Michigan SBDC

Sources of Funding

Yourself

Personal assets may be used to capitalize your business. Savings, retirement funds or the sale of assets (e.g. garage sales, pawn shops) and investments may be sources of financing. Borrowing against the equity in your home or using consumer credit cards are possibilities, too. There are risks involved with borrowing against home equity, which should be carefully weighed with the assistance of a qualified professional.

Family & Friends

Friends and/or family members may loan you money to start your business OR they may invest their personal savings or other assets in your business. Terms of the loan or the investment agreement should be decided in advance and should be documented.

Community Development Financial Institutions

A Community Development Financial Institution (CDFI) is a financial intermediary that offers a range of financial services and programs to accomplish their primary mission of community development. Most commonly, CDFIs provide credit access to people considered "unbankable" through revolving loan or micro-loan funds. CDFI services are generally targeted at specific populations (e.g. people who will operate their business in defined neighborhoods or people within a certain income range) with loans, usually under $25,000. There are other organizations which are classified as CDFIs, but they are not financing sources for most micro or small businesses.

Government

The US Small Business Administration (SBA) provides loan guarantees under its 8(a), 504, 7(a) and Low-Doc Programs. These programs are administered through regulated financial institutions or community development corporations (CDCs). Also, call your County and City office to find out if local financing programs are available.

Regulated Financial Institutions

Regulated Financial Institutions (banks and credit unions) provide a variety of financial services to individuals and small businesses including lines of credit, term loans and mortgages. New venture financing is primarily based on the borrower's ability to repay the loan. As the business grows, personal assets and financing will still be heavily considered, but the bank will begin to rely more on the business's ability to generate revenue for payments.

Your loan proposal will be evaluated on your:

Relationship with them
Management Ability
Collateral
Owner's equity
Cash Flow
Credit history