

Self-Finance Your Business

Money you lend to your business is money that you can easily lose. Reduce, or even totally eliminate, the risk of losing your investment in your business and simultaneously create a defensible mortgage against your business.

The wrong way to finance your business is to directly invest in your business; whether to buy the corporate shares (equity) or as a loan to your business. If your business fails, you are then a stockholder or unsecured creditor. In either instance, you'd probably reclaim little or none of your investment. The bankruptcy court may even cancel your claim or subordinate your claim to claims of arms-length creditors.

Still, you can secure yourself with the assets of the business so your claim has priority over claims of the businesses' other creditors. To solidify your mortgage against your business requires additional steps. For instance, a bank could directly loan your business. Your business would pledge its assets to the bank as collateral. Your bank will lend to your business if you pledge sufficient personal assets to collateralize the loan. As a fully secured loan, your bank has no risk. If your business fails, your bank as its secured party would be the first creditor repaid from the liquidation. After repayment, your bank would release to you whatever personal assets you pledged as security.

Don't invest or lend money to your corporation without first reviewing this strategy with your attorney. Structuring your investment in this manner gives you two advantages:

- 1) what you invest in your business will be better protected,
- 2) you indirectly control the mortgage against your business and indirectly protect your business against lawsuits.