



A PRIMER FOR OBTAIN CAPITAL OUTSIDE THE BANKS SOURCE
CUSTOMERCARE@GARRTECH-GROUP.COM
WWW.GARRTECH-GROUP.COM/FUNDING



A Primer for Obtaining Working Capital Outside the Bank

Businesses run on cash flow. If the cash disappears, the business is in trouble. But obtaining funding for a business in today's climate can be difficult. An otherwise profitable business owner who has hit a rough patch can find herself in real trouble quickly because traditional banks just aren't lending to small business like they used to.

Fortunately, other lending solutions have sprung up to fill the void.

If you've been denied for a traditional business loan by a bank, or if you just want to explore alternative lending options, then this guide is for you.

In the next pages, we'll go over reasons why you might want to explore alternative lending, what options are available and provide some tips on which lending source might be best for your type of business.

Reasons to Seek Alternative Lending

There are many scenarios in which a business owner will choose to seek alternative lending, but here are just a few examples:

Poor credit – Past credit mistakes or misfortune can leave a business owner's credit score too low to qualify for traditional bank loans. Banks rely on personal credit scores in their loan underwriting and poor credit almost always means you'll be denied a loan. This guide will go over business funding alternatives that don't put so much weight on a credit score.

A need for speed – A traditional bank's underwriting process takes a long period of time. Perhaps your business is in trouble due to a slow paying client, or you see an opportunity you could take if you could only get your hands on the cash. Business moves fast, but banks move slow. This guide will delve into business loans that you can see in your bank account as soon as the next day.

A new adventure – Banks are typically conservative, and while they have been known to fund new ventures from time to time, they typically shy away from businesses with a short operating history. We'll look at loans you can secure based on your personal credit rather than your business's financials.

If any of these scenarios sound familiar, or if you have another reason for seeking alternative lending, read on.

Alternative Business Funding 101

In this section, you will find explanations of various types of business funding that don't involve traditional banks. You just might find the type of business funding that's right for you!

Short-Term Loans

Fast • Limited Paperwork • Versatile

Short-term loans are designed to meet short-term financing needs. They can be a versatile financial tool to better manage cash flow, deal with unexpected needs for extra cash, and take advantage of new business opportunities that may come along. For example, say a client promises to sign a contract to buy a certain number of widgets but pay you in 60 days, but you don't have the cash on hand to produce the widgets. Short-term loans are ideal in this situation.

Unlike traditional bank loans, these short-term loans are generally paid back daily. They also have a higher APR than traditional loans. These loans are versatile, and amounts can vary from \$2,500 to \$250,000 and terms ranging from 3 to 18 months.

When you apply for a short-term loan, lenders will look at your business revenues, your business history and your credit rating. Collateral may be required.

Ideally, you'd use a loan like this to turn around and make a profit and then pay it back to avoid paying too much interest.

Invoice Financing

Bad Credit OK • Fast • Versatile

Businesses with outstanding invoices are the perfect candidates for this type of financing. Invoice financing companies are ready to buy your accounts receivable, giving you an excellent way to put more money into your business right away. With invoice financing, you could get a fast advance of about 85% of the value of your invoices, with most of the other 15% paid to you later.

Any business that operates a B2B business model can qualify for invoice financing, as long as they currently have outstanding receivables. The maximum amount you can qualify for depends on the total amount and quality of your invoices and the creditworthiness of your customers.

Disadvantages include the fact that you will lose a portion of your potential profit and, if a customer takes a long time to pay the invoice, you also pay more in fees. Plus, if an invoice should enter into a collections situation, matters can be complicated because of the presence and interest of the lender. Still, invoice financing is a great way for an established business to get a quick cash infusion, even if the owner or business has no or poor credit.

Lenders will want to see your invoicing records, your bookkeeping records, and a sample invoice. Since your invoices serve as collateral for the loan, poor credit is often okay.

Equipment Financing

Bad Credit OK • Fast • Limited Paperwork

If you're in search of funding to buy new equipment such as computers, machinery or vehicles then you might consider equipment financing. This can be a short, streamlined way to finance up to 100% of the value of the physical equipment you need for your business.

Equipment financing can be a great option for business owners with limited or bad credit because the equipment serves as collateral on the loan. In fact, borrowing against equipment could actually build credit.

When you apply to finance equipment, lenders will want to see at least three months of bank statements and a quote on the equipment purchase price.

Do be careful when you take an equipment loan. At today's pace, equipment could be obsolete by the time you repay the loan, and you could be stuck owing something you can't even use. Not to mention this loan could tie up your credit until it's paid off. But if you need fast access to cash in order to purchase necessary equipment, an equipment loan may be just the funding vehicle you need.

Merchant Cash Advance

Fast • Bad Credit OK • Limited Paperwork • Versatile

Merchant cash advance is a quick, easy way to get a business cash advance with no need for collateral, even if you have limited business history or a poor credit rating. This is a versatile financial tool that you can use to help with cash flow, purchase inventory, pay other debts, meet unexpected expenses, or any other need your business has.

This type of funding, which can range from \$2,500 to as high as \$250,000 is ideal for a small business that needs cash fast and receives a large portion of earnings through credit cards. These lenders will advance you a sum of money but they then take a portion of your credit card proceeds daily until the advance is repaid. All you have to do is show 3-4 months worth of bank statements to qualify.

Approval is quick and easy and credit isn't a factor. There are also no minimum monthly payments. On the flip side, merchant cash advances have higher fees than other alternative loan options and the daily deduction will reduce your business's daily cash flow. If you need a quick infusion of cash and have good credit card receipts but poor credit and no collateral, then a merchant cash advance may be the right funding solution for you.



Start Up Loan

Limited Paperwork

Is your business brand new? Do you have a great credit score? Then a startup loan could be right for you.

These types of loans are great for borrowers who have always maintained a stellar personal credit history but may be new to the world of business, or merely starting up a new venture.

The Fundera Marketplace offers two types of small business startup loans – business lines of credit and equipment financing.

When applying for either, lenders will check your credit score and you'll need to provide 3 months of bank statements. If you are financing equipment, you'll also need an equipment price quote.

If you have good credit but are new to business or starting a new venture, a start up loan may be right for you.

Your Alternative Funding Paperwork Guide

While alternative funding sources generally don't require near the volume and scope of paperwork as a traditional bank loan, you'll still have to provide some paperwork. Here's your cheat sheet:

Credit report – Almost all lenders will pull a credit report; but some put more weight on your credit score than others. Don't discount obtaining business funding just because you've had credit blemishes in the past.

Bank statements – Most alternative lenders will want to see at least 3 months of previous bank statements when making a decision about lending to you.

Invoices – If you choose invoice financing, the lender will, of course, want to see your outstanding invoices. They'll also want to see a sample invoice.

Equipment Price Quote – If you are using your loan to fund equipment, the lender will want to see a written quote for the equipment you plan to purchase.

Financial Reports – Many alternative lenders will want to see financial reports such as your profit and loss and balance sheet. It's always a good idea to keep tight books so you understand your business's financial needs and projections for the future. After all, if you don't know where you stand how do you know how much you need to borrow?



In Conclusion

We hope this guide has helped you understand the different types of alternative lending options available to your small business. If you are ready to begin searching for a loan, visit [Fundera.com](https://fundera.com).