

Business Borrowing

Credits Cards and Equity Lines

The historical way to start a business was to put together a business plan and then go to the bank and seek a loan. This at least made the new business owner think seriously about the business. And then came credit cards. We became comfortable using them personally and they just kept giving us higher and higher limits. And we could get multiple cards. So today instead of having to put together a business plan to obtain money, we simply get a credit card and start the business. As soon as you register the business, you will probably get another offer for a business credit card. If this isn't enough to keep the business going, the next step is to open an equity line on your personal residence. All this time, you never had to justify to anyone that you had a business plan and could successfully run a business. It is ok to use these funds to start but do not take this easy route without challenging yourself to take the business serious and develop a success plan.

Bank Loans

If it is going to take a large amount of money to start your business, go to the bank and ask them for assistance. They make their money by lending to business people just like you. Every business to grow will eventually need to borrow money. Establish ties to a bank and take advantage of bank financing. They make several type loans. For startup companies you may need to buy inventory and equipment, make rent deposits, and need working capital. This type of bank loan is normally paid back similar to your home mortgage with a regular monthly payment over a period of five to seven years. If the bank does not feel comfortable making the loan, they may be able to assist you in obtaining a Small Business Administration (SBA) guarantee for their loan. In business you may have temporary cash needs when a customer does not pay on time or for some similar reason. The banks have lines of credit. You obtain an authorization to be able to use up to an agreed amount simply by asking for it. You need to pay the bank interest every month but not principal until the cash flow problem clears. The bank usually wants this type loan paid down to zero at least once a year. They can also make commercial real estate loans, accounts receivable financing, and other creative ways to meet your needs. If you need money to start or grow your business, I strongly suggest your first stop be your own bank.

Equipment Leasing

Another source of startup funding is to look at your vehicle and equipment needs separate from your inventory and working capital needs. The equipment and vehicle dealers want to sell their products and will find a way to finance it for you.

Other Sources

If you have a unique patent or product, you may be able to find venture capital. However, venture capital is more interested in a company who is already successful but needs a large infusion of capital to take it to the next level. There are special state and federal funds for specific type businesses and type owners. Again, most start-ups will not meet the criteria.

For more resources visit www.rjclark.com.

Your First Critical Year In Business

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