

## **Ask SCORE**

*I've worked as a house painter for a number of years and have decided to start my own painting business. While the start-up costs aren't huge, neither is my bank account. I've approached a couple of banks regarding a loan, but in today's credit market no one is willing to fund a first-time business owner with limited assets. How can I get this off the ground? I'm confident I can make it a success.*

Loans are a great, affordable way to get a small business off the ground. But they're not for everybody. Personal sources of financing can work just as well, and may be the entrepreneur's "Plan B" if attempts to secure a commercial loan are unsuccessful.

Although self-financing options may give you more control and flexibility over your start-up capital, special care is essential to make sure they are used wisely. A misstep puts more than your small business at risk. It can also endanger the long-term security of you and your family.

Before you dip into your savings or tap the equity in your house, make sure you have a realistic plan to meet your existing obligations, such as mortgage, utility bills, vehicle payments, insurance and daily living expenses. Be sure to consider "worst-case" scenarios, such as a spouse losing his or her job, major car repairs or serious health issues. The likelihood of such events may be remote, but the consequences on your financial security will be very real if they do occur.

A good preventive measure is to designate certain funds as "off-limits" for use in your business. Certain retirement accounts may also be "untouchable" due to the tax consequences and heavy penalties associated with early withdrawals.

Friends and family members can be good sources for start-up capital. However, history is full of ruined businesses and personal relationships because money was not repaid as expected, or the investor demanded a say in how the business was run.

Even if your benefactors place no conditions on the money, make sure everyone clearly understands how the funds are to be used; the repayment terms and amount of interest, if applicable; and what role, if any, contributors will play in the business. Then, put everything in writing and have all parties agree to the terms.

Credit cards can also be a source of quick cash for your business, but low limits and high interest rates usually make them useful only as a last resort, or as a short-term cash flow bridge. It's best to use them only if absolutely necessary, and you have the ability to pay them down quickly. Otherwise, that debt can quickly spiral out of control. Also carefully scrutinize equipment financing offers from retailers and manufacturers. Their terms may be more restrictive and expensive than credit cards.

*This column is brought to you by the Southern New Hampshire Chapter of SCORE, with more than 65 current and former business executives available to provide free, confidential, one-on-one business counseling and training workshops for area businesses. Call 603-666-7561 or visit [www.score-manchester.org](http://www.score-manchester.org) for information on counseling, upcoming workshops and volunteer opportunities. SCORE is a national, non-profit organization and a resource partner of the U. S. Small Business Administration.*

*Have a question you'd like answered in this column? E-mail it to*

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