Top 4 Small Business Funding Methods of 2017

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Once you've done your research and chosen the business you'd like to buy, financing your dream is the next step. Many people will dip into their personal cash reserves to start, and then ask friends and family for help or apply for credit cards. But what do you do when that's not enough or you just don't like those options? Here's a look at the top 4 ways business owners are financing their ventures, and what it takes to qualify for each:

1. SBA Small Business Loans

Loans from the Small Business Administration (SBA) are one of the most popular financing methods for business owners of all kinds, from start-ups to franchises. SBA business loans are not directly from the Small Business Administration. Rather, the SBA encourages banks to lend to small business owners with preferable terms and low interest rates. In return, the SBA covers 75 to 85 percent of the loan for the bank if the loan defaults. This creates a win-win situation for both the lender and borrower.

Pros:

Cost effective. With low interest rates, extended repayment terms and no ballooning costs, SBA loans offer affordable repayment options for business owners at all stages.

Flexibility. Loan proceeds can be used as working capital, revolving funds, or to purchase real estate, equipment, inventory, etc.

Grow your business. With budget-friendly monthly payments, you'll have more money to put back in your business.

Cons:

Time to fund. The SBA loan process usually takes a minimum of six weeks for approval. Applying for a loan on your own can be even more time consuming as you'll need to fill out multiple applications and gather a multitude of documents. It's advisable to work with a broker that can help you streamline the process and has relationships with lenders in place.

Eligibility Requirements:

- 20 percent down payment for an existing business purchase or 30 percent for a start-up
- 640+ credit score
- Personal collateral required
- Industry experience preferred
- Secondary income preferred

2. 401(k) Business Financing (Rollovers for Business Start-ups)

With 401(k) business financing (formally known as Rollovers for Business Start-ups or ROBS), you can use up to 100 percent of funds from an existing retirement account to buy or start a small business or franchise without taking a taxable distribution or getting a loan. Funding through ROBS has been an option since the Employee Retirement Income Security Act passed in 1974, and it's growing in popularity. Since 2009, the number of new ROBS transactions at Guidant Financial has increased approximately 112 percent, and the market as a whole has experienced an estimated 75 percent growth over the same period.

Pros:
A quicker path to profitability. Because the ROBS structure is not a loan, no monthly payments or interest rates are involved, allowing you to make money faster.
Easy to qualify. There are no collateral or minimum credit score requirements, which makes qualifying extremely simple. If you have $50,000 in a rollable retirement account, you're eligible to use ROBS.
Control of your retirement funds. Unlike the stock market, ROBS allows you to direct your retirement funds to your business's benefit, and you don't need to worry about market volatility.

Cons:
Ongoing requirements. As a part of the ROBS structure, your corporation must sponsor a 401(k) plan. Though this is a competitive benefit for you and your employees, it does require annual filings with the IRS and DOL.
Risking retirement. Though investing your retirement funds in the stock market is never a sure bet, some entrepreneurs are not comfortable with the idea of alternatively using their retirement funds to start small business. If the business fails, you risk losing part or all of your nest egg.

Eligibility Requirements:

- At least $50,000 in a rollable retirement account
- No minimum credit score requirements
- No down payment needed

3. Home Equity Lines of Credit (HELOC)

Some business owners choose to use the equity in their home to gain capital for their ventures. Home Equity Lines of Credit act like a credit card in which you have access to a revolving balance and pay interest only on what you use. Interest rates usually vary over time based on prime.

Pros:
Easy to qualify. Given you have equity in your home, acceptable credit and a means to pay back the loan, HELOCs are fairly easy to obtain compared to traditional business loans.
Affordable debt. Interest rates for HELOCs are usually significantly lower than rates for other loans, and the interest you pay is tax deductible.
Great for working capital. Since HELOCs offer access to a revolving line of credit at any given time, they're an affordable option to get over a momentary rough patch in cash flow.

Cons:
You risk your home. Should you default on repaying your balance in a timely manner, you're at risk of losing your home.
Hidden costs and fees. HELOCs usually come with closing costs, attorney fees, loan processing fees, and sometimes inactivity fees and early repayment fees.

Eligibility Requirements:*
- At least 15% equity in home
- 660+ credit score
- Credit utilization below 45%

*These requirements are approximations only. Actual requirements may vary by lender.

4. Unsecured Loans
If you don't want to jeopardize personal property in order to obtain financing, unsecured loans provide up to $150,000 without any collateral. Unsecured loans work like small business credit cards, consisting of multiple lines of revolving credit that can be used and paid back as needed. But instead of relying on collateral, lenders look at your creditworthiness to secure the loan. As such, a high credit score and solid borrowing history is necessary.

Pros:
Keep personal assets safe. There's no need to need to risk your home or other property to secure the loan.
Quick funding. Guidant clients secure an average of $104,000 using unsecured loans in only a few weeks.
Freedom. There are no restrictions on what funds from an unsecured loan can be used for.
Low introductory rates. Interest rates begin at 0-3 percent for the first year, making it a great short term financing option.

Cons:
Increase in rates. After the first year, the interest rates for unsecured loans will rise, making them a less than ideal option if you won't have the cash flow to pay it back quickly.
Requires 690+ credit score. Because unsecured loans aren't backed with property, they do require excellent credit scores to qualify.

Eligibility Requirements:
- 690+ credit score
- Credit utilization rate below 50%
- Minimal recent credit inquiries
- No recent derogatory comments on your credit report