Season 3 | Episode 51

Data Says Small Businesses Can't Bank on Traditional Loans. Here's Six Alternatives

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Gene Marks:
Hey, everybody, this is Gene Marks, and welcome to this week's episode of "On the Mark." Hey, before I get started, I just want to make sure that you're aware if you've got any advice or tips or if you are want to suggest any guests, please visit us at our web page, payx.me/thrivetopics. That's P-A-Y-X dot

M-E/thrivetopics, and give us your feedback and make suggestions as well. We will take that into consideration and apply that in future time.

Now, as you know, this weekly podcast deals with the news that week that affects and impacts your small business, and there's always lots of news items to choose from. But, this week, I'm going to choose just one item, and that has to do with bank financing. That's because recent data from the Federal Reserve has shown that 85% of small-business owners experienced financial difficulties in 2021. During that time, more than half of the business owners who were part of that survey were seeking loans and looking to meet their operating expenses rather than to expand their businesses, the report found. This means that a lot of businesses are out there at least getting financing to try and keep their heads above water, rather than to actually just grow their businesses.

Online lender Biz2Credit — they publish a monthly report as well — said recently that in February, big banks approved 14.7% of loan requests, which was down from 28.3% in the same month in 2020, this is pre-pandemic. Small banks approved 20.5% of loan requests, down from 50% in the same month in 2020. Even in normal times guys, small businesses struggle to get loans from traditional banks because, according to Nick Matthews, CEO of Mainvest — it's an investment platform — he says that the underwriting models are really designed to take a look at multiple years of historical financials to risk assess whether they can deploy that capital. The banks really don't know how to reconcile their traditional models to all the different things that have been going on and all the volatility that we have been seeing over the past couple of years.

So, that's a reason why a lot of business owners are getting turned down for credit, and that's an issue. The bank's underwriting models, they look back at history and they like to look at consistency and, you know, multiple years and if they don't see that, it makes it very, very difficult for them to extend risk.

So, the news this week is this; If you're looking to borrow money from a traditional bank, in a traditional way, it's gotten harder to do so, and obviously there are many factors that are contributing to this.

So, let's talk about what some of your options are to finance in 2022. I've got a few. In fact, I've got like six options to share with you if I can run through them somewhat quickly, but hopefully giving you enough time to take some notes.

The first option I want you to consider is Small Business Administration loans or SBA loans. Go to sba. gov and look for an SBA lender. The SBA has two loan programs; One is called Section 7(a) and the other is called Section 504. You can borrow up to $5 million under these programs. The payment terms are anywhere from three to 15 years paybacks and the interest rates are very marketable.

Most importantly, these SBA loans are backed by the federal government. So, the SBA is not extending these loans. This is not the pandemic-related loans. These actual programs have been around for a while. You get these loans from a banker that's affiliated with the Small Business Administration.

Now listen. it's not a slam dunk. A lot of bankers still want to look at historical numbers, and some small-business owners get frustrated with that. You do have to get ready to provide some due diligence, tax returns and business plans. It's like applying for a regular bank loan.

But I will tell you this much; The bankers have quotas to fulfill when it comes to these SBA loans, and a lot of them want to get that money out there. Plus, because the loans are so significantly subsidized by the federal government, their risk of loss is really small. So, you've got a better chance of getting a traditional bank loan if you go through an SBA lending bank, and asking for a Section 7(a) or 504 loan. So, that's number one.

Number two, I want you to Google State Small Business Credit Initiative or SSBCI, particularly in your state. So, I want you to Google SSBCI Oregon or SSBCI Illinois, wherever you happen to be located. Why? Because the government and the Treasury has just released over $10 billion in financing to states to provide in the form of loans, equity investments, and grants to its state’s small businesses.

In Pennsylvania alone, $100 million has been authorized for businesses in our state, and that's just our state. You can get that through all sorts of different community lenders, nonprofit organizations, and even private investment companies. They are offering this money out. You can get it in the form of loans that are potentially marketable or favorable. You can get it in the form of equity investments or potentially even a grant. You don't have to be located in a low-income area or even a minority-owned business, although it helps.

Number three, localized grants. Most of the big grants themselves have kind of passed after COVID, so you're not going to be finding those around from the federal government or anything like that. But, if you Google small business grants in your state, you will stumble upon a lot of smaller organizations, nonprofits, and even privately held companies that are offering grants to businesses in your state or in a specific industry. Again, sometimes they lean more towards minority or female-owned businesses, but not all the time, so there could be some options for you there.

Well, let's go for three more if you're looking for financing. All right. Number one, consider an online vendor — excuse me, an online lender. There are plenty of them that are out there. Kabbage is one of them with a K. Fundbox is another one. Lendio is a marketplace of online lenders. A lot of these people we've interviewed on our Thrive podcast, you can go back in history and hear some of the conversations. But here's the thing with these online lenders. Yes, they do charge more interest rates, in some cases significantly more. I have some clients that have an annual rate of anywhere from 30 to 50%, which I know sounds outrageous.

But online lenders serve a purpose. Those private lenders can provide needed capital for you for short term. So, if you need to make a quick inventory buy, if you need to buy or put down a deposit on a piece of property or a piece of equipment, you can go to an online lender, get the money within 24 hours and then pay them back hopefully soon, so you're not paying a 30% interest rate over the course of the year.

So, consider these online lenders — Kabbage, Fundbox — and Lendio is a marketplace, really good resources for you.

Two other resources: merchant advances. If you're listening to my voice and you're in the retail or the restaurant industry and maybe you're using a merchant like Square or Intuit or PayPal, those organizations and a lot of their competitors have a merchant lending programs, which means they will give you cash flow financing based on your cash flow because they know your cash flow.

You're using their service for all of their receipts. They can calculate that based on your cash flow. They can award you a merchant advance of a certain amount that you can use for working capital, and then it gets paid back through the cash flow through the app or the platform that you're using. So, consider these merchant advances. Again, not cheap. The cheapest is that traditional bank loan, of course, but it still could be a vital source of financing for you that's affordable and can provide the working capital that you need, not only for operations, but to grow your business.

Finally, there are credit cards. Credit card lending has gone up significantly this year, and I do give you warning, credit card loans are actually cheaper than some online lenders. But, as you know, the interest rates themselves can be pretty steep — anywhere from 18 to 21% — depending on the card that you have. But getting credit card advances and using your credit card is a good way for short-term cash for your business as long as you're able to pay it off. A great many small businesses do use credit card financing in the short term. Just be very, very careful when you use it. It will provide that financing for you short term, quickly, but at the same time, you have to be very, very careful to make sure that you pay it back.

So, I've named six big ones. I admit I'm not going into detail about some of the others, like borrowing from family and friends, for example, or crowdfund ending platforms. But those six platforms, those are some of the biggest ideas that I have for you to raise money for your business this year, both for operations and for, you know, overall growth.

My name is Gene Marks, and I hope this helps you run your business. Remember, the news this week is that it's getting tougher to borrow from traditional banks. Go for it if you can but consider some of the alternatives that I provided to you.

You have been listening to "On the Mark." Hope this information has been helpful for you and we will see you again next week. Take care.