

HOW TO FINANCE YOUR START-UP BUSINESS

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In the journey of starting a new business, every entrepreneur starts out in the same place: with an idea and a dream. The objective is finding a way to bring the idea to life so the dream can be fulfilled. Here's an overview of some of the traditional financing options available to those thinking of starting their own business.

There are 2 types of financing a new business: debt and equity. Debt finance is borrowing from the bank. Equity means ownership. With equity investment, an investor makes money available for use in exchange for an ownership share in the business.

Equity investment includes any money from individuals, including yourself, or other companies in your business. This money may be from personal savings, inheritance, personal loans, friends or relatives, business partners, or stockholders. These funds are not secured on any of your business assets.

Debt financing include:

1. Government Funding

Typically, the most sought-after type of financing is government grants because it's free money that you don't have to pay back. Unfortunately, a grant might not be an option for your business because not only are there very few grants available, most are geared towards specific industries or groups of people such as youth, women, or aboriginal owners. The majority of government funding programs are typically loans, for which you'll be required to repay the principal amount plus interest.

2. Commercial Loans

You can use long-term loans for larger expenses or for fixed assets that you expect to use for more than one year, such as property, buildings, vehicles, machinery, and equipment. Short-term loans are generally used to finance day-to-day expenses such as inventory, payroll, and unexpected or emergency items, and can be subject to a higher base interest rate.

You must remember that many lenders will look for the four "C's of Lending" when evaluating a loan application:

Cash flow. Your ability to repay the cash you are borrowing. This is measured using the cash flow forecast that you created for your business plan.

Collateral. The value of assets that you are willing to pledge for assurance that you will repay your loan.

Commitment. The amount of money that you're committing to your business.

Character. Your personal credit score and history with the financial institution.

A lender might determine how much to lend you by evaluating your cash flow, collateral, and commitment. They will then subtract your existing debt to arrive at a final amount. Note that lenders look at the limit on your credit cards, not the amount you're currently using.

You can increase your chances of securing a loan by:

- Having strong management and staff
- Showing steady business growth potential
- Showing reliable projected cash flow
- Offering collateral
- Having a strong personal credit rating
- Always making your loan and interest payments on time, and never missing a payment

So, if you want to start your own business you must remember some rules:

* Live frugally and begin saving up money now to start your own business.

* Use your cash flow projection as your key tool to determine financing required.

* Complete a business plan for meetings with potential lenders or investors.

* Have your business plan critiqued by appropriately informed people. Revise as necessary.

* Maintain a current financial information packet including financial statements and recent tax returns.

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