

BUSINESS FINANCING - FINDING THE RIGHT RESOURCES TO GET YOUR BUSINESS UP AND RUNNING

Obtaining capital to start or grow a business venture is one of the most common reasons why clients come to see us at the Small Business Development Center (SBDC).

The key to the success of starting your business, as well as expanding it, is your ability to obtain and secure adequate financing. Of all business activities, raising capital or financing is fundamental. Many entrepreneurs quickly discover that raising capital is not easy to do, it can be a complex and frustrating process. However, if you are informed and have planned effectively, raising the necessary funds for your business will not be an unpleasant experience. We want to share ways small businesses can raise funds and how to prepare a loan proposal or business plan.

FIND THE MONEY YOU NEED

There are several options that should be considered. It is important to explore all options;

- **Personal savings:** The primary source of capital for most new businesses comes from savings and other forms of personal resources. Such as retirement or their own equity. Saves you from credit cards high interest rates.
- **Friends and Relatives:** Many entrepreneurs turn to private sources, such as friends and family. Often, money is loaned interest-free or at a low interest rate.
- **Personal credit cards:** Are often used to finance business needs, some may use personal lines of credit, going this route could provide benefits such as rewards and even impacting your credit score.
- **Banks and Credit Unions:** The most common sources for obtaining funds come from banks and credit unions, as they can offer a loan if you demonstrate that your business proposal is valid.
- **Venture Capital Companies:** These companies provide help to businesses that are expanding and growing, in exchange for patrimony or their participation in property rights.

TYPES OF BUSINESS LOANS

Loan conditions vary from bank to bank; There are two types of basic loans; short term and long term. Generally, a short-term loan has a maturity of up to one year. This includes working capital loans, accounts payable, and lines of credit.

Long-term loans have maturities of more than one year. This can be anywhere from two years to five years, ten years, or even thirty years. Real estate and equipment loans have a maturity of up to twenty-five years and equipment and working capital ten years. Long-term loans are used for important business expenses such as the purchase of real estate, construction, long-term machinery and equipment, existing facilities improvements like parking lots streets, utilities.

For additional information visit the link www.sba.gov/funding-programs; Microloans, 7(a)loans, 504 loans, lender match, Covid 19 relief options.

HOW TO WRITE A LOAN APPLICATION OR BUSINESS PLAN

Approval of your application depends on “how you sell your business”, we like to call it “your business resume” or what your business plan looks like, your financial needs to the lender. Remember, banks are looking to approve loans, although they will only approve those that are not at high risk of not being

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repaid. The best way to improve your chances of obtaining a loan is to prepare a business plan. SBDC offers tools that can assist you with the lending process.

The application process varies, normally, it contains the following main elements:

General Information

- The name of the company, the names of the owners, the social security numbers of each of them and the address of the business.
- The purpose of the loan – the exact use of the funds and why they are needed.
- The quantity required – Exact amount you need to achieve your purpose.

Business Description

- The history and type of business – details of the type of business, its identity, number of employees and current assets.
- The ownership structure – details of the legal structure of the company.

Management Profile

- Develop a brief report for each of your company's directors; Include your background, education, experience, skills and achievements.

Market Information

- Clearly define both your company's products and your market.
- Identify your competitors and explain how your company competes in the market.
- Present a profile of your customers and explain how your company can meet their needs.

Financial information

- Financial statements – If already in business, financial statements for the last three years. If you are starting out, provide statements of projected income for three years.
- Your personal financials from all owners/investors of the business.
- Collateral assets that you would be willing to grant to guarantee payment of the loan.

How your loan application will be evaluated

When evaluating a loan application, the lending institution is primarily concerned with the ability to repay the loan. "Business Financing" *The Small Business Resource magazine*, stated; Lenders judge loan applications by following the five Cs of credit.

- 1.- Character; credit history. Lenders want to know if you pay your debts on time.
- 2.- Cash Flow; Lenders will look at your past and projected cash flow statements to determine if you could repay the loan and still have enough money to run the business.
- 3.- Collateral; Lenders can demand a type of asset (car, home, equipment) to pay a loan if it is not paid within the agreed terms.

4.-Capitalizations; It refers to the basic resources of the company including the owner's dividends, retained earnings and fixed assets. Borrowers level of seriousness.

5.- Conditions; Factors that affect the success of the company but are external to it will also be considered.

There are many financial program options depending on the needs of your business. The Small Business Development Counseling Center can provide you with personalized guidance to assist you with this process, visit us for a No-cost session! Register here; <https://awc.azsbdc.program>

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