

Funding Sources to Start Your Small Business

A Beginner's Guide



BY DELL GINES

This guide will give you a high-level overview of various forms of credit and capital to help get your smallbusiness started. I excluded traditional investments in the guide because investors usually only invest in companies that are worth at least a million dollars or more or have the potential to reach that amount within the first or second year. My focus is on smaller businesses. Use this guide as entry level education to help you understand the basics of the types of funds that may be available to you.

Friends, Family, and Fools

Friends, family, and fools also known as the three F's of entrepreneurship start-up money. Most entrepreneurs may not realize it but the majority of all businesses are funded by one of these sources. It is estimated that friends, family, and fools provide \$23,000 to the average start-up they support. This is an estimated amount and will change based upon your network. However, your friends, family, and fools maybe one of the simplest ways to acquire funds to get your business off the ground.

Benefits

- Numerous times when getting money from these sources you may not have to pay it back because it may have been a gift.
- Often you will get quite flexible repayment terms unlike other types of credit or capital start-up money.
- In many cases, even if you do have to pay the money back the person providing the money is not expecting a large rate of return or is not charging high interest rates.
- Unlike other forms of investment or loans friends, family, and fools often don't require all the paperwork, business plans, and credit reports.

Risks

- It could cause a large strain on family relationships and friendships even if you have a written agreement in place.
- If you were getting the money from your family and friends and your business fails, you may be losing their money which might cause them personal financial problems.

- If they gave it to you in the form of a loan it won't be reported to the credit report so it has no ability to build your credit for future loans.

Three Top Tips

1. Make sure everyone is in agreement about the risk, the rewards, and the repayment process.
2. Whenever possible, write out the terms of the investment or the loan as clear as possible and have each party sign.
3. Keep in constant communication with your family, friends, and other investors or lenders so that they don't feel you hustled them and they know if any trouble arose.

Additional Articles

[8 Best Practices to Seek Funding From Friends, Family and Fools](#)

[Early-Stage Start-ups Need Friends, Family, and Fools](#)

[Avoiding the pitfalls of raising money from friends and family](#)



Credit Cards

Your credit card can provide a much-needed source of start-up money if you were having trouble getting other forms of credit or investments. Using a credit card to pay start-up expenses is one way to get start-up funds for your side business, because virtually anyone can get a credit card even with bad credit. I usually only recommend using credit cards as an absolute last resort after you have tried and failed at getting other kinds of start-up money.

Benefits

- Almost anyone can get a credit card even if they have declared bankruptcy.
- They are one of the easier ways to get start-up money, you just may have to do a little searching to find one (or more) that will give you the amount you need.
- They require way fewer hoops to jump through to get the amount you need. Once you use them and pay them off you still have access to them in case you need them at a future date.
- They don't require you to have collateral to get credit.

Risks

- They are quite expensive form of credit often with high interest rates. Also, if you have poor credit very high annual fees.
- You may have to apply and get more than one credit card to get the amount of start up money that you need.
- You can damage your personal credit just by applying for multiple cards. The damage becomes worse if you fail to pay back the amount you owed back on time.
- Often times, the monthly repayment is quite high, making you pay back more of your business profits to your monthly payment than other sources of start-up money.

Three Top Tips

1. Make sure there are no other ways to get money for your start-up before you use credit cards.
2. If you have good enough credit rate shop for good plans. Look for credit cards that will provide you the largest line of credit with the lowest interest rates.
3. Look for credit card offers that don't charge you interest for a period of time. Often you can find an offer that charges no interest rate for the first six months if you have good enough credit.

Additional Reading

[The Basics of Using Credit Cards to Fund Your New Business](#)

[The Pros and Cons of Financing a Start-up with Credit](#)

[How To Get A Credit Card When Starting a Business](#)

Bank Loans

Most business owners think of bank loans as the first source of start-up capital for their business. As many of them soon find out, it's not that easy. Banks don't like to lend to start ups. When they lend to existing businesses they often are very conservative and demanding. This is not all bad because usually if you can qualify for a bank loan then the bank believes you have a strong business or you have a strong business plan. This is a positive in your favor. Also, banks tend to give some of the most favorable rates to lenders that we have discussed so far. Other products and services may help your business grow. In addition, if it's a good business, a banker may also give you advice on how to grow your business. Another benefit of banks is that they have a wide variety of loans by types and sizes. Other lenders on this guide may only have one product such as a Term Loan and not have lines of credit or other types of products that may be a better fit your business. It is always worth while to have a conversation with a business banker if you are serious about getting a bank loan before going to another direction.

Benefits

- Banks usually have better rates than alternative lenders and micro loans.
- Banks also can offer you other products and services in addition to the loan. These products could help you grow your business.
- If a bank lends you money, you usually have a strong business or a strong business plan. This lets you know that you could probably shop around to other banks and possibly get a lower rate.

Risks

- Banks are conservative, making it difficult to get a start-up loan so you could waste a lot of time going through their application process only to get rejected.
- Depending on the size of the loan, they may take a bunch of collateral from you and restrict you from using it for other purposes or from selling it if you need to.
- Banks typically do not lend small dollar amounts, so if you have a loan under \$75,000 you may have a more difficult getting it through a bank or they may charge you a higher interest rate.

Three Top Tips

1. While all banks are conservative, some banks have specializations in lending to certain types of businesses. If you can find a bank that does more loans in your type of business you will probably have better results than the average bank.
2. Work to build a relationship with the banker and find a banker that has been there for a while and can help walk you through the process before you ever fill out an application. This will save you time and trouble.
3. Make sure you do your homework in advance. Look on line or call ahead and ask what a business banker or business loan application requires prior to going to the bank.

Additional Reading

[How to Get a Loan for the First Time](#)

[First Time Business Loan - 9 Things You Need to Know Before Applying](#)

[Five Things to Know Before Applying for Your First Business Loan](#)

Micro Loans

Micro loans are one of the best kept secrets when it comes to getting start-up money for your small business. A microloan is usually a loan provided by a nonprofit organization for less than \$50,000 to two individuals that cannot get credit from banks or other sources. Most major cities have organizations that do micro lending and usually have micro lenders that serve a state. If you do not know of a micro lender in your city, simply use Google and if there is one it will often show up.

Benefits

- Micro loans are often a low-cost form of getting money to start your business because they have low interest rates and often can term out the loan four, five, and even six years which results in your monthly payment to be lower.
- They usually come with some form of technical assistance to help you understand the strengths and weaknesses of your business and business plan.
- If your business is struggling, they have more flexibility to help you skip a payment or refinance than other forms of start-up money.
- They can work with you if you have a credit score that banks will not touch.

Risks

- It can often take a long time, like a month or more, from the time you apply to the time you get your funding.
- They often are more intrusive in your business and require you to jump through hoops such as writing a business plan, agreeing to regular consulting, and they do more regular reviews of your business.
- They may not provide you with the total amount of money that you think you need to start your business based upon their lending limits.

Three Top Tips

1. Do your homework. Many micro lenders have specific requirements to business owners that want to apply. Make sure you understand the application process and the requirements present.
2. Look at the micro lenders' lending limits.
3. Understand what other obligations you will have to make to the micro lender.



Alternative Business Loans



One of the fastest forms of business lending in America is what is called alternative business lending. Alternative lending companies were created with the specific purpose of lending dollars to small businesses that banks won't lend too. They do this by finding investors who put money into pools of investments and then they lend to business owners from that pool. This allows them to lend to businesses that banks normally cannot lend to either because of credit score or other application weakness. It also means that they often charge higher rates for the loan because they are trying to give a return on investment to the investors. Business borrows need to be very careful with using these type of loans though. While they can be beneficial, oftentimes they come with a high price.

Benefits

- They often can give you a very fast loan decision with receiving only a little of your information.

- Many of these lenders can be an option for you after a bank has already turned you down.
- Most of them use a different kind of credit analysis, so if you have a bad credit score it does not necessarily mean you will not get a loan.

Risks

- Oftentimes the interest rate for the loan is higher than other forms of loans and sometimes can be almost at predatory lending rates.
- They often have shorter terms which raises the amount you pay back monthly.
- Many of these loans have things hidden in the fine print that you have to be careful of such as large rate increases for late or missed payments.

Three top tips

1. Do your homework. Research the company, look at the reviews online, and look at the types of loans that they lend and their general rates.
2. Make sure you read the fine print so that you are aware of all of the terms and agreements that they will make you sign prior to giving you the loan.
3. Start with the most reputable companies and then work your way down to least known companies if you cannot get access to capital from the top companies.

Additional Reading

[Alternative Small Business Loans Reviews](#)

[The Alternative Lending 25: Small Business Edition](#)

[The Best Websites to Get a Small Business Loan](#)

Crowd Funding

Crowdfunding is a relatively new form of funding for small business owners. In crowdfunding you use the online website designed for that purpose and you set a goal of how much you want to raise for your small business. Usually you end up giving out a gift or future product to the individuals that support the business you are trying to start. Most crowd funding websites require you to reach your fundraising goal prior to releasing the money to you. If you do not hit that goal in a certain period of time, you do not get the money that was pledged to you, it goes back to the donors. Campaign goals usually consist of a money and a time goal. For example, you may create a campaign that has as a goal of raising a \$1,000 and with a time limit of 30 days. If you do not raise that money in 30 days, the individuals who pledged to support you get their money returned. Crowdfunding is a great way to raise money to start without having to take out a loan or give up ownership to investors in your business.

Benefits

- It is a way to get free or relatively cheap money to start your business.
- It helps you build the brand and helps market the business before you even start because you are pushing the campaign out to your friends and other people in the public.
- It helps you determine your proof of concept to see if your business idea will really work prior to ever opening up your doors.

Risks

- You may not make your goal in the time set out to make it. This means you will forfeit the money and either have to start over or find another funding source.
- Individuals may perceive that you were begging for money instead of going the traditional route of borrowing or asking for investors. This may damage your brand image.
- It is difficult for many start-up companies to raise all the amount of money they will need to start through crowdfunding. This means you will also have to work on finding other sources of funding while you are doing your crowdfunding campaign.

Three Top Tips

1. Research thoroughly the online crowdfunding website that you will use. Check for the rules, regulations, fees, and process. Many of these have differences, so choose the right one for you.
2. Prepare a marketing strategy specifically for your crowdfunding goal. Remember, most sites require you to raise the amount of money in your goal by a certain type or time. This means you need to have a good marketing strategy ready as soon as you launch your crowdfunding campaign.
3. If you are planning free giveaways for your crowdfunding campaign, make sure that it is something that individuals that are funding value. Also, make sure your gift to funders is not so expensive that it takes a significant portion of the money that you raised in your crowdfunding campaign to pay for your giveaways.

Additional Reading

[The Basics of Crowdfunding](#)

[Before You Launch Your Crowdfunding Campaign Read This](#)

[Best Crowdfunding Sites](#)

Equity Crowd Funding



I am not going to cover equity-based crowdfunding like I have covered all the other topics because it is quite new and it is still developing. Equity based crowdfunding is exciting though and may benefit your business. Equity-based crowdfunding allows investors to fund your business in smaller amounts than traditional investments firms usually allow or want. Equity based crowdfunding allows you to raise funds across the nation or the globe. It is often easier than traditional investing and allows you to find financial supporters even in areas where you have never been. I put a few links below for you to read and review. As equity based crowdfunding grows more, better information on best practices will come out.

Additional Reading

[Equity Crowdfunding 101: Is It Right for Your Start-up?](#)

[Equity Crowdfunding](#)

[Top 10 Equity Crowdfunding Websites for Start-ups](#)

Conclusion

Working to get that first dollar from an investor or lender can be a challenge. Remember though, there are many options that were identified in this guide that you can pursue. Take some time, pick out your business funding strategy, and then work on it. Look through this guide and try to determine which kind of start-up funds will be the best for you and pursue it with a tenacity. Most of all, never ever give up. Even if you are having trouble finding funds in the beginning, if you really believe in your product or service that you are going to have in your business keep working on it because at some point money will come to support your vision and thus your business.