

Explore Your Debt Funding Options

“Ultimately, a human being will make the yes or no decision on your loan, and without solid documentation the answer will likely be no, even if everything else looks good.”¹

—Sabrina Parsons, CEO of Palo Alto Software

Know the C’s of Credit

The five most frequently used considerations lenders use to analyze your credit are called “the 5 C’s of credit.” They include:²

- ✓ **Capacity**—This one is highest on the list for a reason. Lenders want to know: Will you be able to repay the loan? They’ll do a deep dive into your credit history and other factors to make this determination.
- ✓ **Capital**—Have you invested your own money in the business? How much? If you haven’t invested your own money in the business, why should they?
- ✓ **Collateral**—Do you have something the bank can use to recoup their loss in case you can’t repay the loan? Some examples of items that might be used are cars and properties (business or personal).
- ✓ **Conditions**—What will you be using the money for? What’s the current atmosphere in your industry? Make sure your business plan describes what the money will be used for and your plan for return on investment (ROI).
- ✓ **Character**—Are you trustworthy in your business dealings? Do your references check out? What’s your educational background? What experience do you have in your industry? It is important to note that the decision of personal character is based on judgement and is subjective.³

By understanding how the five C’s will be used before you apply for a loan, you’ll be more prepared to discuss your business’ financing needs with lenders.

Debt Funding Options

TRADITIONAL AND ONLINE BANKS, CREDIT UNIONS AND CREDIT CARDS

Take a minute to look over some of the most common debt-funding options. Weigh the pros and cons of each type to help you make a more solid decision.

Loan Type	Advantages	Disadvantages
<p>Family and Friends: These types of loans are most often used by startups and relatively new businesses.⁴</p>	<ul style="list-style-type: none">• May or may not include terms, including interest rates, fees and payback arrangements• May come with free advice	<ul style="list-style-type: none">• Sometimes complicated by the close relationships—for better or worse• Unsolicited advice• Default on a payment may cause feuds.
<p>Traditional Bank: An institution that is licensed to take deposits and give loans. They may also provide safe deposit boxes, currency exchange and wealth management services.⁵ They fall into three major categories: commercial banks (national, state or locally operated), investment banks and central banks. These different types of banks are regulated by different agencies and serve different clients.</p>	<ul style="list-style-type: none">• More online capabilities for users• In-person support and financial advisors available• Large national banks have locations in most metropolitan cities.	<ul style="list-style-type: none">• Slower loan turnaround time• Harder to obtain loans for first-time small business loan seekers• Typically has higher interest rates and more transaction fees compared to credit unions⁶

Loan Type	Advantages	Disadvantages
<p>Online Bank: A financial institution that does all its dealings with its clients online, via e-mail, or through phone support services and does not have branches. Also called Internet banking or web banking.⁷</p>	<ul style="list-style-type: none"> • Has comparable interest rates as credit unions • Can have lower or no fees • Higher interest rates on deposit accounts • 24/7 banking 	<ul style="list-style-type: none"> • Doesn't have branch locations • No in-person support • Hard to deposit cash
<p>Credit Union: A financial institution owned by its members who have similar affiliations.⁸ To learn more, check out the National Credit Union Administration.</p>	<ul style="list-style-type: none"> • Business loans and business lines of credit typically have lower loan rates than traditional banks. • Fewer transaction fees • Often easier to get approved for a loan⁹ 	<ul style="list-style-type: none"> • Membership is required since credit unions are owned by their members. Membership might be based on where you live or your occupation.¹⁰ • Typically have fewer branches and ATMs • May have limited online services
<p>Credit Cards: A card you apply for from a financial institution that provides a line of credit (LOC) or credit limit that has interest charged on the amount borrowed.¹¹</p>	<ul style="list-style-type: none"> • Get easily qualified • Rewards programs (frequent flier miles, cash back, discounts on hotels and rental cars) • Builds credit if managed appropriately 	<ul style="list-style-type: none"> • Higher annual interest rates/annual percentage rates (APR)—therefore, high-priced financing • Less purchase protection for business credit cards¹² • Security issues/higher chances for fraud

Other Debt Funding Options

TRADE CREDITS

A trade credit is an agreement offered to your company by suppliers that lets you “buy now and pay later” and is typically given for 30-, 60- or 90-day periods with no interest.¹³ Be prepared to explain your financial situation and negotiate a deal before you go to the supplier to discuss this option. They may ask for a percentage up front and may offer you a discount on net cost if you pay within an earlier time frame. In order to get the best price on products, use trade credits only as a short-term source of capital. Using trade credits short-term will put you in a better position to use more competitive suppliers with higher-quality products because you will not be overly financially committed to a particular supplier.¹⁴

FINANCE COMPANIES

This type of debt funding is available to both consumers and businesses, usually at a higher interest rate than other traditional lenders. Consumer finance companies may give loans to assist in purchasing products like vehicles, equipment or mortgages. Commercial and consumer finance companies, unlike banks and other financial institutions, do not offer services like checking and savings accounts and therefore don't take deposits. For this reason they aren't categorized as banks and operate under a different set of regulations than banks. Finance companies that participate in commercial credit activities use the borrower's collateral assets for security. Finance companies access funds for lending through their own borrowing or from affiliated companies.¹⁵

SBA LOANS

The SBA offers loan guarantee programs for a variety of small business financing needs. The most common one is the 7(a) loan program, but there are many other subcategories, specifically for women business owners, veterans and businesses that have experienced damages due to a disaster. The SBA also has a group of **preferred lenders**. These relationships are similar to how you might think of in-network doctors with a health insurance plan. SBA-guaranteed loans use these **preferred lenders** as partnering financial institutions. These SBA-backed loans may have higher interest rates associated with them. The reason behind this is that many small businesses applying for these types of loans may be viewed as higher risk. SBA loans can help by taking on some of that risk for small businesses to enable them to get a loan. Interested in who some of the top lenders are? The SBA has collected the data (updated as of Dec. 31, 2018) of the top 100 SBA 7(a) lenders. They are all compiled [here](#) for easy review. Explore these lending options, and then check out the links in the Resource section below for more debt financing resources.

SBA GUARANTEED LOAN PROGRAM

7(a) Loan	Funding Audience	Amount	Term Period
Standard 7(a)	General small business loans program for a new business or to assist in the acquisition, operation or expansion of an existing business.	Loans up to \$5 million	Term repayment period of 7–25 years. The specific terms of fees, interest rates and percentage of guarantee are negotiable.
7(a) Small Loan	General small business loans program but with much lower debt financing amounts. For a new business or to assist in the acquisition, operation or expansion of an existing business.	Typically \$150,000–\$350,000	The specific terms of fees, interest rates and percentage of guarantee are negotiable.
SBA Express	<p>New business or to assist in the acquisition, operation or expansion of an existing business.</p> <p>Note: This loan type is called “express” because of the short turnaround time.</p>	<p>Loans up to \$350,000</p> <p>Maximum SBA-guarantee 50 percent loan amount</p>	The specific terms of fees, interest rates and percentage of guarantee are negotiable.
Export Working Capital	<p>Small businesses that need working capital to support their export sales.</p> <p>SBA-guaranteed amount will be no more than 90 percent of the total loan amount.</p>	Loans up to \$5 million	The specific terms of fees, interest rates and percentage of guarantee are negotiable.

7(a) Loan	Funding Audience	Amount	Term Period
Export Express	<p>Specifically for business owners that need support to grow their export sales.</p> <p>This loan type is termed “express” because of the short turnaround time.</p>	Loans and lines of credit up to \$500,000	The specific terms of fees, interest rates and percentage of guarantee are negotiable.
International Trade	<p>Designed to help small businesses get into and promote growth in international markets. In addition, designed to help businesses be more competitive in the market. This loan type offers a combination of fixed-asset financing, working-capital financing and debt refinancing.¹⁶ Designed to help grow your business’s export sales.</p>	Loans up to \$5 million. Highest SBA guaranty of 90 percent on the amount of the loan.	<p>The specific terms of fees, interest rates and percentage of guarantee are negotiable.</p> <p>Lenders may charge 2.25–2.75 percent above the prime rate.¹⁷</p>

7(a) Loan	Funding Audience	Amount	Term Period
<p>Veterans Advantage</p>	<p>Loans for veteran-owned small businesses. You're eligible if you are a(n):</p> <ul style="list-style-type: none"> • Honorably discharged veteran • Active-duty military member • Service-disabled veteran • Reservist/active National Guard member • Current spouse of a veteran, active-duty service member, reservist, National Guard member or widowed spouse of a service member who died while in service or as a result of a service-connected disability. 	<p>Loans up to \$5 million</p>	<p>The specific terms of fees, interest rates and percentage of guarantee are negotiable.</p>
<p>CapLines</p>	<p>These loans help meet a business's short-term and cyclical working-capital needs and are broken into four categories: seasonal, contract, builder and working. Each one of these categories has different terms of use. To learn more about the CapLine program, click here.</p>	<p>Loans up to \$5 million and have 75 percent or 85 percent SBA guaranty</p>	<ul style="list-style-type: none"> • Maximum 10-year term • Builder's CapLines has five-year maximum term.

Other SBA Loan Programs	Funding Purpose	Amount	Term Period
<p>Microloans</p>	<p>“Microloans are made to women, low-income, veteran, and minority entrepreneurs and others with the capacity to own and operate a small business.”¹⁸</p> <p>This program gives loans and grants to eligible nonprofit microlenders for start-ups and growing small businesses.</p> <p>Can be used for working capital, inventory, furniture and equipment.</p> <p>Cannot be used for paying existing debts or to purchase real estate.</p>	<p>Loan limit of \$50,000</p>	<p>Interest rate is 8–13 percent and has a six-year repayment period.</p>
<p>504 Loans</p>	<p>Designed to help business owners purchase land, buildings, machinery and equipment, improvements, and build or update existing spaces. These loans can't be used for investment properties, working capital, inventory or consolidation of debt.¹⁹</p> <p>This loan program is also called the Certified Development Company (CDC) loan program.</p>	<p>Loan amounts depend on the business's ability to support job creation, public policy or small manufacturing.</p>	<ul style="list-style-type: none"> • Ten-year term for machinery and equipment • Twenty-year term for land and buildings

Other SBA Loan Programs	Funding Purpose	Amount	Term Period
Disaster Assistance Loans	Low-interest loans are available to homeowners, renters, businesses of all sizes and most private nonprofit organizations. These loans are used to repair or replace the following items destroyed by a declared disaster: <ul style="list-style-type: none"> • Real estate • Personal property • Machinery and equipment 	Up to \$2 million ²⁰	The specific terms of fees, interest rates and percentage of guarantee are negotiable.

OTHER VALUABLE PROGRAMS TO KNOW ABOUT

Small Business Lending Fund (SBLF)²¹: The U.S. Department of the Treasury has invested over \$4.0 billion in 332 lending institutions to help “Main Street” banks and small businesses work together.

- Community banks—\$3.9 billion in 281 community banks
- **Community development loan funds**—\$104 million in 51 CDLFs
- Over 3,000 locations
- In 47 states and the District of Columbia

To find a bank that participates in this program in your area, check out the list [here](#).

How Do I Decide?

Now that you have more concrete information about a wide variety of debt funding sources available, it's time to think about which type is best suited for you and your business. Examine it from a variety of angles so you can make the most informed decision. Determining whether or not you're eligible and—specifically for SBA loans—identifying which banks participate in your area are important steps. Using the SBA Lender Match tool can help get you connected to financial institutions that lend for SBA-backed loans. Also, determining what interest rate and terms are available to you will help you prioritize what type of debt funding best fits your business's needs.

It is also valuable to go out and talk to other business owners about their experiences getting debt funding. Get advice from your mentors and your local SBA loan consultants, and don't wait until the last minute to get funding. Waiting until your business is in financial trouble can hurt your chances of getting a loan since that may cause a bank or other lending institution to challenge your business's viability.

RESOURCES

Lender Match

An SBA free referral tool that connects business owners with 800 lending institutions that have SBA-guaranteed loans available in all of the U.S. states and U.S. territories. This may be the most relevant option for you if you have already been turned down for a traditional bank loan.

Simple Loan Calculator

A TransUnion tool that allows you to plug in your loan amount, interest rate and the loan time period to see exactly how much your monthly payment will be.

Vets First Verification Program

A Veteran Affairs resource to get the information you need to get your business certified as Veteran-Owned or Service-Disabled Veteran-Owned.

Disaster Relief Program

An SBA resource with forms, fact sheets and a directory of declared disaster areas eligible for relief programs.

Annual Credit Report

A website to obtain a free copy of your credit report once every 12 months.

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- ² *5 C's of Credit Analysis*, Minority Business Development Agency (Aug. 6, 2010), <https://www.mbda.gov/news/blog/2010/08/5-cs-credit-analysis> (accessed Feb. 28, 2019).
- ³ *Five Cs of Credit*, Accounting Tools (Feb. 4, 2019), <https://www.accountingtools.com/articles/2017/9/30/five-cs-of-credit> (accessed Feb. 28, 2019).
- ⁴ *Types of Finance—Friends and Family*, ACCA Global, <https://www.accaglobal.com/us/en/business-finance/types-finance/friends-family.html> (accessed March 2, 2019).
- ⁵ Julia Kagan, *What Is a Bank?*, Investopedia (Feb. 9, 2019), <https://www.investopedia.com/terms/b/bank.asp> (accessed March 2, 2019).
- ⁶ Marco Carbajo, *Pros and Cons of Banks vs. Credit Unions*, The Balance Small Business (Sept. 20, 2018), <https://www.thebalancesmb.com/the-pros-and-cons-of-banks-vs-credit-unions-4077714> (accessed Feb. 19, 2019).
- ⁷ Jake Frankenfield, *Online Banking Definition*, Investopedia (Feb. 19, 2019), <https://www.investopedia.com/terms/o/onlinebanking.asp> (accessed March 2, 2019).
- ⁸ Marco Carbajo, *Pros and Cons of Banks vs. Credit Unions*, The Balance Small Business (Sept. 20, 2018), <https://www.thebalancesmb.com/the-pros-and-cons-of-banks-vs-credit-unions-4077714> (accessed Feb. 19, 2019).
- ⁹ Justin Pritchard, *Credit Union Loans*, The Balance Small Business (Jan. 22, 2019), <https://www.thebalance.com/credit-union-loans-315401> (accessed March 1, 2019).
- ¹⁰ *Ibid.*
- ¹¹ Julia Kagan, *What Is a Credit Card?*, Investopedia (June 4, 2018), <https://www.investopedia.com/terms/c/creditcard.asp> (accessed March 2, 2019).
- ¹² R. Khera, *Pros and Cons of Business Credit Cards*, MoreBusiness.com, <https://www.morebusiness.com/business-credit-card-issues/> (accessed Feb. 19, 2019).
- ¹³ *6 Sources of Bootstrap Financing*, Entrepreneur, <https://www.entrepreneur.com/article/80204> (accessed March 6, 2019).
- ¹⁴ *Ibid.*
- ¹⁵ Charles Crawford, *What Are the Primary Functions of Finance Companies?*, Chron.com, <https://smallbusiness.chron.com/primary-functions-finance-companies-40480.html> (accessed March 6, 2019).
- ¹⁶ *Office of International Trade—Resources*, U.S. Small Business Administration, <https://www.sba.gov/offices/headquarters/oit/resources/14832> (accessed March 2, 2019).
- ¹⁷ *Ibid.*
- ¹⁸ *Microloan FactSheet*, U.S. Small Business Administration (March 2, 2017), <https://www.sba.gov/content/microloan-program-factsheet> (accessed March 4, 2019).
- ¹⁹ Katie Murray, *The 504 Loan Program Explained* (Sept. 13, 2016), <https://www.sba.gov/blogs/504-loan-program-explained> (accessed March 18, 2019).
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