

# ALTERNATIVE FINANCING

Are you one of the millions of small businesses who cannot qualify for funding with their bank? There are alternative options available. Let's answer some FAQ's:

## WHAT IS ALTERNATIVE FINANCING?

Alternative financing is a broad term used to describe the wide range of loan options available to business owners outside of traditional bank financing. These alternative options are most commonly used when a business cannot obtain a traditional bank loan for any number of reasons. Sometimes businesses will also opt for alternative loans because they are usually covenant-lite (covenants are clauses in the loan agreement that requires the borrower to do or refrain from doing certain things).

## WHAT ARE BANK APPROVAL RATES?

According to Biz2Credit's most recent report, the approval percentage for small business loan applications at big banks increased to 28.1% in November of 2019. They cite interest rate cuts by the Federal Reserve and an overall strong economy for the increase. Their analysis is based on loan requests ranging from \$25,000-\$3 million from companies in business more than 2 years with an average credit score of more than 680. So, even in this economy, if your business has been around more than 2 years and you have a good credit score, you still only have less than a 30% chance of getting approved with the bank. That's why alternative lenders remain an important source of capital for businesses.

## WHY DO YOU SEE THE BANKS TURNING DOWN BUSINESSES?

Bank rates are very low so they really cannot afford to make mistakes. They will refer businesses to me that meet some of the following criteria:

- Less than 3 years in business
- Limited collateral
- Not profitable
- Weak personal credit
- High risk industry (i.e. construction)
- Past Bankruptcy/Foreclosure
- Weak cash flow

In my experience, even some otherwise "healthy" businesses growing at a rate of more than about 15% per year can also be considered too risky for conventional financing. As a consequence, business owners have sought out alter-

natives and there has been a significant rise in alternative financing options.

## ALTERNATIVE FUNDING OPTIONS FOR BUSINESSES

Heritage Commercial Funding Corp. represents a network of the top funding sources in the alternative lending market. Our job is to connect businesses with the right lender to increase their cash flow and improve their bottom line. Some options include:

- Lines of Credit
- Term Loans
- Merchant Cash Advances
- Personal Loans
- Business Credit Cards
- Microloans
- SBA loans
- Invoice Factoring
- Purchase Order Financing
- Asset Based Lines of Credit
- Equipment Financing

## WHAT DO WE NEED TO QUALIFY?

Each alternative lending program has a different set of qualification standards. We can usually let you know quickly which one you may qualify for.

## IS IT WORTH IT?

Lenders price to the risk. Alternative lending rates will always be more expensive than bank rates. Even within the alternative lending space, your rate will vary based on your creditworthiness, size, etc. So, is it worth it? Well it's best to just keep it simple.

## DOES THE BENEFIT OUTWEIGH THE COST?

- What are your profit margins?
- Are you turning away business because you are worried about cash flow?
- Do your suppliers offer any quick pay or volume discounts?

For the right business, alternative lending can be an invaluable tool to help get you to the next level. So, weigh your options but don't lose sight of the forest for the trees. These rates are still a lot cheaper than equity pricing for the same amount of capital.



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