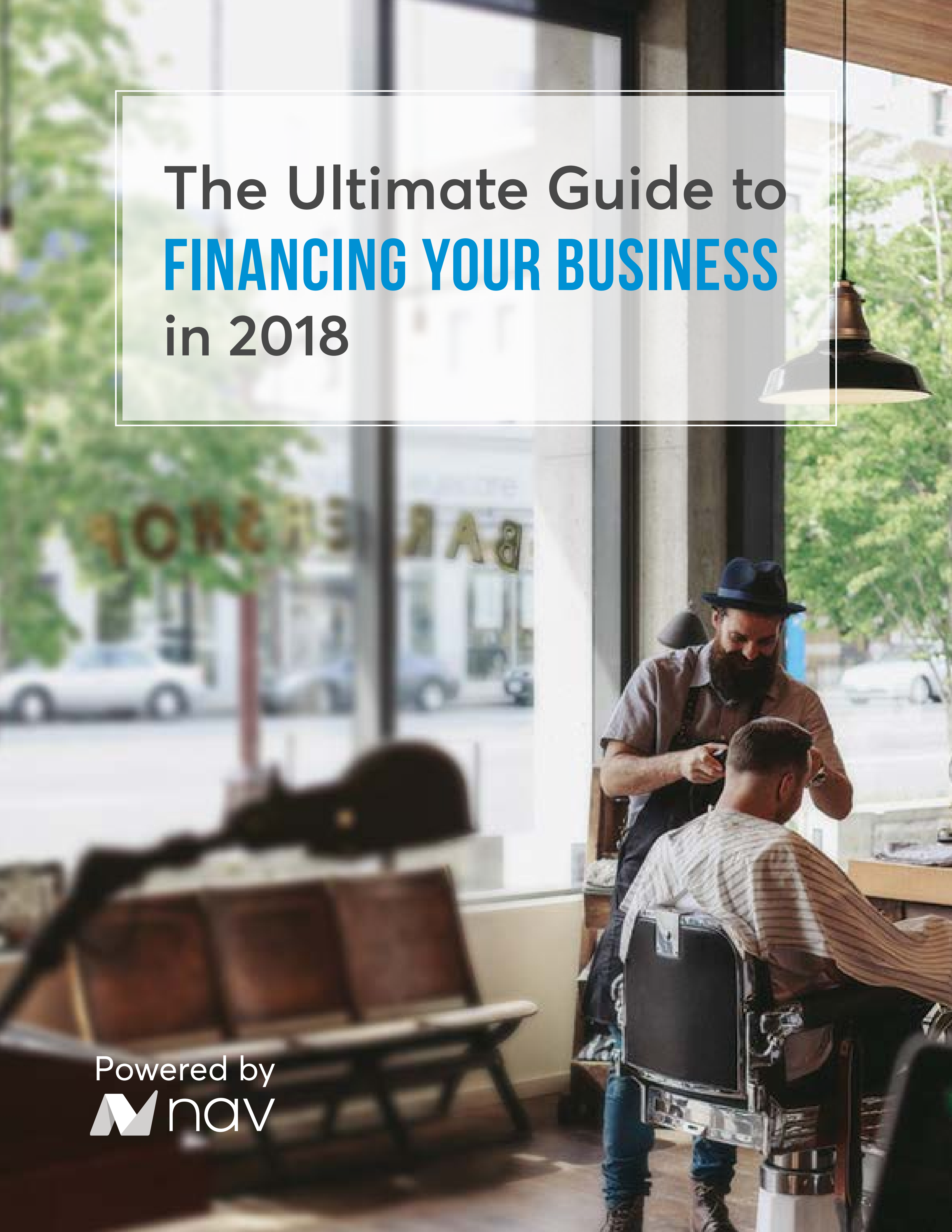
The Ultimate Guide to FINANCING YOUR BUSINESS in 2018



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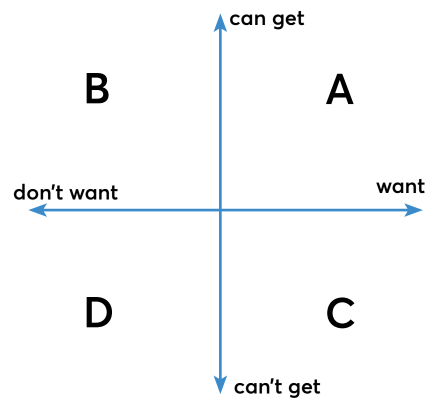
What's in this E-book?

In today's environment, there are over 44 different types of financing options. 44 different types.

As a business owner, you probably don't have time to learn what all 44+ different types are. You just want to know which one is best for you — and how to get it. But that's not easy, especially when you've got a business to run.

Consider this illustration:



Many small businesses find themselves in quadrants B or C: they either don't want the loans they can get, or they can't get the loans they want. Sound familiar?

By moving into quadrant A, not only do their options increase, but more importantly, the loans and funding they can get are the ones they want.

Nav wants to help you to move your business solidly into quadrant A. One way to do that is to learn about business credit, cash flow, and other aspects of your business that might affect whether or not a lender chooses to work with you.

The Ultimate Guide to Financing Your Business was created to help you understand the complex world of business financing, including why you may or may not fit a lender's criteria, and what you can do to get approved in the future. Perhaps there's already a product in quadrant A that you haven't discovered yet that will fit for your business — you'll find it here.

- The Nav team

Get matched to the right financing with a free Nav account. Join at Nav.com.

Business Financing Basics

Preparing Your Business For Financing

Here's how to boost your business's fundability in order to get a loan.

Before walking into a bank and asking for a loan for your thriving business, you should understand the basics of what makes a business fundable. Without sufficient understanding, a lot of unnecessary time, energy, and money can be spent fruitlessly.

So how can you put yourself in the best position to get approved?

It starts with preparation. On all funding applications, lenders will be looking at certain items. Get these ready beforehand and you'll make it easier for them to bet on your business.

Here are some steps you can take to boost your fundability:

Do your homework

1. Know why are you looking for funding

You should be able to clearly explain why you need the money and exactly how much you need to accomplish your goals. Don't skimp on the specifics. Lenders appreciate attention to detail.

- Are you expanding?
- Are you consolidating debt for better terms?
- Do you need help to get through the slow season?
- Are you purchasing assets? What are the exact costs?
- Who are your suppliers?

2. Know what type of lenders you'd like to work with

There are over 44+ different types of financing for small businesses, so the lending landscape can be confusing. We'll outline a number of great options in this book that offer an alternative to banks and could be a good fit for your business.

Have your story down

3. Prepare your personal story and background

As a small business owner, you are your business. Be prepared to provide some personal background information, including: previous addresses, names used, criminal record, educational background, etc.

4. Update your business plan

If you don't have one, it's time to buckle down and create a business plan. If you have one, but things have changed in your business, now's the time to give it a thorough review and update. We know, it's not fun, but it's really important.

Know your credit profile

5. Understand and manage your personal credit

Your personal credit reports and scores are the first thing most lenders look at. If you have bad personal credit or red flags, many lenders will turn down your application. (However, we will share other options in this book.)

It's important to clear up any errors or blemishes before starting the application process.

6. Understand and manage your business credit

Like your personal credit, you should know where your business credit stands before you start the financing process. Healthy business credit can mean better terms and not having to put up collateral or personally guarantee your funding.

Anyone can look up your business's credit anytime, without your permission, so you may not know when a lender will check yours. (Learn more about business credit on page 11.)

Credit scores can change fast, so you'll also want to monitor both your personal and business credit continuously to avoid any negative surprises down the road.

(Get both your personal and business credit scores, plus monitoring and alerts, for free at Nav.)

Get your financials in order

7. Gather Your Tax Returns
Some lenders will require you to provide copies of your tax returns; both business and personal. Get with your accountant, or log into your tax software to gather the last 2 years (if you have been in business that long) worth of tax returns to prove that you have had the revenue that you're claiming and are current on your taxes.

8. Separated your business and personal accounts
Lenders will want to see that you're taking your business seriously—having a business checking account is one step towards doing this, and it will make tax season much easier if you have your personal and business expenses separate.

9. Gather your personal and projected financial statements
Lenders view young businesses as a higher risk, so they want the owners to be personally financially stable. For certain loans, anyone with more than a 20 percent stake in your business may be required to submit personal financial statements. The more information you provide, the easier it will be to get your loan approved.

You also may need your business's profit & loss statement, balance sheet, and your business's projected financials for the next year. Strong financial statements and business plans can help you avoid putting up collateral for your funding.

10. Have your legal documents in order
Lastly, you'll need to pull together all the documentation that proves you have a legitimate business, like:

- The lease on your office or store
- Your partnership agreement
- Articles of incorporation
- Business license

It may seem like a lot of work, and we get it—you didn't start a business because you have a passion for all this paperwork. But by preparing properly, you'll not only boost your funding chances, you'll also build a stronger business.

SMALL BUSINESS FINANCING CHECKLIST

Before you start submitting funding applications, here are a few basic things you'll want to get in order:

PERSONAL ITEMS

- [ ] Detailed list explaining why you need funding and how it will be used
- [ ] Personal credit reports
- [ ] 1 year personal tax returns
- [ ] Photo identification

BUSINESS ITEMS

- [ ] 2 years business tax returns (1 year is fine depending on the lender)
- [ ] Last 6 months business bank statements
- [ ] Profit & Loss statement
- [ ] Business plan
- [ ] Financial Projections

OTHER ITEMS

- [ ] Verification of address (both personal and business)
- [ ] Completed application
- [ ] Voided check

IF APPLICABLE, ADDITIONAL ITEMS

- [ ] Franchise agreement / UFOC – If applicable.
- [ ] Affiliate business financial statements
- [ ] Lease agreement - if you occupy leased property

3 Things You Should Know Before Looking For Funding

Set your expectations before you look for funding.

Here are 3 very surprising facts about small business loans:

1. Alternative business loans are relatively expensive & the total loan cost is often hard to understand.
As consumers, we tend to think of financing in the terms of an auto loan or home mortgage—single-digit rates, all conveyed to the consumer in the same format: Annual Percentage Rate (APR), or the total cost of the loan to the borrower.

In the world of small business, on the other hand, there is no standard way to display loan rates, meaning a lender can convey a rate in any number of different ways and doesn't necessarily have to disclose the total cost in the displayed rate. "Interest rates," "monthly payment amount," "payback amount," and "total interest percentage" are just a few of the terms that can be used to describe the cost of a loan. It's not always going to be the loan with the cheapest "rate" or lowest monthly payments that has the lowest total cost because of various fees that lenders add to a loan that could skew the annual percentage rate higher.

Here are two pieces of advice to deal with this:

1. Talk to an unbiased lending specialist about your loan options and any fees associated with the loan. Avoid talking to loan brokers who may try to sell you on a higher cost product because they get a larger commission for closing it. (In other words, they don't always have your best interest in mind.)

2. Use an APR calculator to verify the cost of the loan yourself before you sign on the dotted line. Nav has 5 business financing calculators you can use with various financing types to figure out the true cost of your loan.

2. Bank loans are hard to obtain.
Banks tend not to focus on small businesses when it comes to lending because small loans cost just as much to originate as larger loans.

However, bank loans or SBA (Small Business Administration) loans offered through banks have affordable terms: typically 6-8% interest rate amortized over 10 years. However, the bar to qualify for these loans is extremely high. A typical bank loan borrower has to be 2 years in business, have at least $250,000 of annual revenue, have good personal and business credit, and be cash flow positive. Even if your business meets all the criteria, you still may be turned down by a bank because you don't have sufficient collateral.

3. It's almost impossible for startups to get many types of loans.
If you are a tech startup with a working prototype, you might be able to convince an angel investor or an accelerator to give you money to further develop your business. If you are a main street small business, it's basically impossible to get a loan pre-revenue. You may have to get creative and tap other sources of funding we describe in this ebook to get your business off the ground.

There are a few different options for startups seeking capital—check out the lending types to follow, and in particular the startup financing section.

Starting up a business is hard. We have tons of respect for business owners who create a profitable business from scratch, provide for their family and create jobs. We are only talking about funding here. But if you consider the obstacles they have to overcome, it's pretty amazing that they make it work.

The Importance of Credit & How It Works

Introduction to Personal Credit Scores

Do you have a “bankable” credit score?

It takes more than on-time payments to build a good credit score. Understanding the five main credit scoring factors can help you boost your credit scores. These five factors help explain how information in your credit reports will be evaluated when your personal credit scores are calculated. The better you score on each of these factors, the higher your credit scores. The five main factors that affect your credit score are:

- **Payment History (35%)**
- **Debt Utilization (30%)**
- **Credit History/Credit Age (15%)**
- **Credit Inquiries/New Credit Checks (10%)**
- **Types of Credit (10%)**

Of the five, payment history carries the most weight, which is why it's so important not to miss payments. But debt is close behind, and is the second most important factor. The age of your credit history is third on the list in terms of importance, followed by account mix and inquiries/new credit.

Sounds simple enough, but the reality is that credit scores can get pretty complicated. Companies like FICO® and VantageScore® carefully analyze data in credit reports and track them over time to see which factors help predict how a customer is likely to behave. Each factor can interact with others, making it hard to say exactly how much a particular action (a late payment or inquiry, for example) will affect your scores.

Then there is the fact that there are many different credit scores. Just take FICO, for example. There are multiple versions of FICO scores, including ones that lenders may customize for their own customer base. (Plus a version called FICO SBSS scores used specifically for small business loans.) Each credit scoring model may look at the data that make up these categories a little differently, and so the same information may mean a different number of points subtracted from the score, depending on which credit scoring model is being used.

Here's an example. Let's say you had a small medical bill slip through the cracks and you wound up with a collection account on your credit report for $42. If a lender is using FICO 8, that collection account will be ignored because collection accounts where the original balance is less than $100 are ignored under FICO 8. If the lender is using FICO 9 or VantageScore 3, a collection account for any amount will be ignored once you pay it off. But if the lender is using an older scoring model, it will count as a collection account (regardless of amount, or whether it's paid or unpaid) and will likely hurt your scores quite a bit.

That doesn't mean you need to throw your hands up in frustration, though you may be tempted to! The basics—these five credit scoring factors—apply no matter which scoring model is being used to evaluate credit report data. By understanding the overview below, and how these factors play into your score, you have a better shot at building and maintaining strong credit.

- **Payment History (35%) make on time payments to increase your scores.**
- **Debt Utilization (30%) keep balances on your credit accounts low.**
- **Credit History/Credit Age (15%) experience matters.**
- **Credit Inquiries/New Credit Checks (10%) applications for new accounts can bring down your scores.**
- **Types of Credit (10%) a mix of different types of accounts can boost your score.**

Introduction to Business Credit Scores

Business credit can affect your business in more ways than you think. Here's how.

Strong business credit scores are the key to getting your company approved for trade credit and financing. Every business has credit scores, as well as business credit reports. In the same manner that your personal scores serve as financial ratings, your business credit scores rank the creditworthiness of your business.

Several factors go into the calculation of these scores, which can range from 0 to 100, with scores of 75 or more indicating excellent credit. Credit scores are calculated by reporting agencies such as Dun & Bradstreet and Experian.

Factors that determine business credit scores

Your business's credit scores are calculated from various traits about your company and its financial history. Here are some of the variables:

- Credit utilization ratio
- Payment history
- Length of credit history
- Outstanding debts
- Public records, such as bankruptcies, liens and judgments
- Company size
- Industry risk

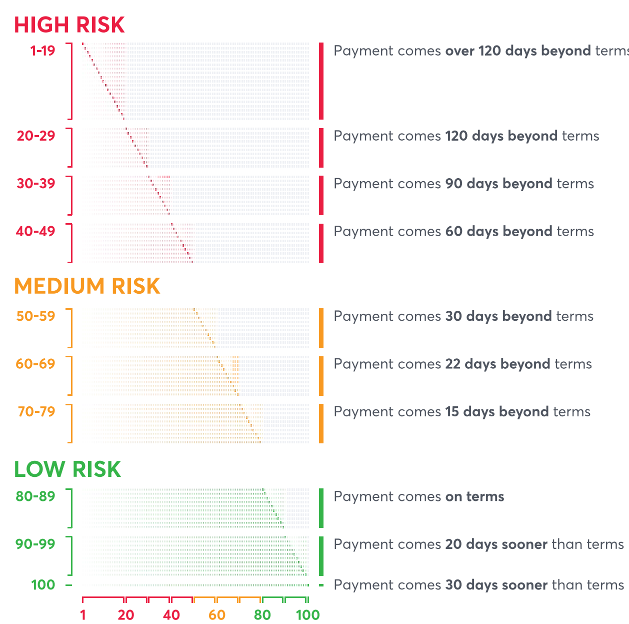
Notice that while most of the factors are similar to those used to calculate your personal credit scores, others are unique to business credit scores.

The different business credit scores & reporting bureaus

Each bureau can have different information on file for the same person or business, and wind up producing a different score. That's why you've probably noticed your scores vary from bureau to bureau. Let's take a look at 3 of the most common business credit scores and commercial credit bureaus:

The Dun & Bradstreet PAYDEX®

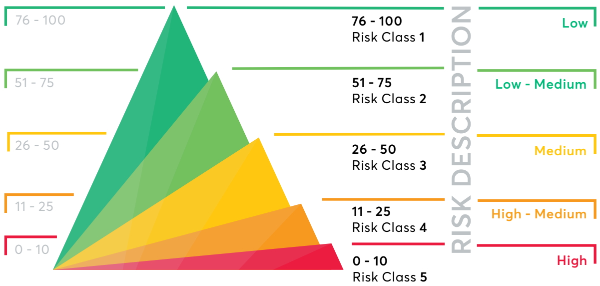
According to D&B, the PAYDEX is a unique, dollar weighted indicator of a business's payment performance based on the total number of payment experiences in Dun & Bradstreet's file. The Dun & Bradstreet PAYDEX ranges from 1 to 100, with higher scores indicating better payment performance. PAYDEX is primarily used by vendors and suppliers to judge your business when determining what terms to extend on trade credit (e.g., net 30, net 60, etc.) Typically, the better the score, the more generous the terms extended. This is important because having more time to pay your bills can help you better manage cash flow.



Intelliscore Plus℠ from Experian

According to Experian, Intelliscore Plus℠ is a statistically based credit-risk score that can evaluate business credit and, in some cases, the owner's personal credit data as well, to predict the likelihood of serious delinquency in the next 12 months. Score range from 1 to 100, where lower scores (Score Range below) indicate higher risk. The Intelliscore Plus℠ is regarded in the credit industry as quite predictive and economical. It incorporates statistical modeling using over 800 commercial and owner variables – including tradeline and collection information, recent credit inquiries, public filings, new account activity, key financial ratios and other performance indicators.

SCORE RANGE



FICO® LiquidCredit® Small Business Scoring Service

FICO's Small Business Scoring Service (SBSS) rank-orders applicants by their likelihood of making payments on time. The score ranges from 0 to 300. The higher the score, the better. The scoring is based upon personal and business credit history and other financial information. A strong history of business credit with timely payments to vendors and suppliers may help boost your SBSS score. The SBSS score will be used for term loans, lines of credit, and commercial loans up to $350,000 guaranteed by the Small Business Administration (SBA). The minimum score to pass the SBA's pre-screen process is currently 140, though many lenders require a 160 or above.

How business credit scores are used

Lenders and other creditors need a means of determining how well your business repays debts before they will approve you for financing. This is where business credit scores come in. Higher scores indicate to creditors that your business is more trustworthy, thereby improving the odds that it can obtain financing. Lenders can check your company's business credit reports to get more detailed information about your business's financial history, and business credit scores serves as shorthand evaluations. The rating can also let you access more credit than you could receive when applying for financing with just your personal scores.

The importance of checking your business credit score

As a business owner, you should review your company's financial information on a regular basis, including your business credit scores and business credit reports. Your scores are fluid and can change over time. That's why creditors tend to assess your creditworthiness on a continual basis. If you notice your business credit scores are low, there could be an error in the business credit reports that caused an inaccurate calculation. It is also possible that your business does not have sufficient credit history to warrant higher scores. If you do find an error, contacting the credit agency or the creditor reporting that information is key to getting a correction. If there aren't any errors, you can still improve your business's credit scores by making on-time payments and lowering the company's credit utilization ratio, among other options, but it will take some time.

How can I improve my business credit score?

No doubt, understanding how and when business credit scores are used can be confusing. Luckily, keeping your scores strong is actually simple. It's a lot like taking care of your personal credit:

- **Pay your business bills on-time or before they're due**
- **Open multiple credit accounts (business credit cards, trade lines, loans).**
- **Keep your credit utilization around 25% or less (don't max out your credit lines).**

10 Types of Business Financing

10 Types of Business Financing

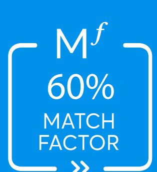
CATEGORY	AMOUNT	INTEREST	REPAYMENT	EFFORT TIMELINE	CREDIT CRITERIA
Bank & SBA Loans	$200,000+	5 - 13%	1 - 20 years	2 - 4+ months	Usually requires good personal credit. Some SBA loans require a business credit score (FICO® SBSSSM) minimum of 140/300.
Online Term Loans	$5,000 - $500,000	7% - 30%	1 - 5 years	2 - 7 days	Personal credit a major determining factor.
Invoice Financing	85% of Invoice amount	15% - 35%	1 - 3 months	1 - 2 hours	Generally not an important factor—the credit of your customers matters more.
Microloans	$500 - $50K	8% - 15%	1 - 5 years	1 - 3+ months	May be more forgiving of imperfect credit.
Cash flow Loans	$200 - $100,000	25% - 90%	6 - 12 months	Minutes - 3 days	Usually not a determining factor—your cash flow is more important.
Business Cash Advance	$200 - $250,000	70% - 250%	3 - 12 months	Minutes - 1 week	None, usually.
Reward Crowdfunding	$1,000 - $100,000	Reward	<1.5 years	1 - 3 months	None.
Equity Crowdfunding	$50,000 - $5,000,000	Equity	5+ years	3+ months	None.
Equipment Financing	$5,000 - $5,000,000	8% - 25%	2 - 10 years	1 - 4 weeks	Personal credit is a major determining factor.
Business Credit Cards	$250 - $25,000	13% - 25%	30 days	1 - 3 weeks	Personal credit is a major determining factor.

MATCH FACTOR by nav

THE SMARTER WAY TO GET BUSINESS FINANCING

Nav's proprietary MatchFactor technology automatically filters dozens of top business credit cards and lending options, showing you what you're most likely to qualify for so you can apply with confidence.

MatchFactor's algorithm automatically compares your credit and business data with each lender's known requirements—all without hurting your credit scores.



MatchFactor scores range from 0 - 100%, the higher the score the more likely you'll be approved.

4X

Nav customers with a MatchFactor score were 4x more likely to get approved when applying for a business credit card.

Learn more at Nav.com

Bank & SBA Loans

Amount: $200,000+
Interest: <13%
Repayment: 7+ years
Effort: 2 - 6 months
Collateral: required

Banks are the largest lenders to small businesses and often the first point of contact for small businesses who need financing. The interest rates charged by banks are usually much lower than rates charged by non-bank lenders. However, there are a few things to consider when it comes to bank loans.

Many larger banks do not like to make small loans; the profits on these loans are not enough to pay for their high overhead costs. Large banks prefer to work with companies that need multi-million dollar loans; however, there are many exceptions to the rule. Some large banks have specialized groups who focus on small business lending, but even then they may not offer smaller loans or loans to young businesses. Many community banks and credit unions specialize in lending to local small businesses.

As the profit margins on business loans are small, banks try to reduce their risk as much as possible. They will only give loans to small businesses with the best credentials—high credit scores, many years in business, high revenue, and enough collateral to cover the loan. For this rule there are hardly any exceptions — only in cases where the bank knows the borrower very well and has had many years of positive experience with the borrower, it might consider a small, unsecured loan.

Banks are slow. They take their time to make a decision (weeks!) and the outcome of the credit decision is not always predictable. Moreover, they request quite a lot of documentation and if the lender provides real estate as collateral, the bank will make its own valuation, which might take some extra time.

A helpful lending product that banks provide are SBA loans. Because these loans are government-guaranteed, it is less risky for banks to lend to small businesses. Therefore, make sure that the bank you talk to is a so-called "Preferred SBA lender" which means that they are approved by the SBA to streamline procedures for these SBA loans. Again, SBA lending is also time-consuming.

For start-up companies it is especially difficult to get bank loans. There is no historical financial information available on which a bank can make its lending decision. Most banks have a rule that businesses need at least one or two years under their belts before they will consider providing a loan.

BOTTOM LINE:

If it all sounds very difficult to get a bank loan, that's because it is. However, bank loans are by far the lowest cost option. Moreover, once a lender has been successful in obtaining a loan, it can be the start of a long-term relationship. Once a small business has become a client of a bank and performs well, it becomes much easier to get loans renewed or increased.

Term Loans

Amount: $5,000 - $500,000
Interest: 7-30%
Repayment: 1 - 5 years
Effort: 1 - 2 hours
Collateral: preferred

These aren't your grandparent's loans. Because it can difficult to qualify for bank loans, a new generation of online, alternative lenders are stepping up to give business owners capital. The annual percentage rates in this category range from 7-30% with 1-5 year terms, and you can generally borrow up to $500K.

Online term loans trump bank loans in efficiency and speed. Instead of spending 25+ hours and waiting 1-6 months for funding, you can typically fill out an online application within 15 minutes. They ask you to provide supporting documentation such as tax returns and financial statements, which probably takes another hour. Because these lenders use a lot of third party data, the work on your end is minimal. Once all documentation is provided and verified, your loan gets disbursed in a day or two.

There are actually two types of loans in this category:

1. Business loans
2. Personal loans for business use

For **personal loans for business use**, they don't actually look into your business when determining whether or not to offer you a loan. Instead, they look at your personal finances and credit score to predict if you will pay back the loan even if your business doesn't work out. Since they lend based on your personal ability to repay, the amount you can borrow is smaller, typically ranging from $2,000 to $35,000 with 3-5 year repayment terms.

Business loans work like regular small business loans from a bank. Lenders look into your business finances/credit score as well as personal finances/credit score to determine if they will offer you a loan. They do require the business to be more established — 2 years in business, $50K+ annual revenue, and profitable. The loan amounts they offer range from $5K to $500K with 1-5 year terms.

In most cases, both term loan types require personal guarantees.

BOTTOM LINE:

Compared to bank loans, the process is a lot more pleasant. The interest rates are higher than what banks would offer but it's more accessible and convenient.

If you don't have strong collateral or can't wait 1 - 3+ months, but want the structure of a fixed monthly payment, online term loans are the way to go.

Invoice Financing

Amount: 85% of invoice amount
Interest: 15 - 35%
Repayment: 1 - 3 months
Effort: 1 - 2 hours
Collateral: account receivables

Invoice financing is a common financing option for businesses that get paid long after they deliver their goods or services. There are three types of invoice financing: invoice factoring, invoice financing and receivable based lines of credit.

1. **Invoice Factoring** is a common financing option for industries like clothing or manufacturing, where long accounts receivable are part of the normal business cycle. It helps with managing cash flow, especially when you need working capital or have timely opportunities to reinvest in your business.

Factoring works by providing a cash advance based on the total value of the invoices. You typically receive 50-80% of the invoice value up front based on the risk profile of your clients. You receive the remaining value once the client pays off the invoices, minus a factoring fee. This fee can be structured in any number of ways, but it generally nets out to be about 3-5% of the invoice value.

Factoring is not a loan. It is a contractual obligation — effectively a sale of your accounts receivable. Therefore, factoring companies care more about your *clients'* reputation and credit worthiness than yours. They also typically take over a significant portion of the accounting work for your business, help with credit checks, and generate financial reports to let you know where you stand.

2. **Invoice Financing** is like factoring except that it's not a sale of your accounts receivable. You use the account receivables as collateral to get the advance and you are ultimately responsible for managing the customer relationships and payments. If your customers becomes delinquent, you will be responsible for the amount advanced. The lender will underwrite based on both you and your client's credit history. The fees are usually 2-4% of your invoice value per month.

3. **Receivable Based Line of Credit** is a credit line based on a percentage (usually of 80-85%) of value of your outstanding invoices. The value is calculated based on the *aging* of the invoices. Namely, they give a full value for current invoices and a discount for overdue invoices. You will pay a pre-negotiated interest rate based on your balance. When an invoice gets paid, your balance will be reduced. There's usually a fee when you draw from the credit line. But this is usually a cheaper option than invoice factoring or invoice financing with APRs of less than 20%.

BOTTOM LINE:

The overall APR, typically 15-35%, is high compared to 6-15% for banks. But if most of your short-term assets are tied to accounts receivable it can be a good short term solution that lets you avoid the lengthy bank loan application. It's also much better compared to cash flow lenders, where APRs can be upwards of 50%. Your credit score also doesn't matter as much. Your clients' credit scores will also be taken into account. Therefore, it's a good solution if you have receivables but haven't built up your credit enough to get a credit line from a bank.

Microloans

Amount: $500 - $100,000
Interest: 8-15%
Repayment: 1 - 5 years
Effort: 10+ hours. 1 - 3 months
Collateral: preferred

If you're borrowing less than $50K for your business, you should check out your local small business development center (SBDC) to see if they can help you find good financing partners. A number of community development financing institutions (CDFIs) offer low interest rate small business loans as well as development assistance. They are a great resource.

Opportunity Fund in California is a great example. Borrowers typically get really friendly terms with low interest rates, i.e. 8-15% interest rate with terms up to 3 years. Typically you can borrow between $2,000 - $50,000. Some programs will go up to $100K or even $250K. CDFIs can offer lower rates because they're subsidized by governments and foundations through grants. Through the Community Reinvestment Act (CRA), banks get credits by lending out capital at cheap rates to CDFIs.

The mission of CDFIs is to provide capital and education to the non-bankable entrepreneurs who don't meet the credit score, revenue or operating history criteria banks require. The goal is to help these business owners get to the next level and become bankable.

CDFI loans require a business plan and financial reporting for your business, which can take a while. To get started, you will usually be required to talk to a loan officer. Even though they offer really good terms and interest rates, the amount you can borrow will be based on your ability to pay (your cash flow).

In addition to CDFIs, microfinance institutions (MFI) like Kiva also provide loans to businesses who are underserved by banks. Kiva is a program launched in 2012 to offer crowdfunded 0% interest business loans to micro-entrepreneurs. You can't beat a loan program with 0% APR. You can only borrow up to $10K for the first time but sometimes that's enough to help a business owner get to the next level.

BOTTOM LINE:

Overall, Microloans are a great option for less established businesses who need smaller loan amounts. Even if you don't need funding right now, it's a good idea to establish a relationship with these organizations ahead of time for when you do need funding.

In addition to the funding itself, these loans often come with technical assistance which can include support and advice to help manage the business and to help it grow. These lenders are often very dedicated to helping local small businesses succeed.

Cash Flow Loans

Amount: $200 - $100,000
Interest: 25% - 90%
Repayment: 1 - 3 months
Effort: Minutes. 7 mins - 3 days
Collateral: Personal guarantee

There are a few emerging online lenders that focus on small business working capital. The APRs range from 25-90% with 6-month to 1 year terms, and you can borrow up to $100K.

For this type of business financing, lenders use your future expected cash flow as collateral for the loan. You're essentially borrowing from cash that you expect to receive in the future by giving the lender the rights to a predetermined amount of these receivables. These are primarily used for working capital or to take advantage of short-term ROI opportunities.

After you apply, the lender will inspect your account's cash flow and make a quick (if not instant) decision on whether or not they will offer you a loan and at what interest rate. Since they don't get a whole lot of information aside from the account, and they don't require collateral (though they do require a personal guarantee in most cases), they are inherently offering riskier loans. To offset this risk, they charge high interest rates.

Note that a lot of cash flow lenders charge a very steep prepayment penalty. This means that paying back the loan early doesn't help you because the payback amount is fixed. They don't use an annualized interest rate or amortization.

BOTTOM LINE:

Cash flow loans are pretty expensive, but if you can earn a high ROI on the borrowed capital, e.g. purchasing high margin inventory that would sell quickly, this could be a decent option. You can typically get funds within a week, provided that you've submitted all required documentation.

Before applying for a cash flow loan, you should check with your local community bank first to see if they can offer you any other form of credit since their rate would typically be a lot cheaper. E-Commerce platforms like Amazon or PayPal also offer their merchants loan products with a very reasonable rate (typically 12.99%) on an invitation-only basis. In addition, you can also compare the cash loan offers with your credit card rates and figure out which product is most cost and time effective.

Business Cash Advance

Amount: $200 - $250,000
Interest: 70% - 250%
Repayment: 3 - 12 months
Effort: Minutes. A week
Collateral: Not required

Business cash advances work different than traditional business loans. The funding provider will offer the loan based on your credit card sales (or other ways you receive customer payments), and then gets paid back by taking a portion of your future sales, typically each day. You can usually get approved in a day or two—with very little paperwork—but you'll pay for this convenience in very high interest rates. Because this option is expensive, it should only be used if you're desperate or want to take advantage of short-term opportunity that requires fast cash. You don't want to get in habit of relying on business cash advances since its higher cost can make it very difficult to manage future cash flow. The most common type of business cash advance is a Merchant Cash Advance, or MCA. Other types differ because they do not require credit card sales, but will still take a daily payment from your business bank account.

What's great about business cash advances:

- Fast access to cash
- Typically, repayment based on % of daily sales
- Strong credit not required
- You chose how to use the funds
- No collateral required

What's not-so great about business cash advances:

- Very expensive (70% - 250% APR)
- Minimum daily payment
- Doesn't help build business credit
- May lock-in merchant processor

BOTTOM LINE:

Regardless of what financing you choose, you need to be diligent and aware of the terms, especially in the case of BCAs — they are extremely aggressive in their sales and marketing. Always try other options first: credits cards, banks, friends and family or even cash flow loans (while their APRs of 40-90% are high, they're low compared to the APR you'll pay for an MCA). These are more affordable options and more sustainable.

Reward Crowdfunding

Amount: $1,000 - $100,000
Interest: Reward
Repayment: <1.5 years
Effort: 25+ hrs, 1 - 3 months to fund
Collateral: Not required

Platforms like Kickstarter and Indiegogo help people raise money for a project or for a cause through crowdfunding. You can leverage these platforms to raise money for your business by offering a (future) product or a token reward such as a "Thank You" card or t-shirt. If you are not raising a huge amount of money (e.g. - < $5,000), this can be a viable option with few strings attached.

Unlike bank loans or equity deals, you don't have to disclose your personal or business financial information. But you will need to convincingly demonstrate the viability of your project or product.

In order to raise funds successfully, you have to be very good at marketing and present your product/business in a way that resonates with people. Once you put up your campaign, send it to your friends, family, community and customers for their support. Many campaigns do not get funded in the end. On the other hand, some business owners love crowdfunding because it gives them the chance to test the waters for a new product, build buzz, or both.

BOTTOM LINE:

Overall, it's a great option if you have a compelling product/project and know how to market it. Keep in mind that the time you will spend coming up with a great campaign is probably not going to be less than the time you'd spend on a loan application or investor presentation.

Equity Crowdfunding

Amount: $50,000 - $5,000,000
Interest: Equity
Repayment: 5+ years
Effort: 25+ hrs, 3+ months to fund
Collateral: Not required

Instead of borrowing money from investors or banks, you can give a slice of your company to investors in exchange for capital. It's standard practice for tech startups, and companies like Angellist and FundersClub that have a history of crowdfunding equity investments in tech startups. Individuals invest in these funds with the hope that one of the companies becomes the next Facebook or WhatsApp.

Historically, this model hasn't applied to small businesses outside technology. In recent years, however, there have been more options popping up for non-tech startups. CircleUp helps facilitate equity investments for burgeoning consumer product goods (CPG) companies. Crowdfunder is another platform that focuses on local small businesses. Equity Crowdfunding is not very mature yet for typical small businesses, but its development is interesting and small businesses should pay attention to how it develops over the next couple of years. Remember, you're giving up equity in your business to investors expecting high returns. This will dilute your ownership and may put additional outside pressures on your business.

You typically don't need to submit personal financial information to be successful on the equity crowdfunding platform. But you will need to come up with an investor presentation in addition to the typical business plan and financial projections for loan applications. Imagine you are on Shark Tank and you want Mark Cuban to invest in your business. That's what it takes to be successful to raise funds on an equity crowdfunding platforms.

BOTTOM LINE:

Overall, it's a great option if you have a compelling product/project and know how to market it to investors expecting high (i.e. 10x) returns. Keep in mind that the time you will spend coming up with a great campaign is probably not going to be less than the time you'd spend on a loan application or investor presentation.

Equipment Financing

Amount: $5,000 - $5,000,000
Interest: 8% - 25%
Repayment: 2 - 10 years
Effort: 1 - 2 hrs, 2 - 4 weeks
Collateral: equipment

If you need to purchase business equipment, consider equipment financing. Business equipment is a pretty broad term that covers equipment ranging from an espresso machine for a coffee shop to specialized machinery for manufacturing. Usually the equipment vendors work with lenders for financing with the APR ranging from 8-25% depending on your credit score, your industry and the resale value of the equipment. You can either lease the equipment or buy the equipment with a loan.

The **lease** program lets you rent the equipment over a period of years. When the lease ends, sometimes you have the option of buying the equipment with a nominal price (like $1). Sometimes you can lease brand new equipment while the lender takes your old equipment and resells them (this happens to photo copiers). You can fully deduct the rent from your business as expenses. It's a good way to conserve cash if you don't want to spend a large amount of capital on the equipment.

The **loan** program lets you own the equipment and you finance it with a loan. The equipment is the collateral in case you default on your loan. The interest rate here is typically lower than a lease. If you have a preferred lender, you can use them to finance it instead of working with the vendors' lenders.

In addition, for business owners who need working capital, if you own the equipment out right, you can do a **sale-and-leaseback** transaction. Basically, sell the equipment to a lender to get some cash upfront and lease the equipment back. Although it may not be ideal, this type of transaction can work for business owners who need cash and can use equipment as collateral. Contact your original vendor to see if a the leaseback program is available, and compare it to a collateralized loan from a traditional lender.

BOTTOM LINE:

Overall, equipment financing is fairly accessible to business owners as the collateral is pretty strong. If you intend to own the equipment for a long time, shop for financing partners. It can be your bank, alternative lenders, lenders who specialize in equipment financing or lenders who work with the vendor. Find the lowest cost option with best terms. You can save a lot of money that way.

Business Credit Cards

Amount: $250 - $25,000
Interest: 13% - 25%
Repayment: 30 days
Effort: <1 hr, 1 - 3 weeks to fund
Collateral: personal guarantee

Business credit cards are a popular choice among entrepreneurs who have limited business history and don't qualify for lower-cost financing, such as bank lines of credit. 65% of small businesses use them on a regular basis.

Business credit cards are just like personal credit cards, it's a revolving line of credit you use for business expenses. Just be sure that you're getting a business credit card and not one tied to your personal credit. Maxing out personal credit cards for business expenses can kill your personal credit scores. (You can find out which business credit cards affect your personal credit here.)

It's always a good idea to have one or two business credit cards available for short-term emergencies and working capital. Here are 4 other advantages of business credit cards:

1. Business cards can help build your business credit profile — as long as you pay your bills on time.
2. They offer a simple application and a way to make purchases on credit with no interest until the billing cycle has ended.
3. Many business credit cards offer a great way to get rewarded for items you need to purchase in the name of your business. Rewards include cash back, travel rewards, and flexible points systems.
4. Credit and charge cards offer greater protections than checks and business debit cards in the case of fraud. They are covered by a federal law that protects the card user in the event of unauthorized use.

BOTTOM LINE:

Having at least one business credit card is a good idea for all businesses. They can help you cover cash emergencies, are a good way to separate your personal and business expenses, and you can rack up the rewards if you choose the right card for your business.

Learn more:
Business credit cards for startups.

Learn more:
Business credit cards for bad credit.

Financing Options for Startups

- Reward Crowdfunding
- Equity Crowdfunding
- Credit Cards
- Friends and Family Financing
- Trade Credit
- Venture Capital
- Angel Investments

Financing for Businesses with Poor Credit

- Trade Credit
- Friends and Family Financing
- Crowdfunding
- Venture Capital
- Angel Funding
- Merchant Cash Advances
- Invoice Financing
- Microloans

Concluding Remarks

Accessing capital is an important element for any successful business, but let's face it — it's not the one business owners intend to sign up for when they open up shop. Most business owners would rather spend their time building their company, developing products people love, getting customers and building a team to create a sustainable enterprise.

The goal of this book is to help business owners understand their financing options, and alert you of the fact that there are small business advocates, like Nav, on your side who are here to help ease access to capital. If you flipped through the book and get to this page, congratulations. By now, you should have a good idea of which options might work for your business. When you see advertising about different lenders, hopefully you can discern if it's an option that is right for you based on your business attributes and needs.

The business financing world is changing rapidly. We expect to see even more changes and new players in the coming years. More competition means more time-efficient and cost-effective products, which is great for businesses.

Nav's free marketplace is constantly updating with financing and credit card options for small business owners. Sign up for a free Nav account and see which financing options your business is most likely to qualify for based on your credit and business data.

Thank you for reading this book. If you have any feedback and comments, feel free to send us a message to editorial@Nav.com. We would love to hear from you.

— Your friends at Nav