

---

# Bootstrapping and Belt Tightening

## *Banking on Yourself*

By: Aaron Dyer

---

Lets get personal for a minute, and no, I'm not talking about you divulging those collegiate exploits you never told your parents. I'm talking about personal financing and your business, which in a way, is probably more revealing than those other youthful tales.

The fact is, most startup businesses are initially funded through personal finances and assets. You've likely looked at what you have stored away in your savings and checked out other possible valuable assets. Another option can be found by applying for a personal loan, the funds of which will then be funneled into your startup.

Credit cards are among the most popular sources of startup financing. For small businesses struggling to find funding, borrowing against a credit card can be an attractive--if not the only--option. Plunging further into credit-card debt is a scary proposition, but for many the outcome has been rewarding. If you feel using a credit card to fund all or part of your business is the best option for you, be sure to read the fine print before responding to your next credit-card offer in the mail. Understanding the risks before you accept the offer can save you a lot of financial pain in the future.

Furrowing your brow yet? Don't lose hope, but it might take a little more digging on your part- either for such

an asset, or for another source of funding.



Many people realize that their greatest asset is their house and this would be a viable option for capital. A residence can be used to obtain another mortgage, refinance an existing mortgage, or secure a line of credit. However, if things fall apart with your entrepreneurial endeavor, you must remember that if you default on the loan, you will lose your house. This can be a jarring thought, which is why doing your homework on loans is so incredibly vital. You want to do as much as you can to ensure your business will be a success and such action will not have to be taken.

A few things to consider about the value of your house include the fact that banks will typically allow a maximum total mortgage debt of about seventy to eighty-five percent of the current value of your house

when a second mortgage or a line of credit is involved. If you already have a pre-existing mortgage on your residence, the lender will typically charge a higher interest rate due to the fact that they will not be the primary mortgagor.

In the event that you cannot or choose not to offer your residence as collateral, see what other assets you have in the form of other real estate, business equipment, stock, life insurance policies, or pension plans. In some cases, you could have the ability to borrow against a percentage of an employee retirement plan. When it comes to securing funds for your business, it is important that you analyze all possible assets and seek advice on what could be termed beneficial collateral.

Some people choose to seek financing from friends or family, which can be a viable option. There are a few risks to consider with this type of method for receiving funds. For example, every transaction that you make with this type of party must be documented and in writing. Just

because you are on closer terms with this form of financier, does not mean that you can rely on verbal agreements. Miscommunication involving money is one of the quickest ways to sever family or friend ties. If their contribution is a “gift”, again make sure this is clearly stated and written.

This type of gift may also have tax consequences as the federal Internal Revenue Code allows an individual to be exempt from taxes if the gift is in the amount of \$12,000 or less. If the gift exceeds this amount would entail the filing of a gift tax return.

At the end of the day, it is crucial that you know what lengths you are willing to go in order to secure a loan. Consider where you are at this stage in life. Recent graduates may not have much, but that also means they don't have much to lose. Conversely, if you're feeding a family of four, supporting a house, and two cars, then the situation is drastically different. You can achieve great things, but great sacrifices might also need to be made. Are you prepared?

---

### **About the Author:**

Aaron Dyer is President of Dyer Consulting Group, a small business consulting firm that advises business owners on ways to grow their revenues and increase profitability through better strategic planning and financial management. For more information, and also to sign up for Aaron's future articles, visit [www.DyerConsultingGroup.com](http://www.DyerConsultingGroup.com)

