10 Easiest New Money Sources For Business Owners

Small Business Money Solutions

"If You Need Money For Your Business Today Or In The Future…Call Us First!"

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Small businesses are a vital part of the American economy providing almost two-thirds of all jobs and over 50% of the gross domestic product. Unfortunately, they are often left out of the credit markets making it difficult, if not impossible, to obtain small business loans to finance their operations. The reasons for this are varied. Banks do not like to make risky loans, and smaller firms are often, and mistakenly, seen as a less safe investment. Also, considering the banks' own cost, it is less expensive (and, therefore, more profitable) to make a single large loan, than several smaller ones.

Small business financing can be used to meet a number of business objectives. Buying equipment to make the workplace more efficient, or for expansion is a popular reason small business owners seek out capital. Sometimes sales are seasonal and fixed expenses and key employees still have to be paid during the lean months. Buying inventory in advance of peak sales periods also requires cash. Both of these examples can be described as working capital needs, and are another popular reason for getting small business loans.

If you own a small business or are thinking of starting one, you still have options to finance your venture. Some of these options discussed in this book may not be right for your particular circumstances, and as a prudent business owner, or would-be entrepreneur, you it is vital to understand the risks and costs associated with each option.

Merchant Cash Advances

When you get a merchant cash advance, you are essentially pledging a portion of your future credit card receipts to the company making the advance. You pay back the advance, plus the lender's premium through a deduction of your daily credit card deposits.

Merchant cash advances have helped many business owners weather slow times or finance expansion. The advantages of a merchant cash advance are that there is usually no minimum payment. This can help in times of slow sales since the repayment is a set percentage of your credit card sales. Also, since the advance is not a loan it does not require any collateral, and approval is usually easy to obtain as long as you have a good history of solid sales.

Among the main disadvantages of a merchant cash advance is the imputed interest rate many lenders charge. Since these advances are not loans, they are exempt from many of the laws and regulations regarding interest rates.

Purchase Order Financing

A purchase order financing arrangement is similar to account receivable factoring. Here's an example of how it works, if you have sold a customer $500,000 in products, but you require $300,000 of parts or products to be manufactured, you can engage a purchase order factor to guarantee or pay the cost of the manufacturing.

PO factors usually look at individual deals and not the credit history of the business owner. The terms are generally higher than a corresponding bank loan, often running about 12 or more per annum. This type of financing is often the easiest and sometimes the only way to obtain the capital needed for this kind of purchase.

Schedule Your FREE Business Funding Consultation

Peer-to-peer lending

In this type of financing arrangement, you post the specifics of your loan request (amount needed, the length of repayment period, and the amount of interest you're willing to pay) to a website such as FundingCircle, Lendingclub, or Prosper.com. Then would-be lenders compete for the opportunity to provide you your loan. This is kind of like an eBay auction where lenders are competing for your business.

These lenders will typically require that the company and individual both have excellent credit and have a good sales history. This form of lending has been evolving from a person to person transaction. Now many of the sites are being run and funded by the likes of CitiGroup, Morgan Stanley, and Chase to name just a few of the institutional investors now flooding the market.

Financing with Hard Money Loans

So-called hard money loans are based on the assets pledged toward collateralizing the loan, or the actual assets being purchased. A good everyday example of a hard-money loan is an automobile loan where the car serves as the basis for the loan. Unlike the car loan example, small business hard-money loans are usually not dependent on the creditworthiness of the borrower.

Factoring your Accounts Receivables

Many businesses still sell their goods and services with credit terms, allowing their customers to pay their invoices from 15-60 days or even longer. While selling this way may encourage customers to buy sooner, and even in larger quantities, it can also represent a significant short-term cash drain. To help resolve this, accounts receivable factors can be engaged to turn tomorrow's receivables into today's cash.

An accounts receivable factor will advance a portion of the amount your customers owe for a cash premium. This cash premium is almost always higher than a comparable bank loan, but you can usually obtain factoring fairly easily. In today's factoring market there are even electronic exchanges where factors can bid on your receivables that may reduce your cost of this type of financing as well.

Raising Money with Your Inventory (Inventory Financing)

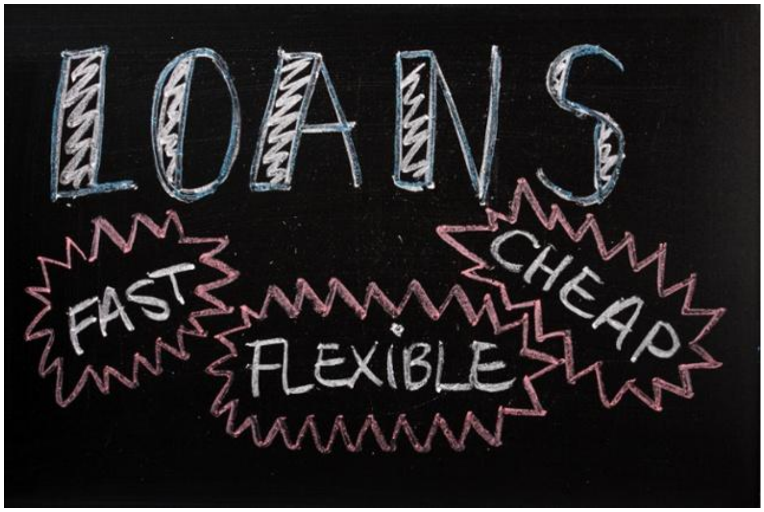
To raise working capital, many small business owners use their inventory as collateral for loans. Alternatively, some manufacturers will allow "floor planning" of their products, and while not a true source of immediate working capital, it does allow a reseller to build inventory with less out of the pocket cash.

Like Accounts Receivables factoring, a loan collateralized by existing inventory can be used for almost any business purpose.

Credit Cards as a Source of Financing for Small Businesses

For many companies and especially start-ups, using personal or business credit cards is their primary starting point for gaining access to short-term capital. While interest rates can be at extortion levels, a credit card is usually far easier and quicker to obtain than a short-term business loan. Plus, the convenience of using a credit card, and the excellent record-keeping benefits are good reasons to look at this option.

Should you choose to finance your business using credit card debt, be sure to pay your monthly bills on time. This, along with staying below your credit limit, will be valuable when it comes time to ask for a rate reduction, or increase borrowing capacity.



Short Term Business Loans

Traditional banks, like mentioned above, are becoming an increasingly difficult source of small business loans. Still, by maintaining a good report with your bank, and showing steady growth can open the door for a short-term business loan.

Short-term loans are usually required for working capital purposes and are usually more important to a small business than the longer term debt. A good example of why you may need a short-term loan would be a garden shop building up inventory in advance of their busy spring season.

Terms for short-term loans tend to be less than a year, with many having a period of six months or less. The rates are generally higher, although usually less than many credit cards and are set by using a prime plus system. The lender will review your application and determine the risk involved in your particular loan. That risk will be converted into a percentage which will be added to the bank's prime rate. The prime rate is defined as the rate banks charge to their most favorable customers, and what the bank has to pay to borrow money from the Federal Reserve.

Qualifying for a short-term loan can be tricky. Documentation in the form of a business plan and a comprehensive set of financial statements will be needed. Your business and sometimes personal credit histories will be reviewed, another important reason to maintain a good track record of repaying your debts timely, and using credit wisely.

Equity Crowdfunding

With the advent of the internet, a community of people has developed that want to help get people the small business financing they need. Often the businesses involved are in the creative arts, alternative energy, organic farms and/or restaurant, or consumer electronics. Several websites, like Kickstarter, GoFundMe, and Crowdfunder make accessing crowdfunding easy.

After describing your business or idea, and the amount of money you need to get going, the website will promote your opportunity allowing people to invest anywhere from a few dollars up to your goal in exchange for a percentage of the amount raised. Some sites are based on an all-or-nothing campaign while others will allow you to "cash-out" without reaching your goal.

Microloans

Microlending has become an increasingly popular source of funding. These loans can range from as little as $50 and usually cap out at around $50,000 with $13,000 being the average. Most loans have terms of around six years, but many are paid off in a far shorter period of time. Interest rates can be on the high side, ranging from 12-18%.

For those small business owners that have difficulty access traditional credit, microloans can be a vital source of working capital. Often microloan lenders will look beyond a tarnished credit history focusing on the bigger picture of the viability of the overall business. For this reason, when approaching a microloan lender, a solid business and marketing plan should be in hand.

A small business or start-up can use the proceeds from a microloan for almost any purpose. They cannot be used to purchase real estate, not used to pay off personal debt or make personal purchases. As with any business, there needs to be a clearly defined separation from personal and business expenses.

A microloan can also serve as a stepping stone to bigger loans in the future and is a good way for start-up businesses to begin building a solid credit history. Lenders specializing in microloans know that the majority of their clientele may be new to managing a business and most have a variety of resources they make available to help ensure your success.

Here at Small Business Money Solutions, we specialize in alternative financing solutions for small business owners. So we can help you get the money that you need for your business.

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