Tennessee State University

Cooperative Extension Program

An Outreach Education Program Serving Limited Resource Individuals, Small Farmers, Families, and Communities

How to Find and Secure Business Financing

Alvin Wade, Associate Professor

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.

Finding the Money You Need

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 business 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 out in a 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.

Borrowing Money

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, account-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.

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10 Fatal Business Planning Assumptions

Here are 10 dangerous assumptions often made by entrepreneurs. Knowing them may help you avoid some common – and dangerous – mistakes.

- We have no competition.
- All we need is two percent of the market.
- Our product will sell itself.
- My financial projections are realistic.
- I can manage the business myself.
- We can save money if we do it ourselves.
- Our patents will protect our business.
- Weakness won't matter later on.
- We can easily make enough sales to make a profit.
- We'll have plenty of cash available if the income statement shows a profit at the end of the year.

This *Community Resource Development* Fact Sheet is part of a series prepared by the Cooperative Extension Program at Tennessee State University.

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