Borrowing Money For Your Business

NLOWE

NEWFOUNDLAND & LABRADOR ORGANIZATION OF WOMEN ENTREPRENEURS

Borrowing Money For Your Business

Borrowing money is first and foremost a relationship between you and the lender.

Like any relationship, your ability to secure the trust and acknowledgement of a lender depends on trust, clarity, and shared goals. Upon this foundation, you can then determine the type of financing that will best serve both you and your lender.

Approach your funding proposal in four steps:

- Build the foundation
- Clarify your need
- Select the funding option
- Make the pitch

Building the Foundation

This step should be ongoing, even before you have identified the need to seek funding. Keeping documents up to date and operations efficient enables you to respond quickly to funding needs or opportunities.

The foundation is built upon your key company documents, that in turn can build trust in your operations and projections, demonstrate your vision and establish commonalities.

These documents include:

- Financial statements, projections and ratios (See Info-Solution: Key Financial Ratios)
- Business Plan to show health of operations, capacity, and market expertise
- Strategic Plan to explain your vision and goals
- Confirmation of your and/or your company's financial investment in the project
- Personal financial statements, demonstrating that you have a solid credit rating and personal finances in good standing

Clarify your Need

Securing financing for your business requires you to identify:

- Your company's need for the money
- Your company's ability to meet the lender's terms

Money feeds many aspects of your business: market expansion, new initiatives, modernization, and growth. There are also unexpected downturns, or upturns, that may challenge your cash reserves and leave you in need of funds to complete an initiative or weather the storm.

Do you need money for startup, market expansion, transition to new markets, or workforce expansion?

Is your funding intended for capital purchases or intellectual property development?

Be as detailed as possible in your need; a key word search can lead to appropriate funders and perhaps some programs you did not know to consider.

Questions to ask your lender:

- What are the repayment terms?
- Ensure you can meet the payments for the duration required
- What security/collateral is required?
- This could take the form of a down payment or a lien on capital holdings
- What is the interest rate, and how is it calculated? Consider if the interest rate is variable or fixed, and if interest is calculated on the lump sum or outstanding balance
- Are there penalties for early repayment or late payments?
- Are there any additional fees?
- What type of investment is required from you and/or your business?

Some lenders prefer to see your personal investment in your business; others may require it. Clarify the type and amount of investment your lender wants, whether cash or in-kind equivalent

Select the Funding Option

Loans through financial institutions, such as chartered banks and credit unions, are available for small business, commercial real estate, business acquisition, working capital, technology expansion or development, equipment purchase, and other specific business needs.

These loans can be:

- Short-term loans providing lump sums for a down payment, inventory purchase or emergency expenses. These loans are typically repayable within 12 months
- Long-term loans providing larger lump sums with a longer repayment period, for capital purchases, market expansion, new product launch or other initiative that will take time to provide return on investment
- Operating line of credit providing money as needed, to a maximum amount. A line of credit is charged interest only on the amount used. This type of financing can provide immediate access to cash, and offer a buffer to avoid cash-flow issues.

The Canada Small Business Financing Program can help startups or small companies with less than $10 million in annual revenue get loans from financial institutions by sharing the risk with lenders. Learn more at **https://www.ic.gc.ca/eic/site/csbfp-pfpec.nsf/eng/h_la02855.html**

Loans and grants administered by governments or agencies

The Government of Newfoundland and Labrador offers loans supporting entrepreneurs and specific industry sectors well as resources on other funding programs. Learn more at:

https://www.findnewfoundlandlabrador.com/invest/doing-business-in-nl/support-for-business/

Private investors

Angel Investors

are private investors, often wealthy, choosing to invest their own money in promising startups or new companies. There is a Canadian network connecting companies seeking money with investors seeking opportunities: https://www.canadainvestmentnetwork.ca/

Venture Capitalists

Seek companies with high growth potential, offering investment in return for an equity share in the company. Learn more at https://www.cvca.ca/

Crowdfunding

Crowdfunding refers to a growing trend of soliciting many small contributions from a crowd of people in order to support a new or existing business.

Equity Crowdfunding is usually used for startup businesses. Crowdfunders give an entrepreneur money to start a business in return for a stake in the company. Equity crowdfunding is quite new, and the rules surrounding it differ for each jurisdiction.

Make Your Pitch

Once you have selected the institution or program to which you will apply, you can craft your pitch accordingly. Some guidelines:

Follow the specifications given by the lender, submitting what is requested by the method required. Some lenders are very specific about deadlines, email vs mail, length of submission, and required information. If there are no specifics, provide clearly and succinctly the information that will assist the lender is understanding your company, your need for the money, and your ability to repay or provide return on their investment.

Seek advice or an introductory meeting, where possible.
Institutions or agencies often have program advisors available to discuss your financing needs and your pitch prior to submission.

Celebrate success, learn from everything
A rejected application is not a failure, but an opportunity to make contact, learn from the outcome, and refine your approach

Additional Sources:

https://www.bdc.ca/en/articles-tools/money-finance/get-financing/how-to-get-business-loan-your-checklist-to-success

https://atlanticcanadabusinessgrants.com/newfoundland-and-labrador-business-loans/

https://www.forbes.com/advisor/business-loans/