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Launch Your Startup With Microloans

It is possible to find capital in a tough economy.
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By Eve Tahmincioglu

presented by  Rebecca Schulman didn't need a million dollars to get her business started. She needed just enough to make solid prototypes of the gender-neutral baby gear she had in mind, attend trade shows, and figure out sourcing. But Schulman, an untested entrepreneur, was light on specifics regarding the costs involved and how the products would be made.

"Since we were in the early stages, we were told it would be difficult to get an SBA loan or any traditional loans," she explains. And she and her husband soon learned it was going to take more than tapping into their personal savings and getting some help from friends and family to get Boston-based Papa Products off the ground.

After making phone calls to state government offices, the city of Boston and any economic development offices she could find, she heard about a microlending firm called Accion USA that made smaller loans to entrepreneurs.

She got on the company's web site and decided to put in a call. Within a few months she got a check for \$10,000, just the amount needed (the average microloan is about \$12,000 to \$13,000). "It was an amazing start for us," she says about the loan that had an 11 percent interest rate. "It gave us confidence that this idea has merit and someone believed in us."

With traditional lending sources keeping a tight lid on loans and credit lines, and with credit card rates skyrocketing, many would-be business owners without a track record have been forced to find alternative ways to get the money they need.

Microlending is filling that void for some, especially for those looking for loans under \$50,000 for early-stage funding, says Bruce Phillips, senior research fellow at the National Federation of Independent Business. "If you've taken a look at the three 'F's'--family, friends and fools--and have come up dry, and don't want to put it on a 22 percent credit card, microlending is an option," he says.

Typical microlenders are small community-based nonprofits with experience lending to individuals or small, local businesses. The SBA uses about 160 microlenders around the country as intermediaries to provide SBA loans to small businesses--and those lenders, who usually operate on an annual budget of \$20 million to \$25 million, recently got an incremental \$50 million through the Recovery Act. But not all microlenders are funded by the SBA. Some receive funds from state or local governments, and also philanthropies. For an informative Q&A on microlending, go [here](#).

If microlending sounds like something that may work for your startup, here's a rundown on what to do:

- Figure out how much money you need and if you'll be able to make payments on that loan monthly.
- Find a microlender in your town by talking to other business owners and business groups. You want to make sure these organizations are legitimate and not just fly-by-night storefronts. The SBA Web site's [microlending page](#) offers a list of lenders around the country.
- It's best to stay with microlenders in your geographic area, says Fred Tuffile, associate management professor and entrepreneurial expert at Bentley University.
- If you don't have a business plan yet, you can use an [SBA template](#), which is what Schulman used in order to get her loan from Accion.
- You may have to make a commitment to invest some of your own money in the business and put a home or car up for collateral. And you'll also need a good credit rating. Accion, for example, won't lend to entrepreneurs who have a score that's below 575, says Ana Hammock, the organization's New England lending director.
- Make sure the covenants are not onerous. "You don't want terms where the lender has to approve everything," Tuffile explains. "You want to run your business the way you think it needs to be run."
- Look for interest rates under 12 percent, adds Tuffile.
- Know your financial risks. "You have to weigh the pros and cons," notes Tuffile. "If you can't repay it, you put yourself in real risk of going into personal bankruptcy."

Bottom line, he maintains, "You have to be committed to your business to make it a success."

Known online as Careerdiva.net, Eve Tahmincioglu is the author of "From the Sandbox to the Corner Office," an in-depth look at top U.S. CEOs and the lessons they learned on how to succeed in business, as well as a career columnist for MSNBC.com.

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