

Finding Money for Your Business

Personal Sources

Personal sources of funds may include checking and savings accounts, personal loans, second mortgages, home equity profit sharing, or retirement accounts from former jobs, certificates of deposit, personal assets that can be sold, or credit card borrowing. While credit cards are sometimes used, this type of unsecured debt can be expensive and problematic for a new business. Often times, entrepreneurs do not include a plan on how they will pay back the money. Financial contributions from family, friends, and colleagues may result in a desire to have a voice in how your business is managed.

Types of Financing

Financing is typically categorized into two fundamental types: debt financing and equity financing.

Debt financing means borrowing money that is to be repaid over a period of time, usually with interest. Debt financing can be either short-term (full repayment due in less than one year) or long-term (repayment due over one year or more). The lender does not gain an ownership interest in your business and your obligations are limited to repaying the loan. Often the lender will require a security interest in assets of your business to help ensure repayment. In smaller businesses, personal guarantees are likely to be required on most debt instruments; commercial debt financing thereby becomes synonymous with personal debt financing. Debt financing is usually available only after a commitment or expenditure of equity financing from yourself and/or others.

Banks are the primary providers of formal loans. Most banks will make a personal loan to good customers with a good credit rating. Commercial banks, savings and loans, credit unions, and finance companies also provide funding. These institutions will require collateral, be concerned with your character and reputation, want to know about the cash flow of the business, and your willingness as the borrower to risk your own money.

Equity financing describes an exchange of money for a share of business ownership. This form of financing allows you to obtain funds from investors without incurring debt; in other words, without having to repay a specific amount of money at any particular time. The major disadvantage to equity financing is the dilution of your ownership interests and the possible loss of control that may accompany a sharing of ownership with additional investors. The equity holders or investors are the “owners” of the company and participate directly in the success or failure of the company to the extent of their investment. Types of early stage equity investing include angel investors, venture capital firms, and certified capital companies. More information is available in the Commerce publication, *Venture Financing: Raising Capital in Wisconsin*.