



Self-Funding vs Bank Funding

Self-funding, also known as bootstrapping, is a method of financing a business using the owner's personal resources or the business's internal cash flow. This approach allows the business owner to maintain full control and ownership of the business, without the need to seek external investors or lenders.

However, self-funding also comes with its own set of challenges and risks. The business owner assumes all financial risk, which can lead to personal financial strain if the business does not perform as expected. This risk can be further amplified if the owner has provided personal guarantees or secured loans against personal assets, such as their home.

Advantages of Self-Funding

- **Full Control and Ownership:** The business owner retains complete control over the business and its direction. They are not obligated to answer too investors or lenders and can make decisions based on what they believe is best for the business.
- **No Equity Dilution:** The business owner does not have to give up any equity in the business, which can be beneficial if the business becomes highly profitable.
- **No Interest Payments:** Unlike loans, self-funding does not require the business to make regular interest payments, which can improve cash flow.

Risks and Disadvantages of Self-Funding

- **Personal Financial Risk:** The business owner assumes all financial risk. If the business fails, the owner could potentially lose their personal assets, especially if they have provided personal guarantees or secured loans against these assets.
- **Limited Resources:** The amount of funding available is limited to the owner's personal resources and the business's internal cash flow. This can limit the business's growth potential, especially in the early stages.
- **Potential for Financial Strain:** If the business does not generate sufficient revenue, the owner may face financial strain. This can impact the owner's personal life and potentially the viability of the business.

Bank Financing and Its Implications

Bank financing is another common method of funding a business. This involves borrowing money from a bank or other financial institution, typically in the form of a business loan. While this can provide a significant source of capital, it also comes with its own set of challenges and risks.

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Most notably, businesses that use bank financing are often fully encumbered by their bank. This means that the bank has a claim on the business's assets until the loan is repaid in full. If the business fails to repay the loan, the bank can seize these assets to recover the debt. This can include the business's property, equipment, inventory, and in some cases, the owner's personal assets.

In conclusion, while self-funding can provide business owners with greater control and potential for profit, it also comes with significant personal financial risk. On the other hand, while bank financing can provide a larger source of capital, it can also lead to encumbrance and potential loss of assets. Therefore, business owners should carefully consider their options and seek professional advice before deciding on the best financing method for their business.