Your Ultimate Guide to **Small Business Financing**

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The Lending Landscape

Finding capital to finance growth is one of the biggest challenges facing a small business owner today. Technology is changing the way small business owners acquire funding, for the better.

83% of all business owners who applied for financing applied for a loan or line of credit (in 2015)

Many online lenders are leveraging technology to safely and securely analyze your business to make approval decisions faster than ever. And more businesses are approved becuse this technology uses more than just your personal credit score to make a decision.

Over the last few years, your options for business financing have increased (for your benefit), which is why it's important for you to be better informed and savvier about your options when you approach the small business loan process.

SOURCE: Report SBCS 2015 non-employer firms

Small Business Financing Options

Technology has opened the financing door to many more small businesses, with that, it's also doubled the amount of research you must do before you can make the best decison for your business. It's good for you to know exactly what types of financing services are available for small business owners to look into. This overview will take you through the basics of what you need to know.

Traditional Lenders

- Long application process
- Lend larger amounts
- Significant paperwork
- Often require very specific, high value collateral
- Personal credit score-based evaluation

Online Lenders

- Short application process
- Lend smaller amounts
- Less paperwork requirement
- Can work with younger businesses
- A more data-driven approach
- Often require blanket lien on entire business rather than specific collateral

Traditional Financing

Business financing is as old as businesses themselves. Traditional financing refers to financing options that until recently were the only ways for small businesses to access funding.

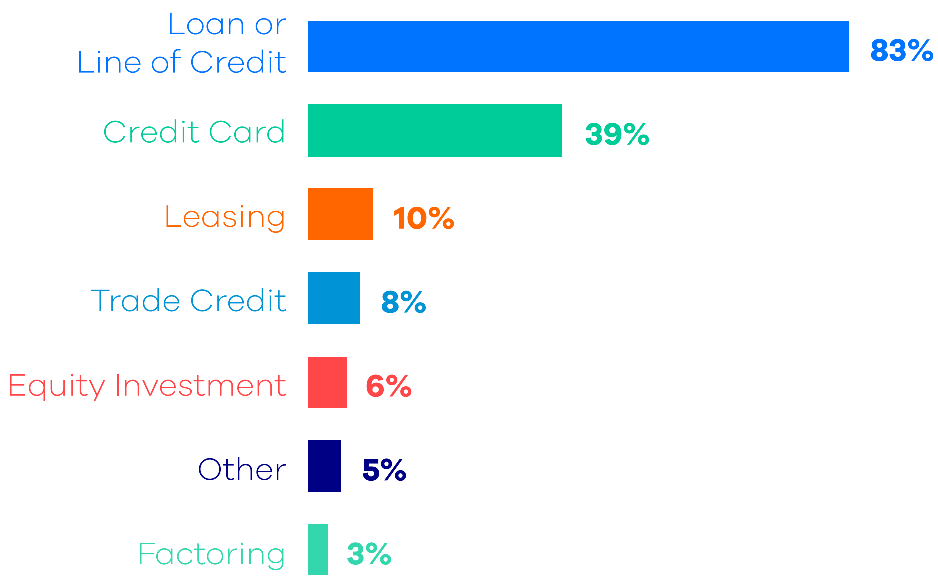
Bank Term Loan

A bank term loan is a loan that is repaid over a set period of time. They vary based on your business and each individual bank. As a general rule, banks prefer to make larger business loans. The average small business bank loan is for $500,000 with 3-10 year terms. To qualify for a loan at the bank, you will need excellent personal credit and a strong business history. The application for a bank loan typically takes weeks or months.

Business Line of Credit

A Line of Credit is a revolving loan that gives business owners access to a fixed amount of money, which they can use day-to-day according to their needs. A line of credit is a flexible tool for business owners, but is one of the most difficult types of financing to qualify for. To qualify for a small business line of credit at the bank, you will need excellent personal credit, a strong business credit history, and may be required to have specific collateral.

% of small business owners
who apply for financing by type



SBA Loans

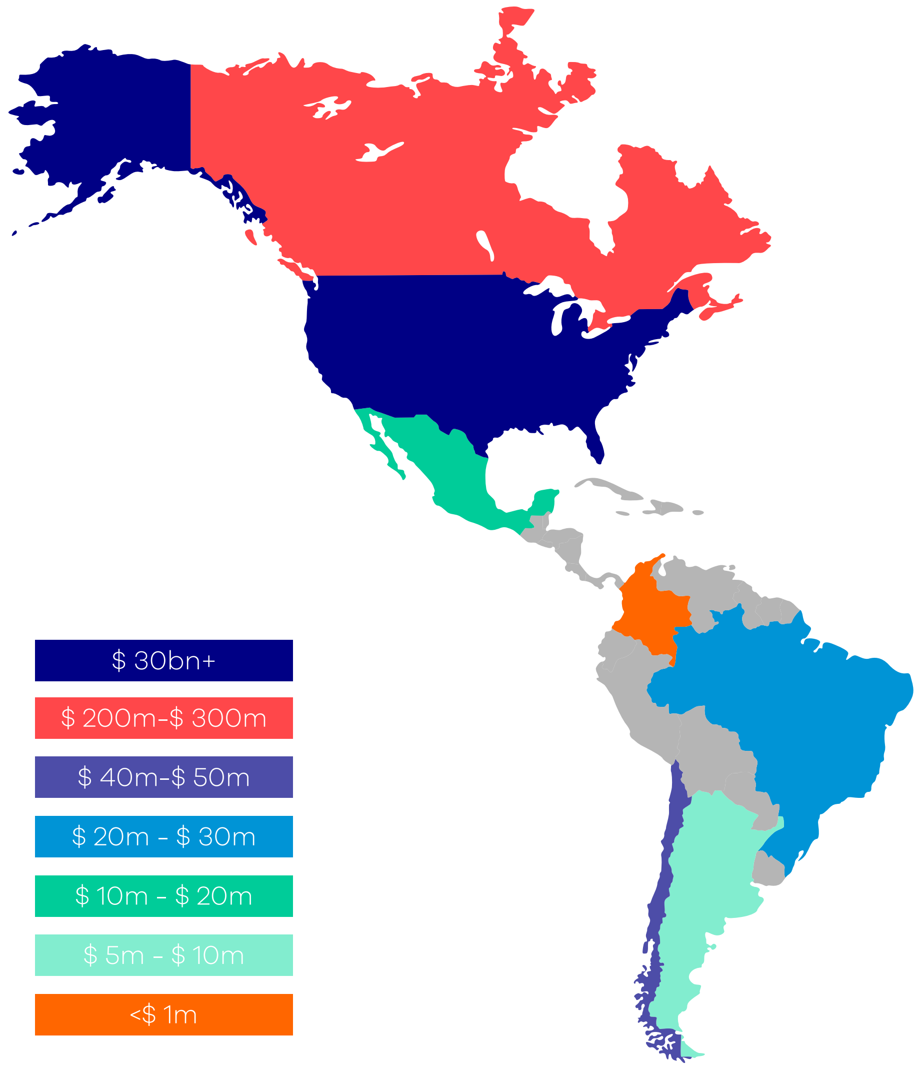
SBA loans come from participating banks, credit unions, and other licensed non-bank lenders—not from the SBA itself. The loans are partially guaranteed by the U.S. Small Business Administration (SBA). The SBA offers a range of loan programs from micro loans, in the $5,000 range to long term larger loans for millions of dollars. The application and approval process typically takes weeks to months.

Merchant Cash Advance

A merchant cash advance (MCA) isn't technically a loan, but rather a cash advance based upon the credit card sales of your business. A small business can apply for an MCA and have an advance deposited into its account fairly quickly.

An MCA provider will fund a business and then hold back a percentage of credit card sales until the advance and all fees are paid off. An MCA typically comes with a shorter term and a higher rate than a traditional loan.

Map of Alternative Finance Transactions
in the Americas in 2015



SOURCE: 2016 Americas Alternative Finance Benchmarking Report

Factoring

Factoring is technically not a loan and is sometimes referred to as a "lockbox" at lenders that offer this service. It can be useful for any business that doesn't have other assets to offer as collateral and need capital quickly.

A "factor" is a third party that purchases part, or all, of a company's accounts receivables in exchange for a percentage of the invoice. The "factor" then owns the outstanding invoices and collects from the customers directly. The factor earns a profit from the difference between the discounted rate negotiated to buy the account receivables, and the full invoice amount collected from the customer.

Top 5 sectors in the US & Canada who use alternative financing

- Construction
- Finance
- Business & Professional Services
- Technology
- Retail & Wholesale

Equipment Financing

Equipment Loan

Unlike larger general-purpose small business loans, equipment loans can be for smaller amounts, which can make them easier to obtain. The equipment being purchased is usually used as collateral for the loan.

Equipment Leasing

Leasing equipment can be a good alternative to taking out a loan if the equipment you need will become outdated and/or need to be replaced quickly. Many lease agreements allow for the purchase of the equipment at the end of the lease. Leases can be attractive because the payments are often less than a loan.

SOURCE: 2016 Americas Alternative Finance Benchmarking Report

Online Financing

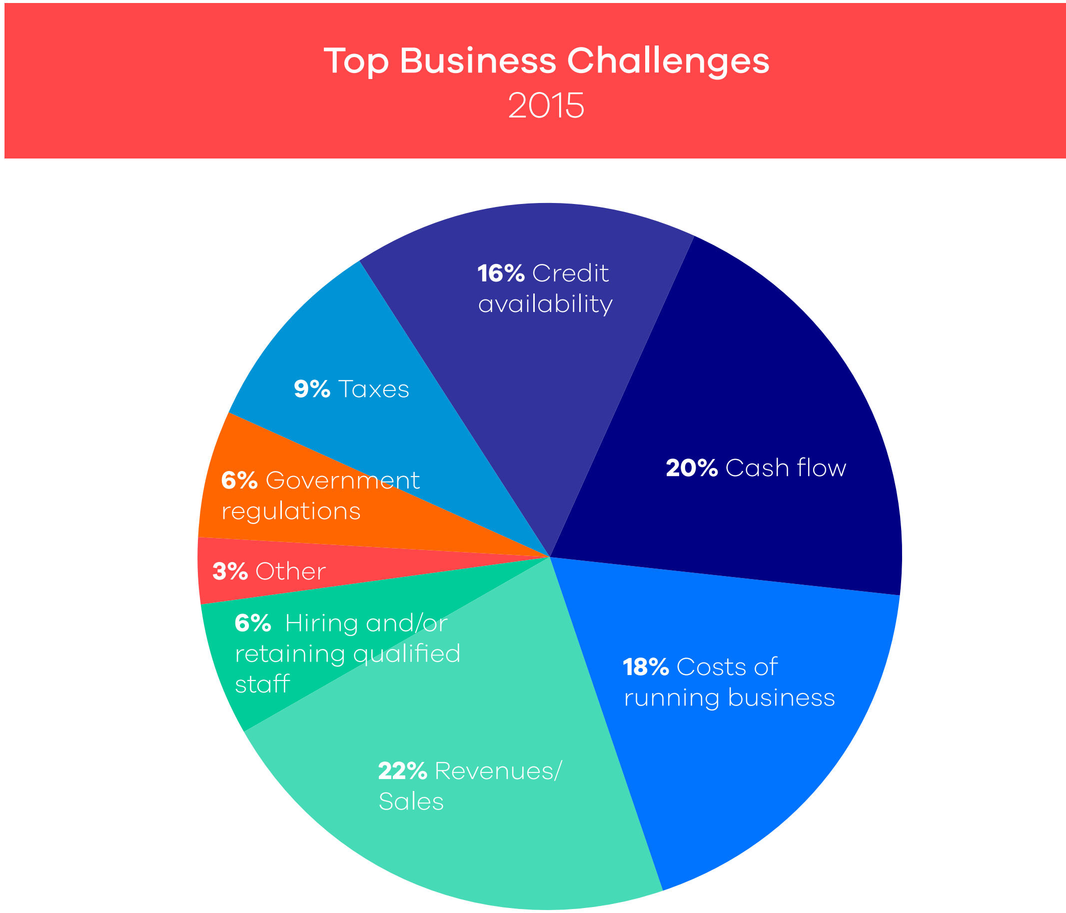
Over the past several years, online lending has grown exponentially. The qualification criteria used by many online lenders as they evaluate a business' creditworthiness is different from the criteria used by traditional lenders. So, some businesses that wouldn't qualify for a loan at the bank might qualify for an online loan.

Online Term Loan

Online loans are similar to traditional term loans in that they have a set term, periodic payments, and an interest charge, but some lenders differ in their approach to qualification criteria which allows greater access to capital to more businesses. These lenders use technology to evaluate businesses differently from traditional lenders. For example, online lenders may access a business' transactions and cash flow via their online business checking account or examine other digital data points to analyze a business. The use of technology allows for a simple application, flexible loan amounts, and quicker decisions to a loan application.

Online Line of Credit

An online business line of credit works the same as a more traditional line of credit with an application process similar to online term loans. Many online lenders use the same application for both term loans and lines of credit to simplify the process and make it easier for business



SOURCE: Report SBCS 2015 non-employer firms

Crowdfunding

Crowdfunding mobilizes a group of people to dedicate small amounts of money towards a common goal, such as the creation of a product, the funding of a non-profit, or the birth of a small business.

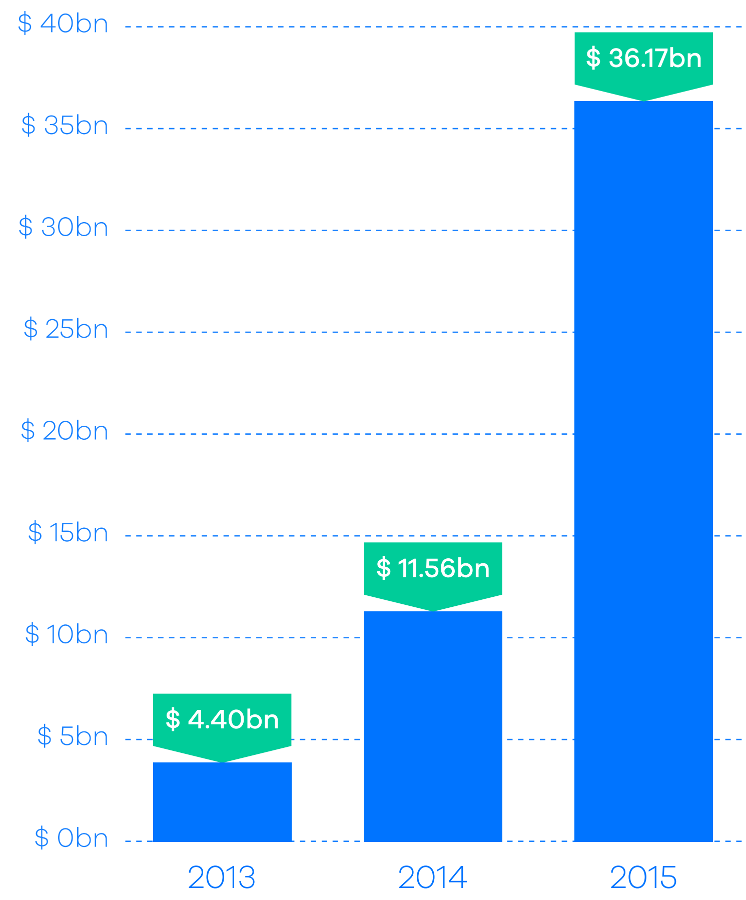
Most crowdfunding sites require you to establish a financing goal and that you reach your goal to receive any monies raised, while others allow you to collect what you raise without meeting your goal, but charge a higher fee. Most successful crowdfunding campaigns offer some kind of premium, that may be an early release of the product or something else of value.

A newer form of crowdfunding allows the business owner to offer ownership equity for an investment in their business. The federal government requires these investors to be accredited investors, and the state where you do business will likely have additional requirements that you'll need to investigate before you determine which type of crowdfunding is better for your business.

Loan Matching Sites

Loan matchmakers don't actually make loans; they help small business owners by introducing them to lenders that offer a wide variety of small business loan products ranging from online business loans to SBA loans.

US Online Alternative Finance Total Volume
2013 - 2015 ($USD)



SOURCE: Report SBCS 2015 non-employer firms

What Type of Financing Can I Get Approved For?

Before you apply, it's good to have an idea of the type of financing you may qualify for. This will help you avoid wasting time filling out applications for financing that may not be a good fit for your business situation.

	TRADITIONAL BUSINESS LOANS		NON-BANK BUSINESS LOANS		OTHER NON-BANK PRODUCTS		
	Bank Term Loans	SBA Loans	Short-Term Online Business Loans	Long-Term Online Business Loans	Merchant Cash Advance	Factoring	Equipment Lease
Personal Credit Score Requirement	680+	650+	500+	600+	500+	500+	600+
Time in Business Requirement	2+ years	0 years	1+ years	1+ years	6+ months	1+ years	1+ months
Revenue/Cash Flow Requirement	Likely to require 2+ years of profitability	Need business plan and good financial records or projections	$100,000 annual revenue required	$100,000 annual revenue required	Must have $5,000/ month from credit card sales	Business must have a guaranteed and steady receivable cash flow	$100,000 annual revenue required
Specific Herd Collateral Required (Real Estate, Equipment)	Yes	Usually	No*	No*	No*	No*	Equipment being purchased
Loan Terms	3 - 10 years	5 - 25 years	3 - 24 months	1 - 5 years	Typically 3 - 18 months	Can factor individual invoices or enter 1+ year agreements	2 - 10 years
Amount Available from Lender	%50,000+ depending upon the bank. Typically prefer larger loans, Average loan size $500,000	Starting at $10,000. Average loan size $350,000	$5,000 - $250,000	$5,000 - $500,000	$5,000 - $500,000	$100,000 - $2,000,000	$100,000 - $2,000,000+
Time from Application to Funding	14 - 60 years	30 - 90 days	As fast as same day	As fast as 5 days	As fast as 2 days	As fast as 5 days	As fast as 5 days

*May require a general lien on corporate assets and/or a personal guarantee.
Disclaimer: This chart is based on general observations and each lender may vary their offerings and requirements.

Understanding Rates, Costs and Fees

As you begin the process of evaluating your financing options there are some questions you should ask any lender before you sign on the dotted line.

The total cost of capital, interest rates, and APR:

Understanding the complete picture of your interest and fees of your financing is critical. No single metric will give you a complete picture of the true cost of financing. If you are borrowing $10,000 are you paying back $11,000, $12,000 or $13,000?

Neither APR (annual percentage rate) nor AIR (annual interest rate) expresses the total cost of capital. To make an apples to apples comparison of different loan products with different terms, best practice is to have visibility into the *total dollar cost* of the loan, the annual interest rate, the APR, any fees, what the periodic payment might be, and whether or not there are any penalties for prepayment before the loan term is over.

Q: What is AIR?

A: Annual Interest Rate is the yearly interest percentage you pay based on your average loan balance. This rate excludes any fees.

Q: What is APR?

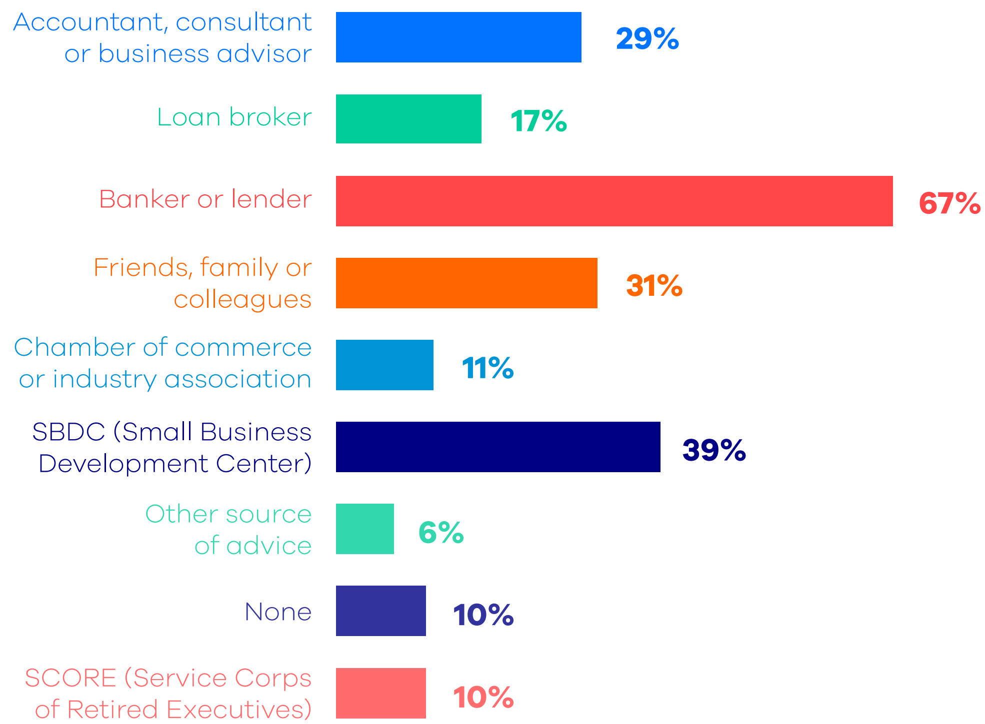
A: Annual Percentage Rate is the annualized interest rate plus any fees that are a condition of receiving capital—expressed as a yearly rate.

SOURCE: Report SBCS 2015 non-employer firms

How payback works:

Every lender handles payback slightly differently. Make sure that you know exactly how frequently the payback cycle is and how much you will pay back each cycle. Many lenders, including online lenders, use daily or weekly payback options, which many business owners have identified as easier for a business to handle than a large monthly payment—because it helps them avoid lumpy cash flow issues during the month.

Where small business owners go to learn **about their financing options**



SOURCE: Report SBCS 2015 non-employer firms

Ask Questions: these questions may help you avoid wasting time looking for financing where the odds of success aren't in your favor.

Questions to Ask Before You Start Researching Business Financing

Q: Why does my business need financing?

WHY

To make the best decision on your financing, you need to understand why you're applying for financing in the first place.

Q: How quickly do I need the capital?

WHY

If you know when you need the funds, answering this may help you rule out financing options with incompatible timelines.

Q: What does my credit profile look like?

WHY

Knowing your personal credit score and business credit profile will allow you to narrow down your options to lenders who will be more likely to approve a loan for your business.

Questions to Ask Before You Apply for Business Financing

Q:

Is it a reputable lender?

WHY

When you're applying for financing it's important to know that your funds are coming from a reliable source committed to the industry's best practices. Do your research: look at the Better Business Bureau or other review sites to see what others are saying about the lender.

Q:

What are the minimum requirements for getting financing?

WHY

Different lenders have different minimum requirements, from your credit score to your time in business. Knowing their requirements for applicants will save you from applying to lenders that don't fit your business.

Q:

What is the application process like?

WHY

Traditional lenders typically have longer, multi-page applications that are difficult to understand. Online lenders often have quick and easy-to-understand applications that save you time and frustration.

Q:

Will the lender do a hard pull on my personal credit during my application process?

WHY

If you are applying to more than one lender you want to make sure that they only do a "soft" pull on your personal credit. This does not show up on your credit report nor does it have a negative impact on your personal credit score. If the lender does a hard pull it may affect your credit score and any applications for other lenders and credit sources.

Questions to Ask Before Accepting A Financing Offer

Q: Will I get the amount I need?	WHY	You may not be offered the full amount you initially requested. Make sure the amount you were offered is aligned with your business needs.
Q: Is this offer a good fit to meet my business needs?	WHY	Assess your use of funds based on the offers you received. Pick the loan with the terms that makes sense for your business.
Q: Does my business have the cash flow to make the periodic payments?	WHY	Before you agree to a loan, make sure that your cash flow works with the proposed payment schedule.
Q: Will this lender report my good payment history to the appropriate business credit bureaus?	WHY	If a lender doesn't report your good payment history to the business credit bureaus, you won't be able to use this loan to help you get financing in the future.
Q: Are there any fees associated with the financing option offered?	WHY	Some lenders may have additional fees on top the cost of the loan. Make sure you know what these are and how they affect the total cost of the loan.

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Your Guide to

Short-Term Financing

Small Business Reports
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What business needs are a good fit for short-term financing?

The first question you should ask yourself when you begin the process of securing financing for your business is: **what is your business need?** Your answer to this question will determine what type of financing and loan term is appropriate for your business. Do you need the funds quickly? Do you need the funds for a project that will capture additional ROI in a short period of time? Different types of financing are appropriate for different business needs.

Most Common Reasons for Seeking Business Loans*

54% **Equipment Purchase** **&** **51%** **Inventory Purchases**

Examples of business needs for short-term financing to fuel growth or increase ROI are: a physical expansion or renovation, hiring a new employee, buying inventory quickly, or purchasing equipment. These and similar initiatives can help your business growth long-term, and generally provide realized gains fairly quickly. The loan term should match the useful life of the asset just as you wouldn't take a 30-year auto loan for your car, even if the payments were smaller.

Would you want to take out a long-term loan and continue to pay for that business case over time if its business use is realized in the near future?

**Source: Electronic Transactions Association 2016*

Example

Real businesses that used short-term financing to their advantage.

Expansion & Renovation

Jungyae Martial Arts

$50,000 borrowed over a 9-month term

Michael was able to snatch up a prime location and turn it into the full-service martial arts academy it is today.

And thanks to additional financing, he's able to offer a variety of new programs for the active community of Kirkland, WA.

Marketing

The Juice Cellar

$15,000 borrowed over a 6-month term

"I increased my customers by 15% from a radio campaign I paid for using my loan."

Purchasing Equipment

Lowery Smiles

$10,000 borrowed over a 9-month term

With her funds, Dr. Lowery was able to make a major equipment purchase that better serves her patients and keeps her practice on the cutting edge. She was also able to hire new employees, and is looking to expand her practice.

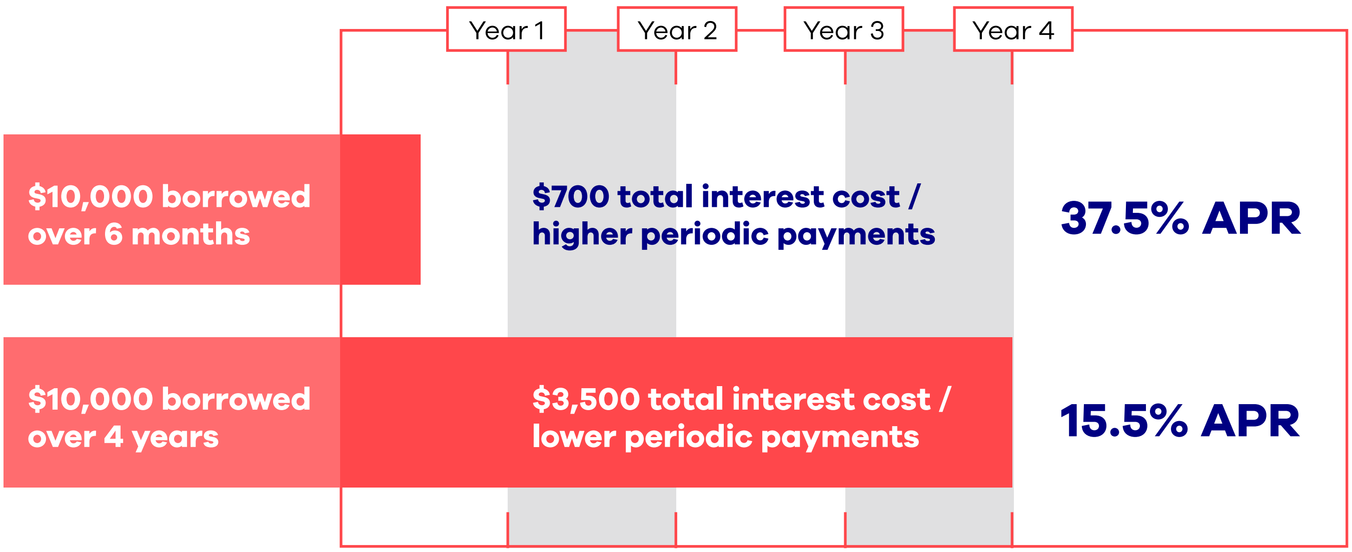
What costs make sense? APR vs. Cents on the Dollar

Annual Percentage Rate (APR) is only one way to compare your financing options. APR represents the total interest cost, including fees, as an annualized rate which may appear higher than the actual overall cost of a short term loan. In many cases, the APR of a short-term loan can be much higher than the APR for a longer-term loan. But when you consider other factors, such as total cost of the loan and your business need, you can see a short-term loan could be a better fit for your business. As you see in the example below, the shorter-term loan has a higher APR, but a lower overall cost than the longer-term loan with the lower APR.

Let's run some numbers to illustrate the point.

Which would you prefer?	**37.5% APR**	**OR**	**15.5% APR**
What about?	**$700 interest cost**	**OR**	**$3,500 interest cost**

It really depends on the term length of your financing:



Another metric to consider is the overlap between your periodic payments and the returns on your investment.

For example: If you are planning to use your loan to make an equipment purchase, then the equipment you buy might start generating returns immediately. In that case, consider comparing your daily or weekly payment on the loan to the daily or weekly income your investment will generate. That difference represents your net gain from the investment in the short-run.

Paying down your loan quickly allows you to see your ROI faster.

Calculating ROI

Time Is Money

Traditional lenders, like banks, can take weeks to process your business loan application and for you to receive the funds. Short-term online lenders, often have an answer to your loan application in under an hour and funds in your account as quickly as the next business day. The Federal Reserve Bank of New York reports it takes the average small business owner **33 hours** to apply for a loan at the bank.

How much do you value your time?

The average business owner thinks their time is worth $170/hr*

Considering ROI When You Borrow

For short-term loans with a defined ROI target, APR might not be as important a metric as the total cost of the loan relative to the return on investment. Particularly when purchasing inventory or equipment, the total cost of financing might be a relevant number when calculating ROI.

Considering the total cost of financing, in addition to APR, when calculating ROI can be a good way to determine if the financing being considered will help meet your ROI objective or become too expensive—even with a lower periodic payment or lower APR.

**Source: Electronic Transactions Association 2016*

Example

Calculating ROI

Let's make it simple:

Example A

If you plan to purchase new equipment that will yield you $5 for every $1 spent over the course of its lifetime, short-term borrowing could make sense.

Example B

If you have the opportunity to purchase discounted inventory in bulk, you may receive a 70% discount on the inventory. Even if the cost of a loan reduced that discount down to 55%, it could still make sense to borrow to capture the extra profits.

Some business owners are concerned the with higher periodic payments often associated with a short-term loan. If your business has the cash flow to sustain the payments, the lower total dollar cost of capital can be cheaper, in the long run, with a short-term loan. Even if the long-term loan has a lower periodic payment or a lower APR.

Remember

Match your loan term to the useful life of the asset you are purchasing.

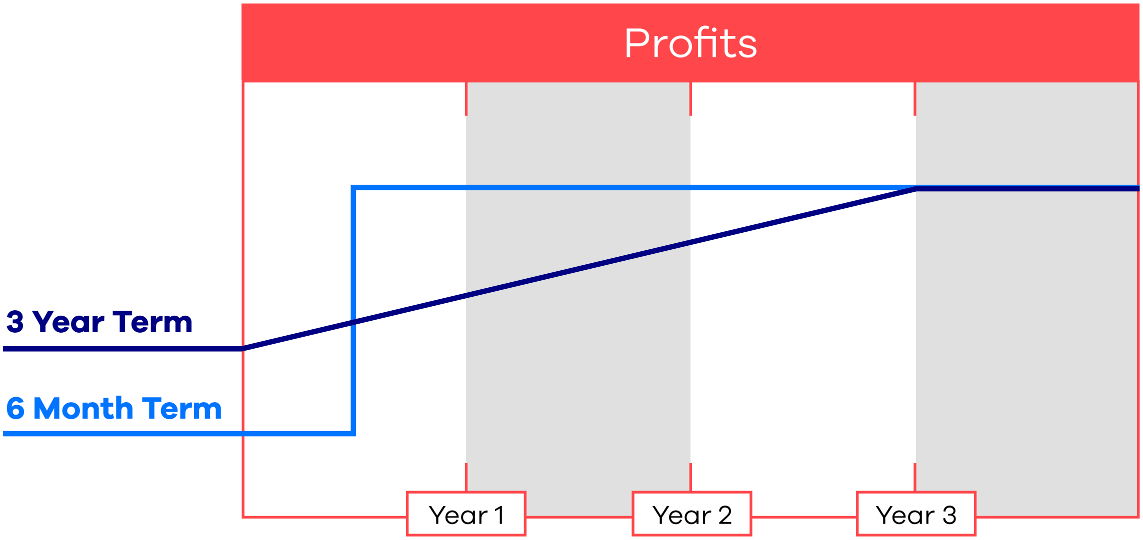
If you're turning over the inventory in six months, it might not make sense to borrow the funds over a four-year term.

Example

How Can a Short-Term Loan Affect My Cash Flow?

A laundromat buys 10 new washing machines.

From the day they install the new machines, they generate $540 per day ($3 per cycle, 180 cycles per day). If they bought the machines with a 6-month loan for $10,000 at 1.19 Cents on the Dollar (CoD), their daily payment would be $95/day. So, over the short-term, their net gain would be $540-$95 (minus the cost of the water and electricity to run the machines).



Once they've made all 126 payments they get to keep all $540 (minus utilities) for the remaining lifetime of the machines. That might be more appealing to some business owners than a loan with a longer payback, because they might be willing to pay more in the short-term in exchange for a greater ROI, faster.

57%

of small businesses choose a shorter-term higher-APR loan over a longer-term lower-APR loan in order to minimize total fees & expenses*

**Source: Electronic Transactions Association 2016*

Choosing The Right Lender

When it's time for you to make a decision on choosing a lender, there are some things you should consider.

Transparency

The first and most important issue is **transparency**. If the lender you're speaking with is not forthcoming regarding their rates, fees, and Terms & Conditions, you should look for another lender. A lender should have nothing to hide, and clearly layout all the details for you.

Fees

Rates

Terms & Conditions

A growing group of lenders are utilizing the SMARTBox®, a tool developed by a coalition of online lenders, a non-profit, along with an industry trade group, Small Business Reports The SMARTBox® was developed to make it easier to understand and compare different loans, different loan types, and different terms, to help you make the best financing decision for your business. If a lender is part of the SMART Coalition, the box will appear on your loan offer enabling you to make a true apples to apples comparison of your loan amount, terms, rates, fees, and the total cost of your loan.

SMARTBOX™

Capital Comparison Tool

Next:

We'll tell you what questions you should be asking.

Regardless of the lender you choose, here are some questions you should ask yourself:

Q: What do I need the money for?

Why? Knowing the business need the funding will help you with is the most important step in your search for financing. The answer to this question will help the lender get you the right offer, as well as help you make the best financing decision for your business.

Q: How much money do I really need?

Why? Know the actual amount of funds you need. There are costs associated with borrowing, so borrowing more than you really need can become very expensive. What's more, not every lender will offer you the full amount you request, and if you have good credit, some lenders may offer you too much.

Q: How quickly do I need the money?

Why? Do you need the money tomorrow, this week, or next month? The time frame in which you need the funds can drastically cut or shape the options that work for your business.

continued...

Regardless of the lender you choose, here are some questions you should be asking yourself:

Q: What types of financing can I qualify for?

Why? Your personal credit score, business credit profile, cash flow, time in business, annual revenue, and several other factors are all considered by lenders to determine the funds and terms you will qualify for. Know the minimum requirements for each lender before you put in an application. That way, you won't waste your time applying with lenders that won't work with your business.

Q: Do I have all the information I need to make a decision?

Why? The simplest way to know you're getting the best financing for your business is to have all of the information beforehand. Do your research, so you spend your time applying with lenders who will lend to you and will meet your business needs.

Glossary

These definitions shouldn't be considered the legal definitions for these financial terms, but might be helpful when going through your loan documents. Make sure and ask your loan advisor to explain any term you aren't familiar with.

Annual Interest Rate: Annual Interest Rate is the yearly interest percentage you pay based on your average loan balance. This rate excludes any fees.

Annual Percentage Rate: APR is the annualized interest rate plus any fees that are a condition of receiving capital—expressed as a yearly rate.

Assets: Within the context of a small business loan an asset is something of value, owned by the borrower, which can be used as collateral by a lender.

Cash Flow: The total amount of money being transferred into and out of a business that is used to pay for day-to-day expenses.

Cents on the Dollar: Cents on the Dollar is the total amount of interest paid per dollar borrowed. This amount excludes any fees.

Collateral: An asset, or assets, a borrower offers to a lender to secure a loan. The lender can take possession of these assets if the borrower defaults on the loan.

Default: Failure to make the agreed upon periodic payments on a loan.

Fixed Asset: A "tangible asset," like property or equipment that can be used as collateral.

Gross Profit: What is left over when the total cost of goods is subtracted from the total revenue.

Interest-Only Payments: Making only the interest payments on a loan without paying anything on the principle. At the end of the term, the borrower will either need to refinance or pay back the principle in a lump sum.

Liabilities: A business' debts or obligations, which can be resolved in the form of payments or the transfer of goods or services.

Principal: The amount of money being borrowed excluding interest payments and fees.

Secured Loan: A loan where the borrower puts forth collateral in the event they should default.

Unsecured Loan: A loan where the borrower is not required to put up collateral to secure the loan.