only resource for obtaining business capital; there are various entities willing to invest. You must be willing and dedicated to doing thorough research and planning to achieve maximum results. Securing the best financing option for your vision is not only instrumental, but crucial to the overall success of your business.

<http://www.sba.gov/financing/sbaloan/7a.html>

<http://www.sba.gov/financing/sbaloan/cdc504.html>

<http://www.sba.gov/financing/sbaloan/microloans.html>