# Sources of Funds

**Where Will You Get the Money?**
At the end of the planning process, you should have a very good idea of how much money you will need to start and operate your business. If you are not independently wealthy, the next question is, "Where will I get the money?"

Studies show that roughly 80% of new small businesses are capitalized by their owners' savings, loans from families and friends, and loans using automobiles, homes or other assets as collateral. Some entrepreneurs have used credit cards to finance the early months of start-up, but that strategy has become very risky due to the fact fewer credit card companies are offering the low-interest incentives they once were to attract new customers and the high interest and penalties assessed if you fail to pay on time.

## Financing Basics

Financing a company's operation comes in either of two forms: **Debt** or **Equity**

- Review this Sources of Capital chart to get an overview of the advantages and disadvantages of the most common forms of capitalizing your business.

**Debt**

- 80% of start-ups get the money they need for start-up from gifts or loans from themselves, friends and family.
- A simple "fact of life" for getting a loan from the bank: The more you need the loan, the harder it will be to get approved.
- An established concern with a good record of operations usually has better access to available sources of capital than a new firm
- Generally, a new business owner will need to provide at least 25% of the required capital to qualify for outside assistance.
- Establishing and maintaining a good credit record is essential. By maintaining good credit, you will be better prepared for opportunities to invest and expand your business. Before you go to the bank, contact one of the three credit bureaus to get your credit report. (Free Credit Report). This will allow you to see yourself as lenders see you.
- Loans are classified based on their length of pay-back:
    - Short-term: Capital that is to be repaid in one year.
    - Intermediate: Capital which is to be repaid in one to five years.
    - Long-term: Capital with repayment spread over more than five years.

**Equity**

- There are three ways to secure capital through sale of shares of a company
- **Issue Stock**: Available to corporations which have created in their charter the existence of shares and a par value.
- **Venture Capital**: A professionally-managed fund made available to innovative enterprises or research, especially in high technology, in which both the risk of loss and the potential for profit may be considerable. Investors provide a minimum US $1-2 million in exchange for a share of the business. They generally want control of the company. They generally want a 5-7 year exit strategy with the potential for making a 10-20 x return, commensurate with the level of risk.
- **Angel Investors**: Angels typically invest their own funds. They may be an individual, a trust or a corporation. Angel capital fills the gap in start-up financing between "friends and family" and venture capital. There is no “set amount” for angel investors. The range can go anywhere from a few thousand, to a few million dollars. Angel financing, while more readily available than venture financing, is still extremely difficult to raise. Because a large percentage of angel investments are lost completely when early stage companies fail, professional angel investors seek investments that have the potential to return at least 10 or more times their original investment within 5 years,