



# SMALL BUSINESS FINANCING IN 2019

YOUR ULTIMATE GUIDE



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# SMALL BUSINESS FINANCING IN 2019

## YOUR ULTIMATE GUIDE

# ONE OF THE BEST INDICATORS OF A BUSINESS'S HEALTH IS ITS CASH FLOW.

It's true that it takes money to make money, and as you get past the startup phase your access to small business financing options grows. According to the latest Small Business Credit Survey from the [Federal Reserve](#), four out of 10 small businesses applied for financing in 2017, and 58% were approved for all of the credit they requested, up from 53% in 2016.

While the majority turned to large and small banks as well as lenders, others turned to new, alternative lending solutions. With so many choices for small business financing available, how do you find the best funding method for your situation?

From traditional term loans to crowd funding, here are nine funding options that can help small-business owners get the money they need to grow their businesses, increase their profits and improve their cash flow.



# TERM LOAN

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A term loan is a traditional business loan that can be taken out for a short term (up to 18 months) or long term (three to 25 years). Some term loans have fixed rates with equal monthly payments, while others have a floating rate, with payments that can vary depending on current interest rates.

## Pros of Term Loans

- ✓ Business owners with good credit and steady revenue can enjoy low rates
- ✓ Set payments help you anticipate and plan for expenses
- ✓ Large loan amounts are available to help finance business expansion or growth
- ✓ Repaying the loan on time will help you build your business credit

## Cons of Term Loans

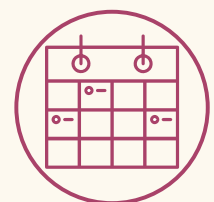
- ✗ Term loans often require extensive paperwork
- ✗ Collateral may also be required
- ✗ Approval can be difficult to obtain, depending on your financial history
- ✗ Lenders can limit how you use the money, such as for acquiring fixed assets

## Who Should Consider a Term Loan?

A term loan is best for an established business with good credit, strong financial statements and steady revenue. This type of loan is best for larger investments.

## When to Apply for a Term Loan

Approval can take weeks. It's best to start the application process for a term loan at least a month before you need the funds.



# ONLINE WORKING CAPITAL LOAN

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An online working capital loan is obtained from an online lender to cover short-term costs related to business operations. This type of financing can be used for virtually any reason, such as inventory, payroll or property upgrades.

## Pros of Online Working Capital Loans

- ✓ Often requires less paperwork than term loans
- ✓ Approval is fast
- ✓ Business owners control usage of the funds
- ✓ Loans are unsecured and don't require collateral

## Cons of Online Working Capital Loans

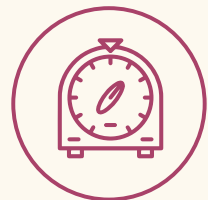
- ✗ Interest rates can be higher than term loans
- ✗ Loans are often tied to the business owner's personal credit
- ✗ Less human-to-human interaction with the lender can feel cold
- ✗ Ease of access might encourage a business owner to borrow a higher amount that can be difficult to repay

## Who Should Consider an Online Working Capital Loan?

Online working capital loans are good for businesses that don't have steady revenue, such as seasonal businesses that may need an influx of money at a certain time of the year. For example, a retailer may apply for a loan for the fourth quarter.

## When to Apply for an Online Working Capital Loan

Online loans offer quick approval. Apply before a seasonal slow down or when you need funds.



# LINE OF CREDIT

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A line of credit is a loan that allows you to draw funds when needed. Instead of borrowing a lump sum, such as with a term loan, businesses are approved for a capped amount. They pay interest only on the portion used. Funds are available to borrow again once repaid.

## Pros of a Line of Credit

- ✓ You only pay for what you use
- ✓ Good for assisting with cash flow during slow sales cycles
- ✓ Business owners control usage of the funds
- ✓ Funds can be accessed instantly

## Cons of a Line of Credit

- ✗ Tend to have higher interest rates and fees than term loans
- ✗ It can be difficult to qualify, depending on your credit history
- ✗ Borrowing limits are lower than other options
- ✗ Since access is instant, there is a potential for misuse

## Who Should Consider a Line of Credit?

A line of credit is a good funding option for businesses that need to stabilize cash flow during slow cycles and don't need access to a large lump sum.



## When to Apply for a Line of Credit

Lines of credit are often approved in a few days or even a few hours. Apply when you need the money, or set up the account beforehand so it's readily available when you need it.



# EQUIPMENT FINANCING

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Businesses that use expensive equipment can consider equipment financing. This loan is used to acquire hard assets, such as a commercial oven, vehicle or computer system. The equipment or asset serves as collateral for the loan.

## Pros of Equipment Financing

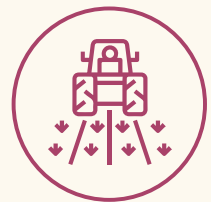
- ✓ No down payment is required
- ✓ Easier to qualify for equipment financing than a term loan
- ✓ Potential tax benefits include deductible interest
- ✓ Businesses can easily upgrade their equipment

## Cons of Equipment Financing

- ✗ Financing is restricted to the purchase of equipment
- ✗ The lender may require a lien on the equipment
- ✗ Higher interest rates than other funding options
- ✗ You are responsible for maintenance of the equipment

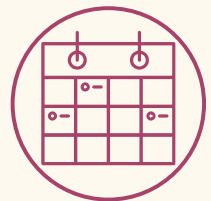
## Who Should Consider Equipment Financing?

Business owners who want to upgrade, replace or expand their equipment should consider equipment financing. This is also a good option for owners who have difficulty qualifying for a term loan or don't have enough time to wait for approval.



## When to Apply for Equipment Financing

Approval for equipment financing is often quicker than a term loan. Apply a few weeks before you want to acquire the equipment.



# REVENUE BASED FINANCING

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Often referred to as a merchant cash advance (MCA), revenue-based financing is a short-term injection of capital that involves the sale of future receivables in exchange for money up front.

## Pros of Revenue Based Financing

- ✓ Higher approval rating than traditional forms of financing
- ✓ Simple application process with minimal paperwork
- ✓ No collateral required
- ✓ Quick access to funds after approval

## Cons of Revenue Based Financing

- ✗ Higher rates and fees
- ✗ Businesses need to meet a minimum monthly revenue to qualify
- ✗ Repayment terms are often shorter than other options
- ✗ This form of financing is unregulated and has a risk of predatory lending practices with some providers

### Who Should Consider Revenue Based Financing?

Business with big profit margins, strong revenue history and high potential for future sales can use revenue-based financing to quickly scale their operations.



### When to Apply for Revenue Based Financing

Revenue-based financing can be approved in as little as a day, delivering funds within a week.





# SBA LOANS

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A SBA loan is similar to a term loan, but it is partially guaranteed by the U.S. government's Small Business Administration (SBA). SBA loans offer programs where businesses can borrow up to \$5.5 million, but the approval process for this small business financing option is thorough and restrictive.

## Pros of SBA Loans

- ✓ Reasonable rates and long repayment terms
- ✓ Availability of high loan amounts provides a good method for purchasing expensive assets or real estate
- ✓ Flexibility of usage
- ✓ Access to SBA resources, such as training and mentors

## Cons of SBA Loans

- ✗ A lot of paperwork is required
- ✗ SBA loans can have higher rates than term loans
- ✗ Approval process takes a long time
- ✗ Requirements to qualify are very strict

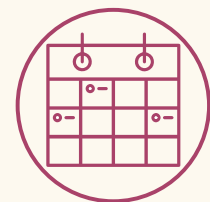
## Who Should Consider SBA Loans?

SBA loans are good options for business owners who have excellent personal credit and a strong financial history. Since this type of loan has a long approval process, it is best for a business that is in its planning stages and does not require an immediate influx of cash.



## When to Apply for an SBA Loan

SBA loans can take three weeks to three or more months for approval. Small-business owners should apply before they need the funds to allow plenty of time for the process.



# PURCHASE ORDER FINANCING

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Purchase-order financing is a funding option that helps businesses with limited cash flow acquire inventory or supplies. The finance company pays the supplier directly so the business can continue to serve its customers.

## Pros of Purchase Order Financing

- ✓ Businesses can fill large orders with limited cash flow
- ✓ Owners retain equity in their companies
- ✓ Easy to qualify with fewer requirements than other funding options
- ✓ Low risk for businesses

## Cons of Purchase Order Financing

- ✗ Higher fees than other financing options
- ✗ Not available for service businesses
- ✗ Short funding terms only
- ✗ The financing company pays suppliers directly, which could negatively affect a business's reputation

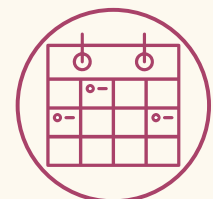
## Who Should Consider Purchase Order Financing?

Companies that sell products and occasionally have cash flow issues can consider this type of financing. This is also a good method of funding a large order or a sudden batch of orders, especially when a company is new.



## When to Apply for Purchase Order Financing

Purchase order financing can take up to two weeks to fund, so businesses should start the process with enough time to fulfill customer orders.



# INVOICE FACTORING

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Invoice factoring is a short-term financing method that allows business owners to borrow money against outstanding customer invoices as a way to improve immediate cash flow.

## Pros of Invoice Factoring

- ✓ Offers quick access to cash so you don't have to wait on receivables
- ✓ Flexible terms and reasonable rates
- ✓ Not considered a loan and won't add liabilities to your balance sheet
- ✓ Easy application process

## Cons of Invoice Factoring

- ✗ Higher costs than other funding options
- ✗ Financing relationship involves the customer with the outstanding invoice, which can impact a business's reputation
- ✗ Requires paperwork for every funding advance
- ✗ Decreases profit margins

## Who Should Consider Invoice Factoring?

Businesses that are experiencing cash flow issues due to slow paying customers can speed up payment with invoice factoring.



## When to Apply for Invoice Factoring

The application and underwriting process for invoice factoring takes up to 10 days, with funds distributed usually within 48 hours.



# CROWD FUNDING

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Crowd funding is a way to source funds for a specific business project. Business owners recruit contributors to donate money towards a set goal in exchange for equity, rewards or simply good will.

## Pros of Crowd Funding

- ✓ Access to money without high interest rates or repayment terms
- ✓ Business owners can gauge interest in a new product or service
- ✓ Exposure to a larger audience by being on a public crowd-funding platform
- ✓ Owners maintain control and equity of their businesses

## Cons of Crowd Funding

- ✗ If the campaign doesn't hit its target amount, no funds are released
- ✗ Takes a lot of time in marketing and promotion
- ✗ Public risk of failure
- ✗ Not a good option for non-consumer products

## Who Should Use Crowd Funding?

Business owners who have an idea for a new product or service that has the potential to be popular with consumers and is easily shared on social media should consider crowd funding as a way to access money and gain publicity.



## When to Use Crowd Funding

There is no way to know how long a project will take to get funded, but the idea and marketing strategy should be thoroughly researched and prepared before launching a crowd-funding campaign.



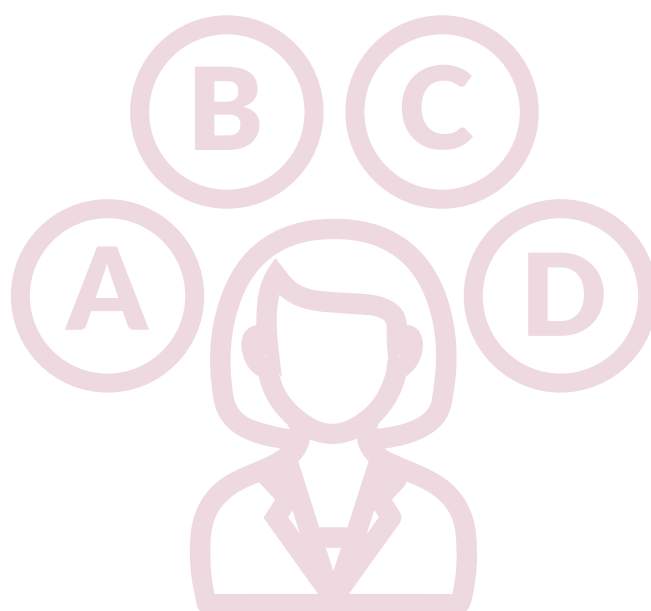
# FINDING THE RIGHT SMALL BUSINESS LENDER

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With so many small business financing options available, be sure to evaluate your own needs as you evaluate programs. For example, do you need a short-term loan to fix cash flow issues, or are you looking to make a large investment in your business? Those two scenarios are best met by different financing methods and perhaps different lenders.

Make sure the lender has been around for several years and has a good reputation with its business borrowers. Check their online reviews as well as their standing with the Better Business Bureau. While government regulations are in place for funding options and transparency, some lenders have predatory practices that can put a small business in jeopardy if not uncovered. Knowing a lender provides good customer service and solid lending products will give you confidence to proceed.

You may also consider a lender who specializes in a certain type of funding or industry. Small-business owners will want to work with lenders who understand their needs. You may also choose a lender who has a variety of products that might fulfill your future funding requirements. By establishing a good relationship, it might be easier to qualify for your next loan.



# THE BOTTOM LINE

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Take time to choose the right lender or financing platform. Companies can vary greatly in requirements and offerings. Don't be afraid to contact and compare several lenders and programs. Check the requirements for eligibility as well as costs and terms. Read the fine print and ask questions.

The best time to get a business loan is before you need it. And the best lender is the one who can complement your business goals and can act as a partner in your growth. Making the right choice will pay dividends in the opportunities it opens and frustrations it can relieve. You can bank on that.



## **About Kapitus**

*Founded in 2006 and headquartered in NYC, Kapitus is one of the most reliable and respected names in small business financing. As both a direct lender and a marketplace built with a trusted network of lending partners, Kapitus is able to provide small businesses the financing they need, when and how it is needed. With one application business owners can save time and money, while eliminating the stress that comes with applying to different lenders. At Kapitus, we believe that business owners should be able to focus on running their business, while we take care of the financing. To learn more, visit [www.kapitus.com](http://www.kapitus.com).*



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