

Weighing the options for small business financing.

Most small business owners need access to finances at some point, whether it's to get the business up and running, or to make sure it continues running. There's no single best way for every small business, which is why it is always a good idea to talk to your banker about your options. Here are some of the financing options you may wish to consider.

The first source: you

The first source of business financing is always you, the business owner. Your existing cash and investments can provide interest-free capital, and your home or other fixed assets can be used as collateral to borrow against. In fact, borrowing by providing home equity as security can go a long way towards lowering your borrowing costs. Having a good credit rating is also important to secure any form of debt financing at a favourable rate.

Term loans and lines of credit

Interest rates are still at historic lows, so borrowing to invest in your business remains less expensive than it has been in previous years. Two of the most common forms of debt financing are term loans and lines of credit.

Lines of credit – or operating lines – allow you the flexibility to draw money when you need it. They're like an "open loan" that can be used whenever the situation demands, such as covering short-term expenses while you wait for money to come in from customers.

Term loans are less flexible, but can be a good option when you are planning to purchase an asset and require a certain lump sum of money that you'll repay over time. In general, the time to repayment will be matched to the useful lifespan of the asset purchased.

Credit cards

More than 70% of small business owners use credit cards to fulfill some or all of their financing needs. They can be a very convenient source of short-term cash to buy equipment and cover day-to-day business expenses.

Credit cards can also give you instant credibility with suppliers, since they establish you as credit worthy and guarantee immediate payment. Credit cards also make it easy to keep track of expenses and manage your cash flow, since your spending activity is usually detailed in a monthly statement. Consider having separate cards for personal and business use to simplify your bookkeeping.

In addition, credit cards can offer an attractive rate of interest if you shop around and talk to your banker.

Don't get carried away

Credit cards are more accessible than ever and, according to Brian Holt, Director of Small Business with Scotiabank this can lead some business owners to get carried away.

"Having multiple credit cards can signal to lenders that you might be at risk of getting in over your head. I usually tell clients to add up the available limits on all their cards, and it's often shocking to see just how much credit they actually have available."



Too much outstanding credit could cause you to be turned down when you really need it, or when applying for other types of credit, such as a mortgage.

“Try to keep the number of cards down to two,” says Holt. “This keeps everything in check, makes planning and bookkeeping more manageable, and can minimize fees. Also, you should practice saying ‘no’ when another credit card company comes along and pre-approves your company for credit. Instead, consider having the limit on an existing card increased if you really need that extra borrowing power.”

Consider leasing

Leasing vehicles and equipment for business purposes can be a great way to maximize your cash flow and avoid tying up your own – or borrowed – capital. There is also a strong tax benefit to leasing, since lease payments count as deductible operating expenses. In contrast, owning the same asset may entitle you to deduct only the depreciation costs, according to a government schedule.

Small business financing is a multi-faceted subject. The decisions you make about credit can lead to vastly different outcomes – for better or for worse.

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