FUNDING YOUR BUSINESS
TIPSHEET

Navigating the world of small business funding can be daunting. This guide explains the options available for funding your business and can help you choose the path that's right for you.

Common Funding Options

This option may be right for you...

Banks and Credit Unions

Small businesses often seek funding from banks and credit unions when they need to apply for a loan. Most lenders will want to see a detailed business plan, require strong personal or business credit scores, and may expect a personal guarantee or collateral.

- **Pros: Ability to access large amounts of funds; builds your business credit**
- **Cons: The application process can be lengthy and difficult**

if you already have a detailed business plan, have good personal and business credit, and if you need a relatively large amount of funds.

Personal Savings

Some entrepreneurs self-fund their business, also known as bootstrapping. This could mean turning to your personal savings, potentially tapping into a retirement account, leveraging other financial assets, or even asking friends or family for a loan.

- **Pros: Full control of your business**
- **Cons: Risk of loss of savings and financial assets; using retirement account funds may result in tax penalties and an inability to replenish them and will delay or impede your retirement**

if you are just starting out, if you know someone willing to loan you money, or if you have personal funds you can access (beyond your retirement savings).

Alternative Funding Options

SBA-guaranteed Loans

Because banks are often wary of lending to new businesses, the Small Business Administration (SBA) works with lenders to guarantee loans for entrepreneurs. The SBA isn't a direct lender but instead works with other community lenders to increase access to capital for small business owners by reducing the risk involved.

- **Pros: Low interest rates; may have better approval odds than with a traditional bank loan**
- **Cons: Can have long approval times; often require established financial history, so may not work for new businesses**

if you are eligible for a specific SBA program and/or struggle to get a traditional bank loan. (For example, the SBA provides loans to small businesses affected by natural disasters).

Mission-driven Lenders

Mission-driven lenders, including Community Development Financial Institutions (CDFIs), work with entrepreneurs who may struggle to access traditional bank loans. These institutions often provide additional mentoring and support to help you improve your application and continue working with you through the life of your loan.

- **Pros: Lower interest rates; often provide additional business assistance for entrepreneurs**
- **Cons: Smaller loan sizes; may still require lengthy application process or collateral**

This option may be right for you...

if you struggle to qualify for traditional financing and you need additional business planning support. Additionally, many CDFI's specifically work with underrepresented groups such as veterans, women, minorities, low-income individuals, and/or rural entrepreneurs.

Online Funding Options

Crowdfunding

Crowdfunding involves asking a large number of people to fund your business, typically through small donations. For their donation, investors sometimes receive a small gift like branded merchandise rather than equity or a financial return. Most crowdfunding platforms don't require business owners to repay the money to the donors, making them lower risk for most small business owners.

- **Pros: Lower risk as many platforms don't require you to pay back money; can also be a good marketing tactic**
- **Cons: Time intensive to promote and market your campaign; crowdfunding platforms often charge fees**

if your funding requirements are relatively modest and you have an easily marketed product or service or established customer base.

Online Lenders

Online lending options have increased significantly in recent years. Most financial institutions, including traditional banks, SBA-backed lenders, CDFIs and others now offer online options, and these often involve a faster and more convenient application processes. However, there are also many non-bank online lenders that offer riskier terms, like higher interest rates or high penalties and fees. Make sure to educate yourself on the repayment terms before taking any online loans.

- **Pros: Fast approval times**
- **Cons: Higher interest or predatory lending terms**

if you struggle to access traditional and alternative sources of funding, you have urgent cash needs, and you have the ability to repay quickly.

Financing Toolkit

While all types of funding will have different application processes and requirements, it's a good idea to make sure you have the following items organized before starting the financing process:

- Business plan
    - If you need a business plan, you can create one by downloading the AARP Building A Better Business Plan Worksheet

- Marketing plan
    - If you need a marketing plan, please download the AARP Marketing Strategy Essentials Worksheet

- Financial statements
- Business registration or license
- Personal and business tax returns
- Financial documents, such as cash flow projections or a balance sheet
- Proof of collateral

Additional Resources

Need more helpful advice to start your business? Check out our simple guides:

- Want to be your own boss?
- 10 steps to starting a business.
- Tips for creativing an effective business plan.
- Essential elements of a marketing plan.

Learn more at aarp.com/startabusiness or visit sba.gov for more information about lending options.

Source: sba.gov