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# Home Equity Loans Scarcer for Business Funding

Small business owners and entrepreneurs used to have an easy and readily-available source of funding for their ventures – home equity loans. There was plenty of money to go around, especially during the recent housing boom, when home prices in many areas grew at astronomical rates. In fact according to a recent survey conducted by Discover Small Business Watch, almost a third of the participants said they had used home equity loans to fund their businesses. These low-interest rate mortgages were cheaper than unsecured loans and the interest was fully tax deductible.

Within the past year however, rising foreclosure rates among subprime or poor credit borrowers has sent the mortgage and housing market into a tail spin, with investors left and right pulling out of the turbulent scene. The result has been stricter lending standards and less money available for so-called riskier home loans like subprime, jumbo, and home equity mortgages.

Whereas small business owners used to be able to pull out loans for 95 percent of their home values with less-than-perfect credit, mortgage money has tightened so much that most lenders now expect excellent credit and much lower loan-to-value (LTV) ratios for home equity financing.

Those with service-related businesses, a category with proportionally more women and minorities than other fields, may be hurt most by the credit crunch as they lack hard assets to back up their loans. Home equity loans were once the best solution for these owners of service firms. No these mortgage loans require much more stringent proof-of-income statements – documents that are often difficult for small business owners to produce. Even when applicants do qualify, they are often charged higher interest rates now for home equity loans than previously.

If you are a small business owner looking for some extra investment funds, or if you are an entrepreneur looking to start up your own company, there are some other options if you don't qualify for a home equity loan. They may be less desirable, but if you need the funding, they are better than no loan at all. You could also try pulling out a home equity loan for part of the money you need and financing the rest with other means. These might include regular bank loans, or unsecured loans. Another option might be private lending where individuals come together to invest in small loans. There are plenty of websites today offering this type of service. Many state and local governments also provide loans and assistance to small business owners. All of these options will come at higher interest rates than you would get with home equity loans, but they can still provide you with the money you need.

If you get really desperate for funds you could also consider drawing from your 401k. You can borrow as much as half of the balance with a limit of $50,000, and replenish it for slightly higher-than-prime interest rates.

When the mortgage market re-stabilizes, home equity loans will likely be much more available. Until then though, if you don't have stellar credit you may have to seek alternative means of funding for your business investments!