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Free Money for your Business? Yeah, right!

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With lenders becoming less willing to extend lower-interest credit in an unpredictable economy, it's understandable that entrepreneurs might be tempted to respond to one of the offers of "free money" that are ubiquitous on late-night or daytime television.

Many of us have seen the commercials starring the guy in the question-mark suit and polka-dot bow tie who has been a mainstay of non-prime time television for years. He has made a fortune writing numerous books that claim to direct readers to "free" government money to start businesses, build homes, pay bills and so on.

And he's not the only one making such assertions. Plenty of lower-profile hustlers claim inside information about free money that's available to help people start a business. Their advertisements include enticements to send money or attend a seminar to learn where and how to get these grants (for \$399.95 to \$900 or more!). Once hooked, the hapless prospector learns that the "inside" information originated on the Internet or in government records that outline technical-assistance programs for businesses or money for nonprofit organizations that provide health services, business advice or community activities for young people.

While grants indeed may be available, few offer to assist businesses that operate for profit. Most are earmarked for nonprofit organizations that help children or senior citizens or are geared toward education or solving specific social problems. Rarely will someone find a grant to start or expand a retail or service business.

In my 16 years at the Clovis Community College Small Business Development Center, I've seen a few legitimate programs that offered debt-free money. Most took the form of a contest sponsored by a local utility or software company.

One legitimate grant program sponsored by the federal government is the Small Business Innovative Research program, which offers money for research and development in the areas of defense, space exploration, high-tech, biotech, energy savings and recycling. Competition for these funds is fierce, and funds are not awarded for the purchase of inventory, equipment, working capital, real estate or advertising, among other things.

Nevertheless, the myth of “free money” persists because of the tactics of certain marketers.

With so many con artists actively preying on naïve or uninformed people, the buyer must beware. According to the Federal Trade Commission, if getting the grant requires that you make an advance payment, it’s usually a scam. Before you send money or sign up for a costly seminar to get information about free grants, protect yourself by taking the following precautions:

1. Make sure the company has a phone number that you can call. Don't just leave a message for them to call you.
2. Confirm with directory assistance that the phone number belongs to the company.
3. Contact the Better Business Bureau and the police department or sheriff’s office that has jurisdiction where the company is based. Ask if any complaints have been lodged against the company.
4. Contact the city attorney or state attorney general that has jurisdiction where the company is based to check whether the company faces complaints or lawsuits.
5. If you decide to send a payment, try to send it to a physical address rather than a post office box.
6. Visit the Federal Trade Commission Web site for additional tips at www.ftc.gov.

Finance New Mexico is an initiative of the New Mexico Small Business Investment Corporation (NMSBIC), New Mexico Small Business Development Center (NMSBDC), Empowering Business Spirit (EBS), the New Mexico Venture Capital Association (NMVCA) and other partners to assist individuals and businesses in obtaining skills and funding resources for their business or idea. To learn more about resources available to New Mexicans, go to www.FinanceNewMexico.org.

