

## TYPES OF LOANS

### SMALL BUSINESS LOAN

Theoretically, a **small business loan** is an amount of money borrowed by a small business person to start or run a small business. Realistically, a small business loan is a euphemism used by lending institutions to describe personal loans given to small business people.

Consider that you may have an excellent credit rating and a solid business plan and still not be able to get a small business loan because you have no [collateral](#). Even established business people can find themselves in this position, if they do not own enough tangible assets, such as houses or other property.

In other words, the small business loan is not being granted on the status of your business; it's being granted on your personal financial status. That's why it's important that your personal financial house is in order before you apply for a small business loan.

You will also find that many lenders just don't provide seed money. While they're perfectly willing to give a small business loan to help a business grow, they don't want to take the risk of lending to a start up.

All that being said, you can get a small business loan if you know where to look and are prepared to meet the lender's expectations.

-Farm Credit Canada: [www.fcc.ca](http://www.fcc.ca)

-Business Development Bank of Canada: [www.bdc.ca](http://www.bdc.ca)

-Small Business Loans Library:

[http://sbinfoCanada.about.com/od/smallbizloans/Small\\_Business\\_Loans\\_Canada.htm](http://sbinfoCanada.about.com/od/smallbizloans/Small_Business_Loans_Canada.htm)

### LOW/NO INTEREST LOAN

While a grant is obviously an ideal source of government funding, you have an even greater chance of accessing government programs which provide financing for small businesses through loans. So if you've made the rounds of the banks and been shown the door, don't give up yet.

In fact, government loans are often better than bank loans. They may be interest-free, or may offer highly competitive rates. (In some cases, your loan may even be considered "non-repayable", which is another

way the government says "grant".) Government loans carry additional advantages. They're more likely to be unsecured; that is, you don't need to put up collateral against the loan.

You'll find loans under a variety of programs, directed at different industries, different geographical regions, and even loans directed specifically at women and young entrepreneurs.

For example, the federal Canadian Youth Business Foundation (CYBF) offers start-up loans of up to \$15,000, amortized over three to five years, to young people starting a business. Young, in CYBF parlance, means anywhere from 18 to 34 years old. You'll need to complete a viable business plan as part of the program, but that should be top of your to-do list anyway. The program often matches you with an experienced business person who can mentor you during (and after) the start-up phase.

## **GOVERNMENT GUARANTEED LOAN**

One of the reasons banks shy away from financing small businesses is the high risk factor. Many small businesses fail, and when that happens, the bank is stuck with a bad loan. But if someone is willing to guarantee the loan, or a substantial part of it, financial institutions are a lot more willing to pony up. It's like having Dad co-sign for that car loan.

Government insurance (available for low premiums or even no premiums) provides this option to small businesses. For example, the Canadian Small Business Finance Program (CSBFP) can help you get a loan of up to \$500,000 to buy or improve real property or equipment, or to make leasehold improvements. Your loan will finance up to 90 percent of these costs.

Interest rates on CSBF loans are either floating or fixed, but the floating rate can't be more than three percent higher than the lender's prime rate, and fixed rates can't be more than three percent higher than the lender's residential mortgage rate. You will pay a fee of two percent of the total amount of the loan, but this, too, can be financed and added to the total – as long as it doesn't exceed the maximum of \$500,000.

The Community Futures Development Fund will also provide loan guarantees [www.ontcfd.com](http://www.ontcfd.com)