



## ***America's Newspapers & World News -- Newsroom Edition***

### **The Small Business Professor: Alternate sources of financing for small businesses**

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Dear Professor Bruce:

I want to expand my dry cleaning business, but my bank won't lend me money and I don't want to use high-interest-rate credit cards. What other options do I have?

Answer:

Eighty percent of all small business owners take out credit to establish or run their business, according to a recent survey by the Small Business Administration. However, it's still difficult for many to get credit. As Mark Twain noted, "A banker is a fellow who lends you his umbrella when the sun is shining, but wants it back the minute it begins to rain."

But there are some commonly overlooked sources of financing, according to financial security expert Pamela Yellen, author of "Bank On Yourself: The Life-Changing Secret to Growing and Protecting Your Financial Future:"

-- Credit unions are making more business loans, while banks are making fewer -- and credit unions may even offer better terms.

-- Microfinance groups make loans from a few thousand dollars up to the low five-figure range. Often provided by non-profits, the rates tend to be cheap. You have a better chance with a local micro-lender.

-- For businesses in need of capital that have a lot of their cash flow tied up in accounts receivable, "receivable factoring" may be the way to go. You sell your accounts receivable (invoices) to a third party (called a "factor") at a discount for immediate cash.

-- Policy loans from any cash value life insurance policies you own typically come with below-market interest rates.

Yellen also says there is a way to fire your banker and credit card companies and become your own source of financing, and many famous companies got their start using this method. She offers these tips:

Although it may appear that paying cash for business expenses beats financing or leasing things, that ignores an important principle of economics: You finance everything you buy. That's because you either pay interest to use someone else's money, or you lose the interest or investment income you could have earned, if you had kept your money invested.

Some small businesses survived the financial crisis by using specially designed dividend-paying whole life insurance policies to become their own source of financing. When they need access to capital, they have to answer only one question: How much do you want? No prying applications to fill out, and you can pay yourself back on your own schedule, not someone else's. The interest you pay ends up back in your policy, and some policies let you earn interest even on money you borrowed.

For more information, visit [www.BankOnYourself.com](http://www.BankOnYourself.com).

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(Bruce Freeman, The Small Business Professor, is president of ProLine Communications, a marketing and public relations firm in Livingston, NJ and author of "Birthing the Elephant" (Ten Speed Press). E-mail questions to Bruce(at)SmallBusinessProf.com.).

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