



Sources of Start-up Money¹

Benjamin Sanders
Extension Specialist

Introduction

Entrepreneurs often list financing as their single greatest obstacle in business development. Compounding this problem is the common situation in which successful and non-successful businesses are often indistinguishable in the early stages of a business, thus creating a difficult decision if an entrepreneur needs to invest more resources into a business enterprise.

Funding Sources

Generally, funding for a business comes from either one or a combination of two primary sources: equity and debt.

Equity: Equity is the owner's contribution to the start-up of a new business enterprise. Equity is the dollars that stay in the business and do not have a definite repayment schedule. Equity is a critical factor if a business needs to acquire additional funds through financing.

As a general rule, lenders may require that equity represent 25% to 50% of the total start-up costs for new business enterprises. This equity often comes from the business owner but can also originate from friends and family.

Debt: Debt (or a loan) is the other primary sources of funding for new business enterprises. Debt funding is critical to the business with insufficient equity to finance the business' start-up. Loans are generally set up with a fixed repayment schedule. Loans can be obtained from commercial banks, government agencies, or any other third party that sets a specific repayment schedule.

Loans may be secured or non-secured. Non-secured loans are based entirely on the borrower's financial strength and past performance. Secured loans require that assets be used as collateral to secure the loan.

Sources to Consider

Money to start a business enterprise can come from a variety of sources, including:

- Personal savings
- Friends and relatives
- Mortgage Real Estate
- Commercial Banks
- Government Agencies
- Finance Companies
- Credit Cards
- Outside Investors

¹ Adapted from *Information on Obtaining Investors and Credit*, Rob Holland, The University of Tennessee Extension. ADC Info Sheet # 38. July 1999.