Sources of funds advantages and disadvantages

	Debt	Equity	Internal Funding
Funding risk	Lender	Owner / Investor	Owner / Investor
Security	Most commonly required	Not required	Not required
Advantages	Business retains control over all business operations and growth in value of the business is retained by the owner. Interest expense is tax deductible. Generally lower cost to business than using equity.	Ability to raise funds in excess of security restrictions and no exposure to change in interest rates. Utilising an investor can provide opportunities for strategic alliances and mentoring.	Potentially increase profitability as these funds will not carry service costs. Business retains control over all business operations and growth in value of the business is retained by the owner. No exposure to external risks, such as interest rates and investor appetite. No credit history is needed.
Disadvantages	Ability to raise funds is limited by security available. Regular reporting to banks on business operations and finances. Business may be exposed to financial risks as a result of interest rate movements. Profitability can be impacted by high debt-servicing costs.	It often takes a long time to raise equity. Loss of control and autonomy in decision-making (other investors may want a say in the operation of the business). Greater pressure from other investors to achieve growth and higher returns. Possible need to identify exit strategy for investor that may not align with the owner. Potential personality conflict between owner and other investors. Additional costs of equity process. Dividend payments by the business are not tax deductible.	Potential tightening of operational cash-flow if internal finance is used for long-term asset purchases. No credit history is developed Potential loss of mentoring from investor if equity finance was an alternative No tax deductions due to no servicing costs.