Definition of Private Money Lending

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Private money lending is a method that certain businesses, often startup businesses that are not connected with any other company, use in order to raise money for ventures. These entrepreneurs can struggle to find funding for their businesses. Traditional lenders like banks are increasingly hesitant to provide money to new businesses that have not yet proven themselves or established a customer base. Private money lending provides a channel for these business ventures to find the money they need.

1. Definition

- Private money lending is also known as hard money lending, or funds loaned by a private investor who is supplying the funds from personal assets. These investors are not acting on behalf of any larger lending company, but want to directly fund the venture themselves. Private money loans often operate under the same terms as more common loans, and are often made for smaller amounts.

Uses

- Private money lending is used to help venture businesses get started; there are a number of different operating expenses that a company needs to cover before it can begin to work. Companies may need private money loans to afford office space, even if they need to lease it, or other important assets like equipment and vehicles. Many businesses must purchase computers, utilities and office supplies in order to begin operation. Licenses, employee wages and transportation costs are among other expenses a business must have covered as it begins.

Sources

- Most private money loans come from people already known to the entrepreneur starting the business. Family and friends are one of the first sources of private loans. However, there are other options. Angel investors are hard money lenders that specialize in seeking out business ventures they believe have a strong chance of success and supporting them with private funds.

Considerations

- Private money loans are not only for smaller amounts than regular loans -- often only several thousand dollars -- but also come with additional requirements as well. Private money lenders will almost always want their loans backed by assets, some type of real collateral that a business already owns and can give up if it defaults on the loan. Other lenders may require various types of compensation in return for their investment, such as a directorship, consultant position, or private shares in the business.

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