

SUCCESS

THE 2007 SMALL BUSINESS REPORT

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CAPITAL

WHERE TO TURN FOR A SMALL-BUSINESS LOAN



NEED A LOAN FOR A NEW business? Your options are limited if your company isn't established. Know where to turn for a loan—and how to protect yourself if asked to sign a personal guarantee.

START AT HOME Loans with the best rates include second mortgages, home equity lines of credit, investment portfolio credit lines, and the pockets of generous relatives. But putting your home or savings on the line is risky. "Lose your business, and you could wind up homeless or without a family," warns Anthony Mancuso, small-business attorney and author of *LLC or Corporation?*

HIT A BANK Many banks offer business loans guaranteed by the Small Business Administration. Among the

most attractive for startups is the SBA Express Loan, which lets you apply for up to \$350,000 and win loan approval within 36 hours.

SBA Express lenders are not required to demand collateral for loans up to \$25,000. But they can charge up to 6.5% over the prime rate for loans of \$50,000 or less, and up to 4.5% over the prime rate for loans that exceed \$50,000.

With an SBA Express Loan, you receive revolving credit for the first two years and then have five years to repay the loan. "You don't want to borrow more than you truly need—so good budgeting is essential," advises Charles H. Green, president of Sunrise Bank of Atlanta and author of *The SBA Loan Book*.

PLY YOUR PLASTIC Many credit card companies such as American Express and Avanta offer small-business lines of credit. Once approved for a lump sum, you receive a credit card and checkbook that can be used to fund any business expense.

"Shop for the lowest rates," urges Green. "You could be charged up to 18% on balances and 24% on cash advances, and a late payment could bump both rates up to 29%."

You are more likely to receive better rates and terms if your credit score exceeds 700, says Green.

Each lender calculates your credit score differently, but the raw data used in the equation are filed with the three major credit-reporting bureaus—Equifax, Experian, and

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TransUnion.

"One way to protect against rate gouging is to maintain two or three business credit cards," says Green. "The more cards you own, the more mail you'll receive from lenders offering to consolidate all of your balances with one low fixed rate."

PROTECT YOURSELF If you don't have business assets to put up as collateral, you may be asked by lenders to sign a personal loan guarantee.

This document lists the assets you're pledging and outlines the default terms and consequences. "Read the paperwork carefully," advises Mancuso. "The guarantee may insist that your cash flow reach a set level each month or that your company's debt load remain stable—with violations triggering default."

To protect yourself, review the lender's penalty for default. See what you're liable for, how much you will owe, how soon you'll have to come up with the cash, and what will happen if you don't, urges Mancuso.

Obviously it's best not to borrow at all. "So do everything you can to run lean and mean in the beginning and have your company pay its own way." **MARC MYERS**