Debt versus Equity Financing For Small Business:

Debt financing comes in a variety of types depending on:

1.) Type of security available.
2.) Equity or investment by the owners
3.) Credit history of the business owners or principals
4.) Capability of the business to service the amount of debt requested. Your lender will ask themselves, “Will I get my money back?”
5.) What collateral can you pledge as security for the loan?
6.) Does the business or business owners have a tangible net worth?
7.) Are there conditions or special development in certain areas of the economy that may affect the borrower’s ability to meet his/her obligations?
8.) Have you provided the lender with a well-researched business plan?

Tip: Match the length of the loan to the life expectancy of the asset being purchased. For short term assets such as inventory, use short-term debt. Don’t finance the purchase of a business or a new property with a line-of-credit or demand loan. Use long-term money for those types of assets.

Equity financing occurs when someone purchases shares and becomes a partial owner in an incorporated company. Note: you cannot obtain equity financing in either a sole proprietorship or general partnership.

Institutional lenders such as banks and credit unions will generally require that all of the conditions above are satisfied. Don’t expect lenders to bear the risk of the business if you’re not prepared to invest in your own idea and share the risk of that business.

BANKERS ARE NOT RISK-TAKERS.
THEY’RE SHARERS OF OPPORTUNITY!

Free assistance for Small business.
Contact the Business Enterprise Centre of Sarnia-Lambton.
(519) 332-2504 **parry@sarnialambton.on.ca**