

# How to Raise Startup Capital

Raising capital is the most basic of all business activities, but it is often a complex and frustrating process. However, if you have studied and planned effectively, raising money for your business will go smoothly.

## Finding the Money You Need

There are several sources to consider when you're looking for financing and you should explore all of your options before making a decision.

- **Personal savings:** The primary source of capital for most new businesses comes from savings and other personal resources. While credit cards are often used to finance business needs, there are usually better options available, even for very small loans.
- **Friends and relatives:** Many entrepreneurs look to private sources such as friends and family when starting out in a business venture. Often, money is loaned interest-free or at a low rate, which can be beneficial when getting started.
- **Banks and credit unions:** This is the most common sources of funding. If you can show that your business proposal is sound, banks and credit unions generally will provide you with a loan.
- **Angel Investors and Venture Capital firms:** These individuals and firms help expanding companies grow in exchange for equity or partial ownership.

A source of venture capital is the SBA's Small Business Investment Company (SBIC) Program. SBICs, licensed and regulated by the SBA, are privately owned and managed investment firms that use their own capital, plus funds borrowed at favorable rates with an SBA guarantee, to make venture capital investments in small businesses.

## Additional Sources of Capital

- Credit Cards
- Customer Financing
- Employee Stock Ownership (ESOP)
- Factoring Accounts Receivables
- Home Equity Loans
- Mergers and Acquisitions
- Purchase Order Financing
- State-Specific Economic Development Programs (search your individual state)

- Strategic Partnering

## **Borrowing Money**

It is often said that small businesses face difficulty borrowing money, but this is not necessarily true. Banks make money by lending money. However, the inexperience of many small business owners in financial matters often prompts banks to deny loan requests. Requesting a loan when you are not properly prepared suggests to your lender that you are a high risk.

To successfully obtain a loan, you must be prepared and organized. You must know exactly how much money you need, why you need it, and how you will pay it back. You must be able to convince your lender that you are a good credit risk.

## **Types of Business Loans**

Terms of loans vary from lender to lender, but there are two basic types: short-term and long-term.

- Generally, a short-term loan has a maturity of up to one year. These include working capital loans, accounts receivable loans and lines of credit.
- Long-term loans have maturities greater than one year but usually less than seven years. Real estate and equipment loans may have maturities of up to 25 years. Long-term loans are used for major business expenses such as purchasing real estate and facilities, construction, durable equipment, furniture and fixtures, vehicles, etc.

SBA loan programs are intended to encourage long-term small business financing, but actual loan maturities are based on the ability to repay, the purpose of the loan proceeds, and the useful life of the assets financed.

However, maximum loan maturities have been established: twenty-five years for real estate; up to ten years for equipment (depending on the useful life of the equipment); and generally up to seven years for working capital. Short-term loans are also available through the SBA to help small businesses meet their short term and cyclical working capital needs.