Small Business Financing: A Product Guide

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What is Small Business Financing?

Not all financial products are created equal. Small business financing refers to the various products and sources through which small businesses secure the funds they need to start, operate, or expand their business.

Financing is essential for a small business because it helps cover expenses such as rent, salaries, inventory, equipment, marketing, and other operational costs as you grow.

Choosing the right financing option depends on factors like the business's stage, creditworthiness, cash flow, and growth plans. It's essential for owners to carefully evaluate their options and create a financial plan that aligns with their goals and needs.

Different Types of Financing Options

There are several different types of financial products available to small businesses, ranging from grants to traditional bank loans.

In this guide however, we will cover the most common ones in a bit more detail:

1. **Lines of Credit** - revolving form of credit. As you repay the borrowed amount, the credit becomes available again.
2. **Revenue-Based Financing** - a business receives a lump sum in exchange for a percentage of future sales.
3. **Equipment Financing** - finance the purchase of equipment or machinery.
4. **SBA Loans** - one of the best sources of affordable capital for business owners.

Lines of Credit (LOC)

→ **How does it work?**
An LOC offers on-demand access to funds and replenishing as you repay, providing ongoing financial flexibility.

→ **What is required?**
Loan application, the last 3 months of bank statements, 650 FICO, $20,000 in monthly revenue.

→ **Good uses**
Manage cash flow fluctuations, cover short-term expenses, seize opportunities without committing to a long-term loan.

→ **Bad uses**
Investments with uncertain returns, cover personal expenses, or support unsustainable business practices.

→ **What are the interest rates?**
5.99% to 29.99%*

Revenue-Based Financing

How does it work?
A business receives upfront capital in exchange for a percentage of its future revenue. Also referred to as an MCA.

What is required?
Loan application, the last 3 months of bank statements, 600 FICO, $10,000 in monthly revenue.

Good uses
Cover short-term working capital needs, such as purchasing inventory, meeting payroll, or crucial one-time expenses.

Bad uses
Investments with uncertain returns, businesses with low profit margins, any long-term projects with limited growth.

What are the interest rates?
9.99% to 59.99%*

Equipment Financing

→ **How does it work?**
Acquire equipment without full upfront payment, with the lender providing funds in exchange for regular monthly payments.

→ **What is required?**
Loan application, the last 3 months of bank statements, 600 FICO, $10,000 in monthly revenue, a sales order or quote.

→ **Good uses**
Acquiring essential machinery, technology upgrades, expanding fleets, and preserving/maintaining working capital.

→ **Bad uses**
Financing equipment that is not essential to your core business operations or assets that rapidly depreciate.

→ **What are the interest rates?**
3.99% to 19.99%*

SBA (7a) Loans

How does it work?
SBA loans are government-backed loans, offering lower interest rates and longer terms (10 years).

What is required?
SBA 7(a) Express: Loan application, 2 years of business tax filings, 1 year of personal tax filings, 700 FICO, $250,000 annual revenue.

Traditional SBA 7(a): Loan application, 6 months of bank statements, 2 years of business and personal taxes, 675 FICO, $150,000 annual revenue.

Good uses
SBA loans offer favorable terms and lower interest rates, making them suitable for various/most business need.

Bad uses
Any project that is speculative and does not have clear ROI.

What are the interest rate?
11.25% to 12.25% (based on current prime rate).

Before You Apply

Before applying for business financing, small business owners should consider several factors to make informed decisions, including but not limited to:

Financial Health: Assess current cash flow, revenue, expenses, and profitability. Lenders often evaluate these factors to determine eligibility.

Credit Profile: Review both personal and business credit. A strong credit history can improve loan terms and eligibility.

Purpose of Financing: Clearly define why you need financing and how it will benefit your business. Whether it's for expansion, working capital, equipment, or other needs.

Lender Selection: Research and choose the right lender or financing source. Consider factors like interest rates, terms, fees, and the lender's reputation.

Notes & Disclaimers

The quoted interest rates provided are for informational purposes only and may not reflect the actual rates available to individual borrowers. Actual interest rates may vary based on several factors, including creditworthiness, loan amount, term, and lender policies.

The information provided about financial products is for informational purposes only and should not be considered financial advice. It does not constitute an offer, endorsement, or recommendation of any specific product or service. Before making any financial decisions, carefully consider your individual financial situation and goals, and/or consult with qualified financial professionals and conduct your own research to assess the suitability and risks associated with any financial product or investment and ensure that it aligns with your financial needs, capacity, and goals.

Hope this was helpful to you.

Interested in exploring *your* financing options?

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