BORROWING MONEY FOR YOUR BUSINESS

Disclaimer: There are thousands of books and websites that provide a great depth of information about how to finance a business with loans. This document provides a quick introduction to debt financing and when it may, and may not, be appropriate for businesses as they start and grow. You should seek out professional financial advice before borrowing money for your business. Rely solely on the information here entirely at your own risk.

WHEN TO BORROW MONEY FOR YOUR BUSINESS

There are many good reasons not to borrow money to start a business.

- Businesses are supposed to make money. Many businesses can, and do, start in the black with very little money in the bank. You can often get customers who want your product or service, or resellers who want to sell it, to give you orders, or cash, before your doors are open.
- Businesses that depend on money they did not have to earn often spend too much money, and

spend money on the wrong things, because they aren't depending on market signals (customer demand, supplier pricing) to make business decisions.
- Loans have to be repaid. Failure to repay them can harm your personal credit, your business, credit, and your ability to own a business not just now, but going forward.

Having said all that, there are occasions when taking a loan makes sense.

- If you have taken orders for your company's products and services, and you can guarantee repayment of the loan almost immediately, a loan may be the fastest, and least expensive, way to get the money you need to fulfill your orders.
- If your company is already profitable, and you need money to scale your business swiftly, and you know that you very certain, based on past experience in this business, that you can swiftly repay the amount you are borrowing after expansion, getting a loan may help you grow at lower cost than accepting equity investment.

Before taking a loan, make sure you have considered grants, donations, crowdfunding, because money acquired through these mechanisms doesn't have to be repaid.

> **Important:** Remember that it is always wise to get a minimum of 1/3 to 1/2 payment, up front, for products or services you sell prior to delivery, and to ensure that when you deliver the negotiated products or services. Most startups are not in a position to offer credit in the form of a ten day, or thirty day, delay before they are paid. Following this rule is never more important than when you are using loans to fund your business. In your earliest days it is critical to minimize risks. When startups are out of money, they are almost always out of business.

WHAT'S AN EASY LOAN?

It has never been easier to borrow small quantities of money for personal or business use. Some types of easy to get loans include:

- **Fast Loans**
  PayPal and Amazon offer loans to businesses that have a track record of generating revenue through their platforms. In effect they offer a loan secured the value of your future transactions.

Alternatively, if you have a part time business, as well as a regular salary, you can get frequently get a loan within a matter of minutes by applying for a PayDay loan online. These loans are very easy to get, but they must also be repaid very quickly, and they have very high interest rates. They are

- **Vendor Credit Cards**
  Companies like Staples, and others who do a great deal of work with small businesses, often offer easy credit terms and easy to get credit cards. You can frequently apply for this credit online. The interest rates may be high, and the credit may be restricted to use in one store, but this form of credit works great when most of what you buy can be purchased in one place.

MORE CHALLENGING BUT LARGER LOANS

The following loans are harder to get because they require proof of income and often assets for use as security. That said, as your business grows and becomes more profitable, you'll have what you need to get them.

Financing your business through loans makes more financial sense than turning to investors for money if:

- You know for a fact you can repay the loan in every forseeable circumstance. If you have purchase orders in hand from reputable companies that will pay you far more than the loan amount, it makes sense to use those purchase orders to get a loan to fulfill the order.
- You know that your company has assets, including real estate, that can be used to secure a loan you know for a fact you can repay.
- You have your company set up so that loans you take for your business do not attach to your personal assets (including your house, or future wages). No matter how sure you are that you can repay a loan, things sometimes happen which put your business out of business. A corporation, or an LLC, that's been in business for years and which is correctly configured can borrow money in it's own name which will protect your personal assets in the unlikely event you can't repay a loan.

Larger loan sources include . . .

- **Invoice & Purchase Order Loans**
  If you have outstanding invoices with good companies, or have purchase orders from good companies, there are services that will help you connect to lenders who will accept those as

security. Those who make these loans are sometimes called factors, peer-to-peer lenders, or private lenders depending on how the deal is structured and how who the participants in the deal are.

- **Company Credit Cards**
  Banks and credit card companies like American Express frequently give loans to businesses. Whether those cards are personally secured by the business owner usually has to do with the business's credit rating and the length of time it has been operating
- **Bank Loans & Credit Lines**
  Banks give loans and revolving credit lines to businesses when they have assets to secure those loans. Assets may be real estate, equipment, or other resources which the bank believes it can quickly monetize if loan payments stop.