

The Truth About Grant Money and Businesses

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Urban legends, old wives tales, community myths, misinformation, and misconceptions – no matter what you call it – they continue to plague the community.

We've all seen the headlines: "Millions in free government money for your business." Late-night infomercials, reference guides and websites promote the availability of grant money to entrepreneurs for starting and expanding businesses. Does it sound too good to be true? Well, it is!

Your small business resource, the U.S. Small Business Administration (SBA) (www.sba.gov), has valuable information to help turn your entrepreneurial dream into a thriving new business.

Would-be entrepreneurs often ask the Small Business Administration "Where can I get find grants to start a business?" And, sadly, some of these individuals pay big money to attend business financing seminars that travel from city to city focusing on "free" government money for their business. All you have to do is pay these folks up front and they will fill out some paperwork for you to apply for these "grants."

The trouble is the rare few grants that are available are so highly specialized in research fields that the odds of getting them are astronomical. In other words, it's a dead end. Forget about government grants to start a new business. It won't happen.

The truth is that federal and state governments do not provide grants for starting and expanding small businesses. However, the U.S. government does offer a wide-variety of low-interest loans and venture capital financing programs to help entrepreneurs start and grow their businesses.

In addition, some federal and state agencies award a limited number of grants for very specialized business activities dealing with scientific research and development.

The Small Business Administration (SBA) works with small business development centers. The small business development center in Georgia (<http://www.sbdc.uga.edu>) and other locations has explained time and time again that there are very few grants available, especially government funded grants, for small businesses.

Generally, cities, counties, school systems, and other non-profit entities are the ones who get grants. In some cases, these entities lend money to businesses if the business meets their criteria. Only under special circumstances where public welfare - for example child care - or technology is involved do grant opportunities exist for private small businesses.

Myths about grant money for businesses continue to pollute the community - especially the myth about how there are more grant money for women who are interested in opening up businesses.

If you seriously think someone is going to give you money because of your gender then you are sadly mistaken.

The Small Business Administration or banks will not give money to women or men unless they meet a certain criteria or have built personal relationships with these people. They might have programs that cater to women, but again, this money is only going to certain women who meet the criteria.

The SBA doesn't lend money directly to you; instead, it guarantees part of a bank's loan to your business.

The SBA has several lending programs, which makes it easier for a small business to borrow money. SBA administers these three separate, but equally important loan programs: 1) The 7A Loan Guarantee Program, 2) The SBA Low-Documents Program, and 3) SBS 504.

But don't think the SBA is an easy place to borrow money. Its requirements may be looser than those of banks, but it still has requirements that you must meet. To apply for an SBA loan, you need to visit your local participating bank or lending institution. Or you can ask individual banks or your Chamber of Commerce which banks participate in the SBA loan program.

SBA sets the guidelines for the loans while SBA's partners (lenders, community development organizations, and micro-lending institutions) make the loans to small businesses. SBA backs those loans with a guaranty that eliminates some of the risk to the lending institutions.

General lending criteria for the Small Business Administration include: 1) outstanding credit history (FICO/Credit Score of over 700), 2) cash flow adequate to service the debt, 3) collateral, 4) equity, 5) character, and 6) experience.

According to the FICO website (www.myfico.com) credit scores usually run from 300 to 900. Everyone should check their credit file once a year to remove negative items. You have to write letters and sometimes it takes up to two years to remove this negative information from your credit file. The three credit bureaus are Equifax (www.equifax.com), TransUnion (www.transunion.com) and Experian

(www.experian.com). You can obtain a copy of your credit reports simultaneously from www.annualcreditreport.com You can obtain these credit reports free twice a year in the state of Georgia.

The main advantage of SBA and, often of bank loans are that you can get long repayment terms – from 10 to 25 years – which makes payment terms affordable.

Banks do give out loans, but they typically aren't a good source for new companies unless you have built a relationship with the banks. First, they want you to be able to collateralize the loan, which means you have to have assets, personal and business that the bank can claim if you can't make payments. These are very tough terms for a small business owner to follow without severely restricting his or her business's growth.

The four main types of loans that banks offer are: 1) *Installment loans*, on which the business makes monthly payments over a certain number of years, 2) *Term Loans*, with which the entire loan is paid off after a predetermined term (usually one, two, or five years), 3) *Asset-based loans*, which might be for inventory or equipment, and 4) *Revolving lines of credit*, which businesses can draw upon when cash is low and then pay off when cash flow is high.

Banks will actually give you money for a "home improvement loan" or a "vacation loan" before they will give you a business loan because business loans are just too risky.

Remember that 90% of all start-up money for a business comes from private sources such as moonlighting jobs, working part time, divorce settlements, child support payments, yearly income tax returns, 401K's and other private and government pensions. Over 25% of all companies are started with less than \$5000.

Raising money for your company is hard work and it can be completed only with careful planning and research. And again, don't wait around on grant money to start your business.

This type of information in this article can be discovered during the research stage of opening a business. But many people skip the research stage and thus end up going out of business within the first two to five years.

Top business myths, mistakes and scams are listed at (www.youthentrepreneurshipclubs.com).

For more information about start-up businesses read the "First Stop Business Guide" at http://www.sos.state.ga.us/FirstStop/first_stop_business_guide.pdf.

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