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How Do I Finance My Business?

Financing is one of the key elements to a successful startup or expansion of your business. Raising capital is one of the most basic business activities. It can be a complex and frustrating process; however, if you are informed and plan effectively, raising money for your business should not be a painful experience.

The most important tasks are to define **how much** money will be needed, determine **why** the money is needed, and assess **how the money will be paid back.** One should prepare a list of items to be acquired with the new funds and show how these items will generate cash for a business.

There are several ways to finance your operations or expansion. Most people assume that the only source of money is a bank, but there are other sources you should consider before going to a bank. For example, if you need money to finance your inventory, perhaps you can ask your vendors for a long-term loan. In this way you are financing without asking a financial institution.

The following is a summary of sources and ways for small businesses to raise money:

Personal Savings: This is the primary source of capital for new business. Credit cards are often used to finance business needs, even for very small loans, but there are often better options available.

Friends and Relatives: This is a source of funding that could be beneficial to help you get started. Often friends and relatives loan the money with a low (or zero) interest rate. Be specific on when the money will be returned to protect the lender's investment and to prevent losing this source for future needs.

Banks and Credit Unions: This is the most common source of funding if you can demonstrate that your proposal is workable. A solid business and marketing plan will go far to demonstrate a workable business proposal. Before you go to the bank you must be prepared, because unprepared loan requests are deemed high-risk loans. Such high risk will translate into a higher interest rate or denial of your loan. The best way to be prepared is to have a comprehensive loan proposal. Developing a comprehensive loan proposal will be discussed in a future issue of the *Business Development Journal.*

Financing and Capital for Small Businesses: The State of Texas Governor's Office of Small Business Assistance works closely with a variety of partners to facilitate small businesses accessing capital. Key funding sources may be found on their website: https://gov.texas.gov/business/page/financing-and-capital

Venture Capital Firms: These firms finance expansions with an exchange of equity or partial ownership. Formerly known as ACE-net (Angel Capital Electronic Network) now known as Active Capital, provides a wide variety of venture capital firms willing to participate in small business. http://activecapital.org/

Small Business Administration Loans: The SBA has a variety of financing options for small business, such as long-term loans for machinery and equipment, a general working capital loan, a revolving line of credit, or a micro-loan. One of the most common SBA loans is the 7(a) Loan Guarantee Program that provides loans to small business unable to secure financing on reasonable terms through normal lending channels.

For more details you can review the following web site, https://www.sba.gov/funding-programs/loans, or contact your local SBA office:

https://www.sba.gov/district/lower-rio-grande-valley This is the link for the SBA LOWER RIO GRANDE VALLEY DISTRICT OFFICE

https://www.sba.gov/district/west-texas SBA WEST TEXAS DISTRICT OFFICE

https://www.sba.gov/district/san-antonio SBA SAN ANTONIO TEXAS DISTRICT OFFICE

https://www.sba.gov/district/dallas-fort-worth SBA DALLAS FORT WORTH TEXAS DISTRICT OFFICE

https://www.sba.gov/district/el-paso SBA EL PASO TEXAS DISTRICT OFFICE

https://www.sba.gov/district/houston SBA HOUSTON TEXAS DISTRICT OFFICE

Other references for financing your business:

http://www.startupjournal.com/partners/kennedy.html This is a site where you can search for venture capital firms, however, it is not a free service.

http://www.startupjournal.com/financing/trends/20020123-mccall.html This is an article on how to start a business with little money.

http://www.inc.com This link provides other sources of financing such as angel investors, venture capital firms, SBA loans, private equity financing, bank loans, micro-loans, strategic partnership, customer and supplier partnership, and direct public offering.

https://brazosport.edu/business-community/sbdc/ Small Business Development Center (SBDC) Texas Gulf Coast Network, Brazosport College. The SBDC offers no-cost, one-on-one business advising services and low-cost workshops that help entrepreneurs start new businesses, grow their existing businesses, and boost productivity and profitability.

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