Obtaining Small Business Financing

One of the most often asked questions that SCORE Mentors get from their small business clients relates to how can I get financing for my business. Many folks have the mistaken idea that there is a lot of “free money” out there somewhere. Generally that is never the case and we need to start to discuss various alternatives for finding the financing for their business. Most startup businesses will need to raise capital through various sources of loans. Although I have written about this several years ago, I will cover a few basics about this topic because it continues to be a hot topic.

The typical requirements to obtain a bank loan generally include:

- Credit Score of 700 or above.
- Cash flow sufficient to make loan payments from day “1”.
- Collateral sufficient to cover entire loan.
- Obtaining a loan for 100% of capital needs is usually not possible. Lenders usually required borrowers to have some personal or other source of cash to cover at least 25% or more of the total need.
- Loans usually must be for business equipment, inventories and operating expenses. Loans to cover loss of income are not available.

Many small start-ups and existing businesses may be unable to meet the above bank requirements in light of today’s credit crunch. So some alternative sources to obtain financing could include community based lenders – Non-profit, independently financed, private or public organizations, which often make loans to small businesses or entrepreneurs who do not qualify for traditional commercial bank loans. These loans are often called “Character Loans” or special initiative funds because they do not require strict credit, cash flow or collateral requirements.

I always recommend that a startup business should have the following to obtain a loan from one of the above lenders:

- Counseling and a referral from SCORE is very beneficial.
- A business plan.
- The business must be located in or near your local community

Here are some other Ideas to help you get financing

1. Stick close to home. Using some of your own savings; gifts or loans from family, relatives, friends or business associates. Personal or business credit cards can also be used but make sure you understand the interest cost of this type of financing.
2. Consider looking for a partner with money. This is one of the most overlooked sources of money. Many small businesses resist this approach because they want to own 100% of the business. However, it is better to own 50% of a growing successful business than 100% of a business that never gets started.

3. Funding sources can come from
   - A supplier
   - A partner
   - A venture capitalist
   - A private equity dealer
   - A private offering
   - A private investor
   - An “Angel” investor

4. Finding a guarantor or co-borrower for obtaining a loan. This works well when a family member or close friend is reluctant to give you cash up front but they think you have a good idea for a business and a good chance to succeed. They may be willing to either guarantee a loan or co-sign for a loan.

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