



Small Business Funding Options

Getting the Financing You Need

Explore 9 common ways to get the funds you need to start your small business.

It's been said that "it takes money to make money," and that's certainly true when it comes to starting a small business. Odds are, you're going to need some outside funding to get your business off the ground and running. For instance, you may need some financial help to buy supplies, lease equipment, or rent office space (to name just a few possibilities). The question is: How can you get the money that you need?

The good news is that there are several routes you can take to obtain the necessary financing for your business. Nine of these options are discussed below.

1. Traditional bank loans

Traditionally, small business owners have applied to major banking institutions for their loans. Not surprisingly, banks are the largest lenders to small businesses, and the loans they provide often come with the lowest cost.

2. SBA loans

Most people think of going to a bank to obtain a loan, and that is one option you could explore. However, it may be difficult to get a loan from a major banking institution on favorable terms.

Fortunately, there are alternative loans you can investigate. For example, you can apply for a small business loan through the U.S. Small Business Administration (SBA). SBA loans are available through many types of financial institutions, and sometimes come with lower interest rates and less severe penalties compared to typical bank loans.

3. Crowdfunding

Crowdfunding is the practice of funding a venture or project by raising many small amounts of money from a large number of people (typically strangers over the Internet). In a sense, crowdfunding can accomplish *two* goals at the same time: It can help you to get the money you need to start your business, and also serve as a way to test the market for your product or service.

If you decide to go this route, be aware that each crowdfunding site has different rules, requirements, and restrictions. For instance, some sites only allow you to promote your business for a limited time, while others require that you meet your stated goal before you're able to receive any raised funds. It's important that you clearly understand the terms and conditions that apply before committing to this option.

4. Online marketplace loans

Online marketplace lenders often provide faster and easier access to small-business loans than banks, though at much higher rates. For example, companies like PayPal offer advances on future e-commerce sales for qualifying businesses.

In general, online marketplace lenders provide smaller loans, and lower entry barriers for business owners who are just

starting out. Of course, it's always important to do your research, and determine what the loan interest rates, conditions, and penalties are. For example, many of these loans have significantly higher interest rates than bank or SBA loans, and applying for one may lower your credit score (at least temporarily), since the company will conduct a hard inquiry into your credit before finalizing the loan.

5. Bootstrapping

Put simply, bootstrapping means doing everything within your power to get the money you need for your business. This may mean reaching out to friends and family members who have demonstrated an interest in your plans, and determining if they would be willing to make an investment in your business. It could also involve dipping into your personal savings, selling some of your personal assets, and exploring credit options so that you “buy now, pay later.”

The biggest advantage of bootstrapping is that it forces you to “think lean.” In other words, you won't take on any unnecessary business expenses until your company is already well-established. You also may come to the realization that you don't need as much funding as you originally thought. Of course, bootstrapping is usually most effective when you do it *in addition* to the other funding options mentioned above.

6. Mission-driven loans

Some institutions offer “mission-driven” loans designed to support business ventures that will create jobs in underserved and low-income communities. If your business will be located in such an area, then this is an option that may be worth exploring, especially since mission-driven loans often come with favorable interest rates. Mission driven lenders often help those who don't qualify for a traditional bank loan.

7. Microloans

What if your credit score isn't *bad* so much as it's “*thin*” (in other words, you haven't made very many purchases on credit)? In that case, you may want to consider exploring microloans.

Microlenders are non-profit organizations that offer small loans to qualifying businesses. They are very personal, and will typically focus in on references, collateral, and what guarantees you can give instead of your credit score. You can expect to pay a higher interest rate on a microloan than you would a traditional bank loan. However, microloans are typically easier to secure, since their underwriting criteria aren't as strict as those from a major lending institution.

Another common benefit of working with a microlender is mentorship. If you're new to the world of borrowing and lending, they will often walk you through the application process. They'll also give you helpful guidance on how to build your credit, and ultimately qualify for traditional bank funding. Additionally, they may include post loan support in the form of small business coaching to grow your business.

8. Peer-to-peer lending

This is often called “social lending,” and basically involves one individual lending money to another person. There are many online platforms that allow business owners to connect with investors and like-minded entrepreneurs within their industry, such as Prosper.

This type of funding usually works better for established businesses. You may need to understand how to develop a killer pitch deck to showcase your business, and make it attractive to potential investors.

9. Pitch competitions

A pitch competition is a unique funding option, and may only apply to businesses within a particular geographical area, revenue stage, or network of entrepreneurs. Still, it may be worth looking into pitch contests sponsored by organizations in your local region or community.

1. Traditional Bank Loans



Features

- Typically very low, fixed interest rates
- Professional relationship with your banker
- Available for many uses

Thinks to consider

- Requires strong credit
- Longer wait times
- Usually requires collateral

2. SBA loans



Features

- Typically, lower down payment
- Reasonable interest rates
- Often longest payment terms available
- May be used for wide range of business purposes

Thinks to consider

- Lengthy paperwork
- Long approval process
- May require collateral
- May restrict you from taking on another loan

3. Crowdfunding



Features

- Supports product and idea validation
- Community building and feedback collection
- Small individual contributions
- Low risk for potential high reward

Thinks to consider

- High fees and strict rules may apply
- Low success rates
- Upfront costs can be high
- Long preparation time (videos, content development & management)

4. Online Marketplace Loans



Features

- Fixed, predictable monthly payments
- Fairly quick turnaround time
- Less documentation and effort needed
- Available for many uses

Thinks to consider

- Much higher interest rates than banks
- Little to no support
- May have prepayment penalty
- Collateral requirements may apply

5. Bootstrapping



Features

- Low credit score requirements
- Lowers your expenses (loan fees & interest)

Thinks to consider

- May affect personal relationships
- Agreements should be formal & documented

6. Mission-driven Loans



Features

- Often accept lower credit scores
- Both fixed and adjustable rate loan offered
- Provide fair, responsible financing
- Often include complimentary mentoring

Thinks to consider

- Longer approval times
- Paperwork may be extensive
- May require collateral
- Repayment terms vary

7. Microloans



Features

- Favorable repayment terms
- Reasonable interest rates
- Collateral usually not required or minimal
- Complimentary access to business coaching

Thinks to consider

- Designed for smaller loans
- Shorter repayment timelines
- Extensive paperwork may be required
- Some microloans have spending restrictions

8. Peer-to-peer Lending



Features

- Competitive interest rates
- Fast application and approval process
- Friendly to startup businesses
- Early repayment may not be penalized

Thinks to consider

- Designed for smaller loans
- Good credit and collateral lead to best rates
- Loans are often small than from banks
- Large penalty fees may apply for missed payments

9. Pitch Competitions



Features

- Some options are industry specific
- Can build critical market connections
- Can provide market validation

Thinks to consider

- May distract you from other critical tasks
- Market validation may prove too narrow
- Time and energy needed for pitch may outweigh return