

The Definitive Guide To Small Business Loans

Learn About The Various
Loan Products That Are
Available For Your Company

Whitepaper Brought to You By Balboa Capital





Small businesses, which are defined as companies with 500 or fewer employees, play a vital role in our nation's economy. There are currently close to 30 million small businesses in the United States. Collectively, they produce \$6 trillion in gross domestic product annually and employ more than half of our country's private-sector workforce. In order for small businesses to keep moving forward, they need capital.

Every small business has initial start-up costs, followed by ongoing operating costs for things such as rent, furniture, computers, inventory, employee salaries, legal fees and marketing expenses. Without capital, entrepreneurs would have a difficult time launching their companies, and well-established businesses would face challenges when trying to expand their operations into new markets, or when introducing new products or services.

So, where can small businesses get the funds they need to grow and prosper?

This Balboa Capital whitepaper answers that question. It features an overview of small business loans along with descriptions of the various types of loan products that are available.

Show Me The Money



When you stop and think about it, many businesses would never have opened if it weren't for business loans. But that doesn't change the fact that business owners often face roadblocks when applying for loans. Bank credit standards and collateral requirements are easing as of late, but securing a loan can still prove to be difficult. The Small Business Administration reported that forty-seven percent of business loans were declined in 2013.

Business Loans 101

There is no real mystery to the term “business loan.” This is simply money that is given to a company from a lender, and the company pays the loan back based on payment terms that were agreed upon. Although there are many different types of business loan products

available, such as working capital loans and merchant cash advances, many small business owners, particularly those who are just starting out, gravitate towards traditional bank loans because they seem logical.

To Approve, Or Not To Approve

As mentioned earlier, there is no guarantee that you will get your business loan approved. Startup companies present banks, credit unions and independent lenders with the greatest risk because they do not have a solid credit score or revenues. However, that does not mean that your startup business will not be able to secure a loan. Your business venture can become a reality if you have a comprehensive business plan, a good personal credit history, and a realistic business model.

Companies that are already established have a better chance of getting their loans approved, provided they meet the requirements set forth by their lenders. Experience, assets, a strong credit score, and a track record of growth are more attractive to lenders because there is less risk involved. Plus, lenders like working with businesses that are successful because there is an opportunity to expand the relationship with other financing products such as business cash advances and business credit cards.

Prepare Your Business For Success

Small businesses that are strong enough to survive poor sales cycles or a recession have saved their working capital rather than spend it on lavish office space, expensive client lunches or unnecessary improvements. Savvy business owners use a reasonable percentage of their existing working capital to reinvest in their operations, but only on things that will contribute to growth and an improved bottom line. This might include equipment or technology, new personnel, or a marketing campaign.



Get Professional Financial Advice

A good rule of thumb is to consult with your accountant or financial advisor and determine how much working capital you should maintain at all times. For example, an independently owned bakery might build up its available working capital until it equals one-third of

its annual payroll. This will give the bakery a nice cushion so it doesn't have to reduce its employees' hours, or let some of them go, at the first sign of a slow sales period.

Research Your Loan Options

Before you select a business loan product, it is a good idea to examine your options carefully so you can make an informed decision based on your company's unique situation. There are myriad business loan products to choose from, and each one has its own unique benefits and approval requirements.

Traditional bank loans are still a popular choice among business owners, but don't ignore the alternatives that present you with greater flexibility and a higher approval rate. Whether you need an influx of capital for short-term inventory growth, or for long-term expansion initiatives, the right business loan product is out there. It just requires a little bit of time and research on your part.

Types Of Small Business Loans



SBA Loan

The Small Business Administration (SBA) has long-supported start-ups and long-established businesses that need funding. While the the SBA does not provide loans, it is actively involved in loan programs that are tailored to small business owners. These include Basic 7(A) loans, which are made available through participating financial institutions and have a ceiling limit of \$2 million, and Certified Development Company (CDC) 504 Loan Programs, which are used by companies that need long-term financing for capital-intensive growth initiatives.

Crowdfunding

Crowdfunding, also referred to as crowd financing, is a way for businesses to raise capital via the Internet by networking with

individuals who are willing to contribute their financial resources. Professional organizations are also a good resource for crowdfunding. The Entrepreneur Access to Capital Bill (HR-2930) was passed in 2011, and allows privately owned companies to raise up to \$2 million each year from crowdfunding investors. The only stipulation is that investors cannot contribute more than \$10,000 each.

Family and Friends

Lots of businesses have been launched with the financial backing of friends and family members. Borrowing money from either of these parties can be tricky, so make sure everything about the loan is put down in writing, and then have a business lawyer draw up the necessary paperwork. This will protect both parties in the event that something unexpected goes wrong in the future. Having the proper documentation is also needed when it comes time to file your income taxes.

Accounts Receivable Factoring

With accounts receivable factoring, you sell your outstanding invoices to a financing company to raise capital. This enables you to get funding quicker than the 30, 60 or 90 days it takes to receive your customers' payments.

Types Of Small Business Loans

Working Capital Loan

Just like its name suggests, a working capital loan is designed to cover everyday business expenses such as employee payroll, inventory and recurring payment obligations. You can also use a working capital loan to cover unexpected losses. Maybe there just isn't enough money available when your bills need to be paid because you have clients whose payments are overdue. Or perhaps the economy is slowing and resulting in decreased revenues for your company. All of this puts a strain on your business.

A working capital loan offers far more benefits than a traditional bank loan, starting with a much easier approval process. Because a working capital loan is an unsecured debt, it doesn't require the collateral of a bank loan, and this means a greater chance of getting approved.

Merchant Cash Advance

As a small business owner, you most likely know what a merchant cash advance is. Perhaps you've even put one to work for your business. A merchant cash advance,

also referred to as a business cash advance, is simple to understand. It is a lump sum of money that is given in exchange for a specific percentage of your business' future credit card sales.

Let's say you own a coffee shop that needs a new point-of-sale system and don't have the credit or collateral needed to acquire a traditional bank loan. You can apply for a merchant cash advance without any collateral required. Once approved, your lender will directly collect a fixed percentage of your daily credit card receipts until the total amount of your merchant cash advance and premium are met.



Summary

When it comes time to apply for a business loan, you will be asked to present certain financial records and documents. Accurate financial reporting that is done on an ongoing basis helps make the loan application process go more smoothly. So, make sure you keep all of your company's financials current so you can access them easily for your lender. The last thing you want to do is waste time playing "catch up" on your finances at the eleventh hour, or not have the required financial documents in order.

The forms and documents that you will be asked to submit will vary depending on the lender you are working with, but most loan packages require similar information. This might include a current asset and liability statement, income and financial statement, business performance overview, and/or list of collateral with its market value.

About Balboa Capital

Balboa Capital is a technology-driven financing company that provides business owners with fast, hassle-free solutions to fuel their growth and success. The company specializes in small business loans, equipment financing, commercial financing, equipment vendor financing, and franchise financing.

Balboa Capital developed an intuitive online platform that simplifies the entire financing process. Calculators provide instant estimates, applications can be completed and submitted in a matter of minutes, and sophisticated credit scoring technology provides instant decisions. Visit <http://www.balboacapital.com> to learn more.

