

## Startup - Getting Cash:

Where to find money and how to get loans, especially in this recession.

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Every business, whether a startup business or an established business, needs money. If your business runs out of money, things can get ugly pretty fast. Lenders want to be paid. Suppliers want to be paid. And what about employees? What about the IRS and SC Department of Revenue? Yes, everyone wants to be paid. Not only do they insist on being paid, but they also want to be paid with regularity.

The key is regularity. If you're running short, where and how can you obtain money?

**Grants:** Most grants go to state governments, counties or cities for infrastructure such as water, sewer, bridges, schools, roads, etc. Some grants are provided to other non-profits on a competitive-bid basis. For profit businesses rarely receive grants.

The Small Business Administration (SBA) is a federal agency. The SBA does not provide grants to start or expand a business. However, the SBA does provide loan guarantees in some circumstances for the lenders (banks), not the borrower (you). Should you default on a guaranteed loan, you would lose your investment and any collateral you pledged. The government and the bank would share the losses. The guarantee reduces the bank's exposure and creates a multiplier effect for lending activity.

**Loans:** Business loans may be provided for a variety of purposes, such as: startup capital, expansion, equipment purchases, working capital or inventory. The lender sets the parameters with which they are comfortable.

A lender's number one requirement is a reasonable credit score. In today's recession based market, lenders are being very careful and may require a score of 700, or more. Your credit report should not have any write-offs. An occasional late payment is okay. It happens to many of us. However, a history of late-payments is bad.

Lenders typically require their clients to have some skin in the game—meaning the business owner(s) must have some investment in the business, usually from 20% to 50% of a loan amount. The particular percentage depends on the risk that the lender associates with your type of business.

Also, lenders typically require collateral. That means full collateral to cover the amount being borrowed. Some lenders require a 20% collateral "cushion." The best collateral is land, buildings, stocks or equity in your home. As a last option, retirement accounts can be used as collateral. Remember, if it can be put in the back of a truck or has wheels, it isn't very good collateral.

If you are a plumber, don't try to be a carpenter. If you are a carpenter, don't try to be a plumber. What this means is "do what you know." Lenders aren't interested in funding a career change.

A lender will typically request three years of the federal income tax returns along with a thorough and comprehensive business plan.

**Bank Loans or Non Bank Loans:** There are lots of snakes and alligators in the lending world. Be careful to consider only reputable lenders. The bank you deal with should be your first consideration as a lender. Before signing anything, always read and understand what you are signing.

On a personal level, if your total of monthly payments (home, vehicles, credit cards) are more than 30% of your monthly income, you may be considered "high risk." The same is true if you have a low credit score, have write-offs on your credit report, or have used more than 50% of a credit card's limit.

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