Looking For Funding for Your Small Business?

Starting a small business or growing it takes time, hard work, and money. Depending on your type of business and your present financial situation, you may find you need to reach to outside sources for funding.

I wrote a series of columns in the past about this topic. But, this week I talked to three new SCORE clients, all of which wanted help finding grants or free money. So, I will address part of this topic by repeating what I told them. There is little to no chance of finding free money or grants these days so you need to think about other sources (yes there are some organizations and foundations that target very specific markets and types of businesses but in general your chance of getting one of these is very low).

Unless you have personal or family assets available, you will likely need to think about seeking a loan. But before you do that, it is important that you have an understanding of what a lender wants to know before you apply. This can be a good way to prepare for the questions he or she will ask. With so many lending options available today, the particular documents or the specific information you may need to gather can vary from lender to lender, but there are three very important questions you should be prepared to answer. And, they are questions you should answer for yourself first:

1. **Can I repay a loan?** Lenders may not ask it exactly this way, but that’s why they ask about your time in business, your annual revenues, your profits, or your cash flow. They’re trying to determine if you have the means to make regular payments. This is why it’s so difficult for early-stage businesses that aren’t generating regular income or revenues to qualify for a loan. No revenue or no cash flow usually means no loan.

2. **Will I repay the loan?** This is a different question than the first and is why many lenders look at your business credit profile as well as your personal credit score when they evaluate your business’s creditworthiness. Lenders try to predict, based upon your track record with other creditors, whether or not your business *will* make the periodic payments. That’s another reason startups and other early-stage companies sometimes struggle borrowing capital. Because they have a very short track record (or maybe none at all), it’s hard for lenders to judge whether or not they will make those payments. That’s why it’s so important to start establishing your business credit profile in the earliest stages of your business.
3. **Do I have a backup plan?** This is an important question. Because many business owners plan to use borrowed capital to fund projects designed to increase revenue and profits, they anticipate an increase in revenues and the cash flow they’ll need to make their loan payments. This is a reasonable expectation. Lenders want to know that regardless of the outcome of the reason you are borrowing capital, you’ll be able to make the periodic payments—in other words, you have a contingency plan. Unlike an investor, a lender isn’t making a per se investment in your business. The loan is profitable for the lender if you make the periodic payments when they’re due. If you can demonstrate you can and will make those payments regardless of reasonable contingencies, you increase the odds of a successful loan application.

One resource you can turn to for assistance in obtaining a loan to start or grow your business is the United States Small Business Administration (SBA). While the SBA does not directly lend money to small businesses, it can facilitate loans with third party lenders. Various banks, credit unions, community development organizations, and microlending institutions throughout the U.S. partner with the SBA to provide funding to small businesses without access to other financing options with reasonable terms.

SBA sets specific guidelines for loans, which are made by its partners, and it guarantees that they’ll be repaid by the borrowers. This benefits small business owners by giving them access to much-needed funding, and it eliminates some of the risk to the lending partners.

To qualify for an SBA loan, your business must meet certain criteria regarding business size, financial standing, and others. You must also meet the credit qualifications of the lender.

Several advantages of SBA loans over conventional loans include: Lower down payments and Longer repayment terms

For example, two SBA loan programs that benefit many small businesses are:

**7(a) loan program:** These loans can be used for various purposes (such as satisfying short-term or long-term working capital needs; purchasing equipment, machinery, and supplies; buying real estate; refinancing existing debt; and more).
**Microloan program**: This program provides loans up to $50,000 to help businesses with lower dollar financing needs. According to the SBA, the average microloan is approximately $13,000. You may not use microloans to pay existing debt, but you can use them for working capital and purchasing inventory, supplies, furniture, equipment, machinery, etc.

There are other SBA loan programs as well. For information about them, visit the SBA website’s Loan Programs page.

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