

## Financing a New or Expanding Business

Any person thinking about starting a new business or expanding a current one should know that the owner will be responsible for 10-20% down payment on their project. This amount is a minimum owner injection into a commercial venture. Banks, SBA and other lenders will always require owner equity in financing a new business.

Project example:

Land	\$50,000
Building	\$450,000
Equipment	\$75,000
Inventory	\$125,000
Working Capital	<u>\$20,000</u>
Total Project Cost	\$720,000

Owner equity required: \$72,000-\$144,000

The following list includes potential sources for owner equity

<b>Owner Cash</b>	Cash is king.
<b>Homestead Equity</b>	Prospective business owners often have equity in real estate or personal property that can be mortgaged or used as collateral.
<b>Equity Investors</b>	These are friends, neighbors or colleagues who believe you have a great idea and are willing to invest in it. Frequently they will invest a set amount and be a silent partner for a specified period of time in exchange for an equal percentage of your company at the end of a period.
<b>Relatives</b>	This is a very popular method of financing a new business or least the owner's equity portion.
<b>Gap Loans</b>	Available from a city or philanthropic organization. These need to be repaid like a regular loan. The advantage to using these sources is that their terms are often cheaper and repayments more flexible to fit the businesses needs. Collateral is in a subordinate position with gap loans, which makes a bank more interested in financing the venture.
<b>Grants</b>	Rare, if ever.
<b>Venture Capital</b>	Investors that are willing to risk their cash on a stranger's new business. They usually want 20-30% return on their investment.

The cheapest, most reliable and practical source of owner equity is cash.

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