Unique Ways to Finance a Franchise Opportunity

creditcards.com (May 2017) – Starting a business, paying for education and even financing a once-in-a-lifetime trip – sometimes credit cards allow people the freedom to take a risk they couldn't otherwise afford.

"There are times when making a charge that is beyond your ability to promptly repay makes sense," says Martin H. Lynch, director of education for Cambridge Credit Counseling Corp., in Agawam, Massachusetts. Financing a dream is one such case, but while dreaming big is good, having a repayment plan is better.

After you've exhausted other payment options such as low-cost loans, crowdfunding and asking loved ones for help, funding a risky or dream venture with a credit card may be your best option. Here are seven rules to help you determine if the risk is worth it, and how to avoid ruining your financial life in the process.

1. Determine the value of the risk.
Make sure you're spending your money on something that has value. One example: Paying for a training course that could increase your future earning potential.

There may be intangible benefits to using credit to finance a risky venture to consider, too. Investors often look favorably upon those who are willing to take on debt themselves for their businesses, says Clifford R. Ennico, small-business expert and author of "Small Business Survival Guide." "As one investor once told me, 'Don't ask me to put my house at risk if you are not willing to do so yourself.'"

2. Consider your credit history.
Your credit score influences the amount that new debt will cost you. With a high credit score, you can take your pick of loan offerings with low interest rates.

Case in point: Susan Nagi of Tempe, Arizona, took out $52,000 in personal loans and used credit cards for living expenses when she started a business in 2014. She says owning an Our Town America franchise – a company that helps local businesses connect with new residents in a community – was a success partially because with a credit score in the 800s, "Everybody wanted to give me money."

3. Make sure you understand the downside.
Credit card interest rates are rising in the wake of the Federal Reserve's interest rate hikes, so know that paying for your dream will cost you more in the months ahead. Also, taking on debt will likely lower your credit score.

Talk over your plans with loved ones, too. If you're not single, "Make sure your spouse and family are on board before you do this – they may not have the same appetite for risk that you do," Ennico says.

4. Imagine the worst-case scenario.
Think about what you would do if your dream failed. Would you be able to pay the debt you're getting ready to take on?

When Dallas-based small-business funding expert Myra Good used credit cards to finance a handbag line back in 2010, she was still working full-time so she knew she'd have a salary to help pay off the debt even if the venture did not succeed. Having multiple streams of income or the ability to pick up contract work in a pinch can also minimize the risk of going into debt.

5. Start with the end in mind.
Calculate a time frame to pay down your credit card balance quickly by paying more than the minimum.

Josh Skolnick used credit cards to spend $75,000 on advertising and marketing costs for his southeastern Pennsylvania tree removal business Monster Tree Service in 2008. He paid off all of that within six months out of the profits he made from his business. "When I put the charges on the credit card, it was never meant to be a long-term play," Skolnick says.

6. Look for a promotional rate.

Shop around for a business credit card. Your best bet is a business card offering 0 percent for an introductory period, which is basically a temporary interest-free loan. Several business credit cards currently offer 0 percent interest for nine or 12 months.

Matthew Blackmon of Long Beach, Mississippi, used credit cards to help cover living expenses while he got his pool service franchise, America's Swimming Pool Co., off the ground in 2012. "If you have 24 months of 0 percent interest, make a plan to get it all paid off, or a large majority of it paid off by the time that interest kicks in," Blackmon advises.

7. Find tangible things to sacrifice.
When Good used credit cards to finance her handbag line, she gave up trips to Dubai and other exotic locations she enjoyed visiting. Look for ways to cut back in order to speed up the repayment process.

Ask yourself: "Are there expenses that you could significantly reduce or eliminate, at least temporarily?" Lynch says. "Make those cutbacks *now* to make paying yourself back easier."

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