Finance New Mexico

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Debunking the Myths that Hobble Business Growth

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Many myths and misconceptions masquerade as truths in the business world, and people trying to start or expand a business are often misled by them. Realistic expectations are critical to business success, and getting real begins with separating fact from fiction. Some examples:

"The lack of a product or service in an area is the most important indicator of a need for it." The absence of a product or service might suggest an unmet need, but the savvy entrepreneur will want to eliminate other possibilities. Perhaps the product or service is obsolete or other products offer the same benefit. The cost of the product or service might be prohibitive, or the product might be offered online or nearby at more competitive rates.

"If I attend a tax-education seminar, the Internal Revenue Service will audit my return." The IRS does not audit people on the basis of who attends tax-education seminars. The IRS uses a computer program called Discriminant Inventory Function System to identify returns that might warrant a closer look. All individual and corporate returns are sent through this system after processing; a score is assigned to the return and those with high scores are flagged for possible audits. High scores can be generated, for instance, by returns that that don't show or match a Form 1099 that was reported to the IRS.

"I don't have to put any money down if I borrow from a bank." All commercial lenders require prospective borrowers to put down 25 percent to 30 percent of the money they want to start a business. Some New Mexico lenders, including ACCION, The Loan Fund and WESST Corp., have more flexible terms than traditional lenders and can also accept nontraditional items as collateral.

"There is no way I will risk losing my house by using it as collateral for a loan." Never speak these words to a potential lender unless you want to quickly be shown the exit. If a potential borrower is not willing to risk a home or something else of significant value to start or build a business, he or she is unlikely to find a lender willing to offer a loan. Small business loans are considered high risk, which means personal property must be pledged as collateral.

"Since I am buying a successful business, the bank will only look at the profitability of the existing business and not at my credit score." The profitability of an existing business is important, but the existing owner isn't the one borrowing the money to buy the business and run it in the future. The lender must be confident that the new owner is competent to keep the

business in the black, so the lender — the one taking the financial risk — will require the borrower to personally guarantee the loan and will review his or her credit history.

For more information about starting a business, go to www.nmsbdc.org.

Finance New Mexico is an initiative of the New Mexico Small Business Investment Corporation (NMSBIC) and its 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.