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SelfInformed

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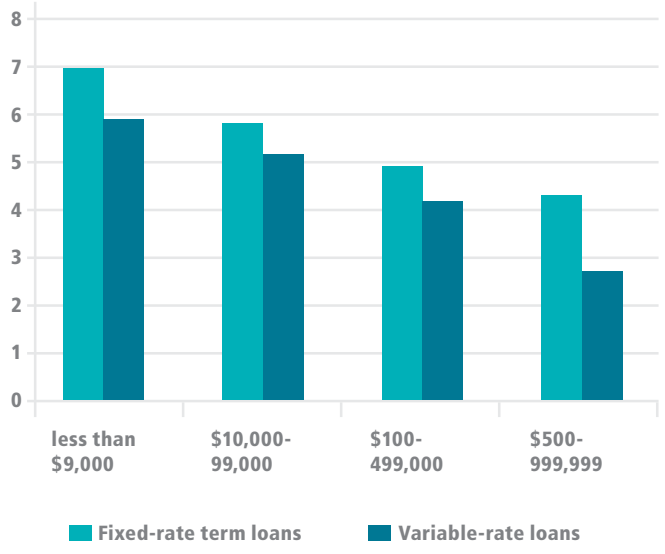
COMMON LENDING OPTIONS FOR SMALL BUSINESSES

When you run a small business, sometimes you won't have enough cash to cover all your needs. You might want to fund an expansion, stock up on inventory, or just get some extra money to cover your expenses during a slow stretch. To help with these expenses, you could take out a business loan.

There are a number of different lending options available for small business owners and each its own strengths and weakness. To help you find the best choice, here is a review of the top lending options for entrepreneurs and small business owners.

BANK LOANS

When you need a loan, the bank might seem like the most obvious place to go. A bank loan can be convenient to manage especially if you take out a loan from the bank managing your business accounts. Bank loans also charge a relatively low interest rate. For example, the average small business loan for $9,000 or less charged an interest rate of 7% a year. Banks charge less for larger loans as you can see below.



However, for many new business owners, bank loans aren't an option. Since the financial crisis, banks have tightened up their lending standards so it's hard for brand-new businesses to qualify. You most likely need to have been in business a few years to build up the income history and credit score to qualify.

If you're starting a business and want a bank loan, you can improve your chances of qualifying by personally guaranteeing the loan. This can be risky though because if your business fails, the bank can go after your personal assets for payment like your house or your savings.

SBA LOANS

The Small Business Association is a government organization designed to help small business owners in the United States. They have a few different programs to help provide financing to small businesses. The SBA doesn't actually lend money. Instead, they guarantee your bank loan. This helps if you weren't able to qualify for a regular bank loan.

In exchange, SBA loans charge a higher interest rate than regular bank loans. The SBA charges an extra fee as insurance to make up for the fact that people borrowing through their program couldn't qualify for regular bank loans. As a result, you should see whether you can qualify for a bank loan first before considering an SBA loan.

CREDIT CARDS

If you fund your family business through your credit cards, you wouldn't be the first. According to the Federal Reserve, 80% of small business owners use credit cards for financing while 60% of businesses depended on credit cards to survive their first year of business.

The advantage of using your credit card is that it's convenient. You can immediately start using your personal credit cards or apply for a business credit card. Using a business credit card and paying the bills on-time every month will help build your business credit score, which will help your business qualify for other types of loans in the future.

The downside of using credit cards is that they charge a high interest rate. If you don't pay off your purchases every month, the interest rate on a credit card will be about 15%, about double what you'd pay on a bank loan.

One way to keep your costs down is to look for a new card with a 0% introductory APR. These cards don't charge interest on your account balance for a set amount of time, usually a year or more. This saves you money while you're building a business and then you can pay off your balances when you're in better financial shape.

FRIENDS AND FAMILY

Your friends and family want you to succeed and may be able to contribute to your business. If you're going to borrow money from a friend or family member, it's important to keep the arrangement as formal as possible. This shows that you're serious about growing a business and are committed to paying the money back.

When you meet with people, you should have a formal business plan ready that explains how you'll run your company, your current situation, and your expected sales growth and profits. If someone gives you a loan, you should set up a formal loan agreement that clearly states how much you owe, when you'll make payments and the interest rate on your loan.

The advantage of working with friends and family is that you can get a loan without the same formal requirements as working with a bank or the SBA. The downside is you have

to be very careful to responsibly manage the loan so you don't damage your personal relationships.

PEER-TO-PEER LENDING

The internet has opened up new ways for businesses to find financing. One of these new systems is peer-to-peer lending. On a P2P lending website like Prosper or Lending Club, you put together a profile for your business explaining who you are, what your business does, and how much money you'd like to borrow.

Individuals open accounts on these websites to lend money to business owners as an investment. If people like the sound of your company, they'll give you small loans to help you fund your operations.

P2P loans can be set up more quickly than bank loans since you're dealing with individuals who have fewer requirements. It also means you might be able to qualify for one of these loans even if you couldn't qualify for a bank loan. The downside is you have less control over your loan interest rate and you could get stuck accepting a rate that's significantly worse than a bank. It's also possible that you won't get any loan offers so the time you spend setting up your account would be wasted.

ASSET-BASED LOANS

If your business owns any valuable assets, you can use these assets to secure an asset-based loan. This is when you put up your assets as collateral for your loan. You can use property like valuable equipment, buildings, real estate, etc. The lender will appraise the value of your assets and lend you money based on that value.

Asset-based loans are easier to qualify for than bank loans since you're putting up collateral. Some lenders might also charge a lower interest rate because of this collateral. The downside of this type of loan is that if you can't make your payments, the lender can eventually seize your valuable asset. Also, an asset-based loan isn't an option if your business doesn't own any valuable assets yet.

MERCHANT CASH ADVANCES

If your business accepts credit cards for payment, you can also borrow money through a merchant cash advance. With a merchant cash advance, the lender looks at how much money you're taking in per month with credit card sales and will tell you how much money they'll advance you based on that. When you qualify, you'll receive an upfront, lump-sum payment.

Going forward, you'll need to pay a percentage of your credit card sales for a set period of time. For example, you might need to pay 10% of your credit card sales for a year to pay back the advance.

The key benefit of a merchant cash advance is that they're quick and easy to set up. As long as you have a few months of credit card sales, you'll likely qualify and will receive your money within a week. The downside is that these loans are extremely expensive. The APR of a merchant cash advance can be as high as 60% to 200% so you need to use these loans sparingly.

At NASE, we understand that you can't build a business all on your own and you don't have to. By taking advantage of one of these lending options, your company will have the money it needs to grow and succeed.

ADDITIONAL LENDING OPTIONS FOR SMALL BUSINESS

From NASE Expert Scott Scribner

MORTGAGE LENDER

Usually allows for a long-term repayment based upon monthly payments of principal and interest. The collateral is a security interest in real estate which may be the operating location of the business or another property owned by the business or business owner. The purpose is ordinarily for purchase of the real estate but can also be used for refinancing an existing property.

BUSINESS GRANTS

Being awarded a business grant can be a big boost to your business as you don't have to pay it back. However, the process to get a grant can be difficult and there is no guarantee that you will receive the funds. There are a lot of organizations that offer business grants; you just need to search for them. The **NASE Growth Grants** are a good example of business grants available to you.

FACTORING

Less of a loan and more of a purchase agreement. In a factoring arrangement, a business agrees to sell either all or a portion of its Accounts Receivable at a discounted value to a third party Factor. The Factor therefore owns the A/R and seeks to collect the face amount due. Factoring is normally a more costly option and often is used when the business is unable to qualify for more traditional financing.

CREDIT UNIONS

Provide many of the same lending options as commercial banks but as non-profit entities commonly offer more favorable terms than commercial banks. To qualify, a borrower must be a member of the credit union although in recent years membership rules have become more lenient.

MICRO-LENDER

These nonprofit organizations fill a gap and lend smaller amounts –usually $30,000 or less to business startups and to microbusinesses with only a few employees. A benefit of these micro-lenders is that they often offer training and assistance to business owners.

Member Benefits

Visit www.NASE.org to learn more about the following benefits!

Expert Advice 24/7

Get answers, advice, and tips from our team of professional experts. Ask a question online 24 hours a day, 7 days a week. Self-employed business owners are passionate about what they do. They thrive on unbridled enthusiasm for their work. Maybe you are a fantastic graphic designer, or an innovative IT consultant, or a master plumber. Yet, knowing one's business is not the same as knowing how to run a business.

Get Started

Being the boss often means you are also head of marketing, sales, accounting, HR and more. And sometimes you could use some help.

- Tax Experts
- Business Strategy Experts
- Marketing and Advertising Experts
- Business Law Experts
- Finance and Accounting Experts
- Real Estate Experts
- Marketing 101 Experts
- Health Reform Experts

Ask an Expert Today!

Growth Grants

Apply for a business development grant from the NASE worth up to $4,000! Designed to help address a specific business need.

Need **$4,000** To Help Your Business Grow? Login and apply for an NASE Growth Grant Today!

You could receive up to **$4,000** for your small business through the NASE Growth Grants program.

The NASE has already awarded more than **$600,000** to NASE Members just like you.

Grants can be used for marketing, advertising, hiring employees, expanding facilities and other specific business needs.

You could be the next grant recipient. To be eligible for an NASE grant, you must:

- Be an NASE Member in good standing
- Demonstrate a business need that could be fulfilled by the grant
- Provide a detailed explanation of how you will use the grant proceeds
- Show how the grant will improve your business growth and success
- Offer supporting documentation such as a résumé and business plan

Get Started

Branding Self Employment

***Mark Dominiak** is the Principle Strategist of Insight Garden, located in Whiting, Indiana outside of Chicago. Insight Garden's mission is to cultivate ideas that will have a powerful marketplace impact for their clients. Mark also serves on the Board of Directors for the Whiting-Robertsdale Chamber of Commerce and continues the long time practice of traveling to his alma mater, Ball State University, to lecture at advertising classes every Spring. Joining in 2004, the most important benefit was access to quality health insurance. Once he knew he could provide quality coverage for his family, Mark was confident I could go into business for myself.*

What inspired you to enter the field you are in?

During my school years, I always did well with and enjoyed math, language and creative classes. Advertising seemed to be a field where I could weave all of those skills together. Media in particular was a place where math skills were critical and there was demand for quality people. I always loved watching commercials in my youth and thought it would be really neat to be in that industry.

When and why did you start your business?

I started Insight Garden, Inc. in 2004. My old agency FCB was one of the last relatively independent major agencies to be purchased by a holding company. The new holding company flushed out many fairly senior people upon taking control. At that time, I interviewed at many media companies, but also started to develop a business plan as another possible path. That interview process opened my eyes quite a bit. Everyone I interviewed with was so corporate and impersonal. It really felt that another job at a large company was just a path to immersing into someone else's culture and beliefs. I decided not to go down that path and create a business that was definitely entrepreneurial and a real expression of who I was as a media professional and business person.

What challenges have you faced in your business? How have you overcome them?

There have been two large challenges. First was the start-up phase. It's hard to gain traction the first couple of years. Project work builds slowly and it takes time to create significant revenue. The only solution is to tighten the belt and expenses and weather the short-term storm. The second challenge is cash flow. It's great to have a healthy project load and multiple revenue streams, but it wreaks havoc not to have invoices be paid on time. It helps greatly to maintain a small reserve of cash as able and to work with partners to get through those hiccups.

How do you market your business?

Being in the marketing industry, one would think I heavily market my business, but I really don't. Most of my marketing is truly word of mouth shared across my large network of connections. Early on, I invested a number of years writing articles for Television Week magazine. Those articles were wonderful for getting Insight Garden's name out. I also was able to post those pieces to my company web site, which seemed to be a great resource for people looking for that type of information. I also manage my LinkedIn connections and try to do a consistent job of reaching out to friends and business associates to keep my name and services top of mind. I also do a number of small ad placements and sponsorships.

What role does technology play in your business?

It might not seem like it, but technology plays a big role in my business. Whether I work for clients remotely or whether I come into their offices to work, I basically have my office slung over my shoulder. I have a working laptop, plenty of historical files on thumb drives, a smart phone, etc, etc. If I have a wireless connection, I'm ready to go.

On the laptop, I also carry subscriptions to a number of media and syndicated consumer research resources that help uncover insights on consumer behavior or media pricing. In the old days, research like that was accessible only on dedicated hardware or through bound volumes. Being able to access that kind of info from the convenience of a wireless connection is a fantastic benefit. I provide a ton of flexibility for my clients. That flexibility would be hard to bring to the table without technology.

Are you required to travel a lot?

I travel a lot back and forth from my home office in Northwest Indiana into Chicago. That is a simple, short commute. I only occasionally leave the Chicago area on business. I don't mind going out of town if needed, but for me, that situation does not happen often.

Are your clients typically short term contracts or long term? How does this affect your business planning?

My clients are a mix of short and long term contracts. Up to this point, the mix has not affected my business planning. There are generally a broad enough number of contracts to provide multiple revenue streams over time. I may not be consistent month to month or across years, but the years themselves generally balance out across time.

What's your schedule like, what's a typical day for you?

I think the most interesting thing is that I rarely have a typical day. Depending on the week and on client project needs, I can be on the road to a client or ad agency offices for an entire day, or if there are no key meetings on the calendar, I may be ensconced in my home office. One common aspect of my days though tend to be weaving in things that I may need to do around the house or out of the house with family or personally. Being self-employed, I am not on anyone's clock but my own. If I need to attend to personal things during the day, I will do that and come back to project work later when I have the free time. It is not uncommon for me to work into the late evening or on weekends. That might sound onerous, but I have plenty of Tuesdays where I may only put in a few hours of work.

Is that flexible schedule the best thing about being self-employed?

Yes, the flexibility to work primarily from home, largely on my own schedule. It's very nice not being stuck behind someone else's desk during 40 specific hours a week.

What's the most important piece of advice you would give to someone starting their own business?

I would say not to let the fear of uncertainty stop you from taking the chance. Learning new things and conquering uncertainty is actually one of the most fulfilling benefits of becoming self-employed. When you work for someone else for a long time, it is easy to fall into the trap of thinking their work paradigm is the way career life operates. But there is a whole other world of new career and business acumen out there to experience. All it takes is to boldly step forward to embrace the uncertainty and learn from it, not run from it.

Learn More in the NASE Small Business Locator

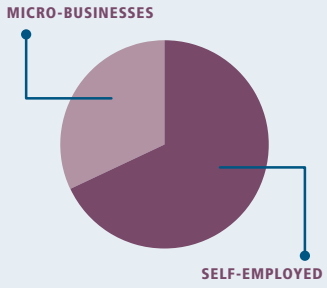
Learn more about Mark Dominiak, Insight Garden, and other Self Employed businesses in the **NASE Small Business Locator directory**. You can add your own company to the NASE Small Business Locator in up to three categories at no charge – it is a free benefit to NASE members.

WELCOMING THE FREELANCE ENTREPRENEURS TO THE SELF-EMPLOYED DEMOGRAPHIC

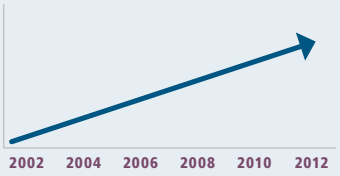
Whether it's the private car service Uber or Lyft, the online marketplace Etsy or an accommodation provider called Airbnb, these small and individual entrepreneurs operating in the shared services space are part of the growing small business community in what is being called, the "freelance economy".

2012 U.S. CENSUS STATISTICS

80,822 NEW ENTREPRENEUERS IN FREELANCE ECONOMY



2.86 AVERAGE GROWTH RATE



These sole entrepreneurs express qualities of not being an employee of any other entity, control their own destiny's and decide themselves when, where, how long, how much, how often and for how much they work. The "freelance economy" includes a variety of new and growing entrepreneurs who operate as independent contractors, on-demand employees, small employers or a variety of shared services for car rides, shopping, and lodging. In this regard, anyone can operate his or her own small business by becoming an independent contractor with a larger, umbrella corporate business operation. But under these arrangements, there are specific business responsibilities such as wage and hour laws, tax obligations, liabilities for accidents, and pension and nondiscrimination rules. For instance, these entrepreneurs may receive paychecks without any federal and/or state government tax withholdings. Despite being self-employed, they may still be required to pay a host of taxes, including income, self-employment, Social Security, and potentially Medicare tax.

The new entrepreneurs in the "freelance economy" join the self-employed community of nearly 27 million non-employer and micro-businesses whom generate over a billion dollars annually, according to newly released 2012 U.S. Census statistics. This is an increase of 80,822 self-employed (55,165) and micro-businesses (25,657) over 2011. In fact, 2012 represents a peak year for the self-employed with an average growth rate of 2.86 percent over the last 10 years (more than any other small business demographic). Non-employers are single or sole proprietors without employees also known as the self-employed while micro-businesses are small employers with fewer than 10 employees.

The NASE is actively engaging with local, state, and federal officials to make sure that these entrepreneurs understand their legal obligations but also work to ensure the laws and regulations are flexible to allow for this demographic to continue to thrive.

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