PROTECTING THE FUTURE OF SMALL BUSINESS®

2015

SMALL BUSINESS GUIDE TO GETTING A LOAN

AN NFIB E-BOOK

HOW TO GET THE CAPITAL YOUR BUSINESS NEEDS—WITH OR WITHOUT THE BANK.

OVERVIEW

SMALL BUSINESS LENDERS READY TO MOBILIZE

Small businesses need fuel to flourish—financial fuel, that is. Without it, they thirst for the resources required to survive and thrive, including employees, vendors, real estate, inventory, raw materials and equipment.

Fortunately, lenders have plenty of fuel to go around, according to the Federal Deposit Insurance Corp. (FDIC), which reported in early 2015 that U.S. banks earned $152.7 billion in 2014. That's more than 3 percent more than banks earned in 2006, when bank earnings hit their pre-recession peak of $148 billion.

Their strong position means more banks are lending more money. In fact, the FDIC noted that loan and lease balances increased 5.3 percent in 2014, which is the highest 12-month growth rate for loans since mid-2008.

"Almost half of small business owners bank at a large bank, and large banks have a lot of money to lend right now," says NFIB Director of Research and Policy Analysis Holly Wade.

Despite strong conditions, many small business owners remain reluctant to ask for loans.

"Small business owners are hesitant to borrow because they're still uncertain about the economy going forward," Wade says. "Once there's more stability in the recovery, however, they'll start to borrow again in order to improve and expand their business."

NFIB's April 2015 *Small Business Economic Trends* report found that only 4 percent of small business owners felt their borrowing needs had not been met. Thirty-one percent said all their borrowing needs had been satisfied, and more than half (53 percent) said they didn't want a loan at all.

The capital is available—not only from traditional sources, like national and regional banks, but also from non-traditional sources, like online and institutional lenders, according to Rohit Arora, CEO of Biz2Credit, an online marketplace connecting small business borrowers and lenders.

"A lot of small business owners have started looking for credit—like everything else—online," Arora says. "That has been a big disruption for the market. As a result, over the last 12 to 18 months we've seen alternative and institutional lending becoming more mainstream, which is a positive development."

Wherever small businesses seek financing, competition among borrowers will likely increase as the economy improves. Whether you're first in line at the bank or last, NFIB's *Small Business Guide to Getting a Loan* will position your business to claim its share of capital.

Visit NFIB.com/Research for the latest news on the small business economy.

WHAT KIND OF LOAN DO YOU NEED?

Whether you need a loan—and what kind—depends on what your goals are for your business. Understanding the amount you need and how it's going to be used determines which type of funding you seek.

Small businesses seeking conventional loans typically have three options:

1. Business line of credit

"A revolving line of credit is used to make up for a short-term capital need due to a mismatch of receivables and payables," says Jay DesMarteau, head of small business banking at TD Bank in Cherry Hill, New Jersey. A revolving line of credit—which works like a credit card—is ideal for covering near-term expenses like payroll and inventory until your customers pay you, he adds.

2. Term loans

"Term loans are generally used for capital expenditures," says DesMarteau. These loans, which are for set amounts that are repaid according to a fixed schedule, are ideal for significant purchases, he says, like real estate, software, vehicles or equipment.

3. SBA loans

SBA loans are government-backed loans for businesses that are denied a conventional bank loan. "You can get a term loan all the way up to $5 million or a line of credit for smaller dollar amounts," DesMarteau says.

Conventional bank lenders have stricter lending criteria, lower approval rates and longer, more thorough application processes than alternative lenders. But conventional loans also have advantages, such as lower interest rates—single- instead of double-digit APRs—and longer repayment periods.

BEYOND THE BANK: ALTERNATIVE LENDERS

Many businesses could benefit from non-bank financing. Options include:

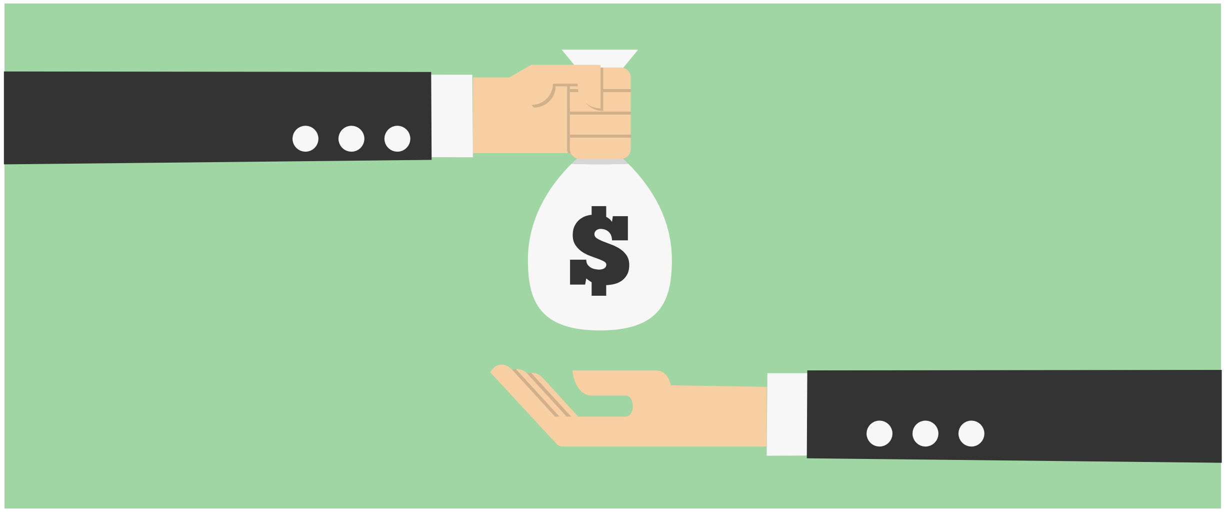
- **MICROLENDING:** Businesses that need small sums—especially minority- and women-owned businesses—may qualify for a microloan, generally offered by nonprofit organizations for amounts up to $50,000. The SBA and Accion are examples of agencies offering microloans.

- **FACTORING:** Businesses that need funds faster than their customers are paying them can sell invoices for work already done to a factoring company. Factors pay up front in exchange for a small fee; they pay you 90 to 99 percent of the invoice amount, collect the full invoice amount directly from your customer, then pocket the difference as their fee. Although upfront costs are low, back-end costs can be substantial: Companies typically require businesses to factor a minimum number of invoices every month, and to pay hefty fees if they don't.

- **PRIVATE EQUITY:** Businesses in high-growth sectors may be able to secure financing from angel investors or venture capitalists; business owners can negotiate deals with private equity firms that include debt, equity or a combination of the two.

- **PEER-TO-PEER LENDING:** Peer-to-peer lending matches business owners seeking a loan with individuals who are willing to lend them money in exchange for interest. Kiva Zip, Prosper and Lending Club are examples of peer-to-peer lending platforms.

- **ONLINE LENDERS:** Internet lenders like Kabbage, PayPal and OnDeck offer term loans and lines of credit to business owners who apply online. Although they tend to have high interest rates and short repayment periods, their advantages include fast decisions, quick disbursement and flexible lending criteria.



- **CROWDFUNDING:** Businesses can raise needed capital from multiple individuals using crowdfunding sites like Kickstarter and Indiegogo. In exchange for a reward, like early access to a new product, contributors can donate a little money or a lot, pooling their contributions to fund businesses. Crowdfunding can be especially valuable to startups that aren't eligible for traditional financing. New businesses can use crowdfunding to generate seed money and demonstrate proof of concept, the latter of which can subsequently help them secure a bank loan or private equity.

CHECKLIST: WHAT YOU NEED TO GET APPROVED

Although businesses courting alternative lenders typically face less stringent requirements, those seeking a traditional bank loan should have the following items prepared:

☐ **PLANS AND PROJECTIONS**
"Obviously, having a business plan is important," says Rohit Arora. "You need to be able to explain why you need the money. If you're looking to buy equipment, you need to demonstrate how that equipment will help you and what kind of money it will help you make."

☐ **HISTORY**
"Once you're two years in business, then it's a good time to go to banks," says Arora. Banks typically require borrowers to have at least a two-year track record to demonstrate that they have staying power, and two years of documentation—tax returns, profit and loss statements, etc.—to prove it. "That helps an underwriter look at how your business is performing over time to see whether you have the stamina and sustainability to run a small business."

☐ **GOOD CREDIT**
"Your credit score has to be at least 680," says Arora. Banks review business and personal credit, both of which should be free of liabilities, liens and judgments. "Before you apply for a loan, you have to figure out how your personal credit and your personal financial statements look."

☐ **CASH FLOW**
"We always look at cash flow—your revenue minus your operating expenses—and make sure there's remaining income to pay back the bank debt: Can you afford to pay the loan back?" says Jay DesMarteau.

☐ **COLLATERAL**
"When evaluating a loan candidate, the bank wants to know: Can the business owner afford to pay back the bank? If he or she can't, how is the bank going to get its money back?" DesMarteau says. The bank may look at your property, retail inventory, business equipment, accounts receivable or other assets as collateral to determine this.

BORROWER PROFILE: LM CASES INC.

In her line of work—manufacturing—banks are just as important as equipment, says NFIB member JoAnn LaGuardia, president and CFO of LM Cases Inc., a Youngstown, Ohio-based maker of reusable shipping cases. LaGuardia and her husband are also members of the NFIB Leadership Council in Ohio.

"In manufacturing, we always need capital. That's the nature of our business," says LaGuardia, who has a $100,000 bank line of credit that she uses for working capital when she needs it. "We have to stay current with our vendors, collect money from our customers and, in between, figure out how we're going to make payroll. It's a delicate balancing act of cash flow, and bank financing helps."

As helpful as it is, it isn't always easy to come by, says LaGuardia, who spent two years looking for a lender for her most recent loan: a 25-year SBA-backed loan from KeyBank that she used to refinance her 44,000-square-foot facility.

"I can't tell you how many banks I interviewed," LaGuardia says. "Bank lending at that time was practically nonexistent."

What finally helped her qualify was her meticulous record-keeping. "You need to have all your financials in order," LaGuardia says. "My background is accounting, so when a bank tells me it needs three years of financial statements, three years of tax returns, a current accounts receivable report, a current accounts payable report, an interim financial statement, three years of personal financial statements and three years of personal tax returns—I know the drill. I have all those things saved as PDFs on my computer, so all I have to do is click and send."

RESOURCES FOR BORROWERS

BANKS

- Bank of America
- Chase
- Citibank
- HSBC
- KeyBank
- PNC Bank
- Regions Bank
- SunTrust
- TD Bank
- U.S. Bank
- Wells Fargo

ALTERNATIVE FINANCING

- Crowdfunder
- Dealstruck
- Indiegogo
- Kabbage
- Kickstarter
- Kiva Zip
- Lending Club
- LendUp
- OnDeck
- PayPal
- Prosper
- RocketHub
- Seedrs
- Wefunder

BROKERS

- Biz2Credit
- Fundera
- Lendio

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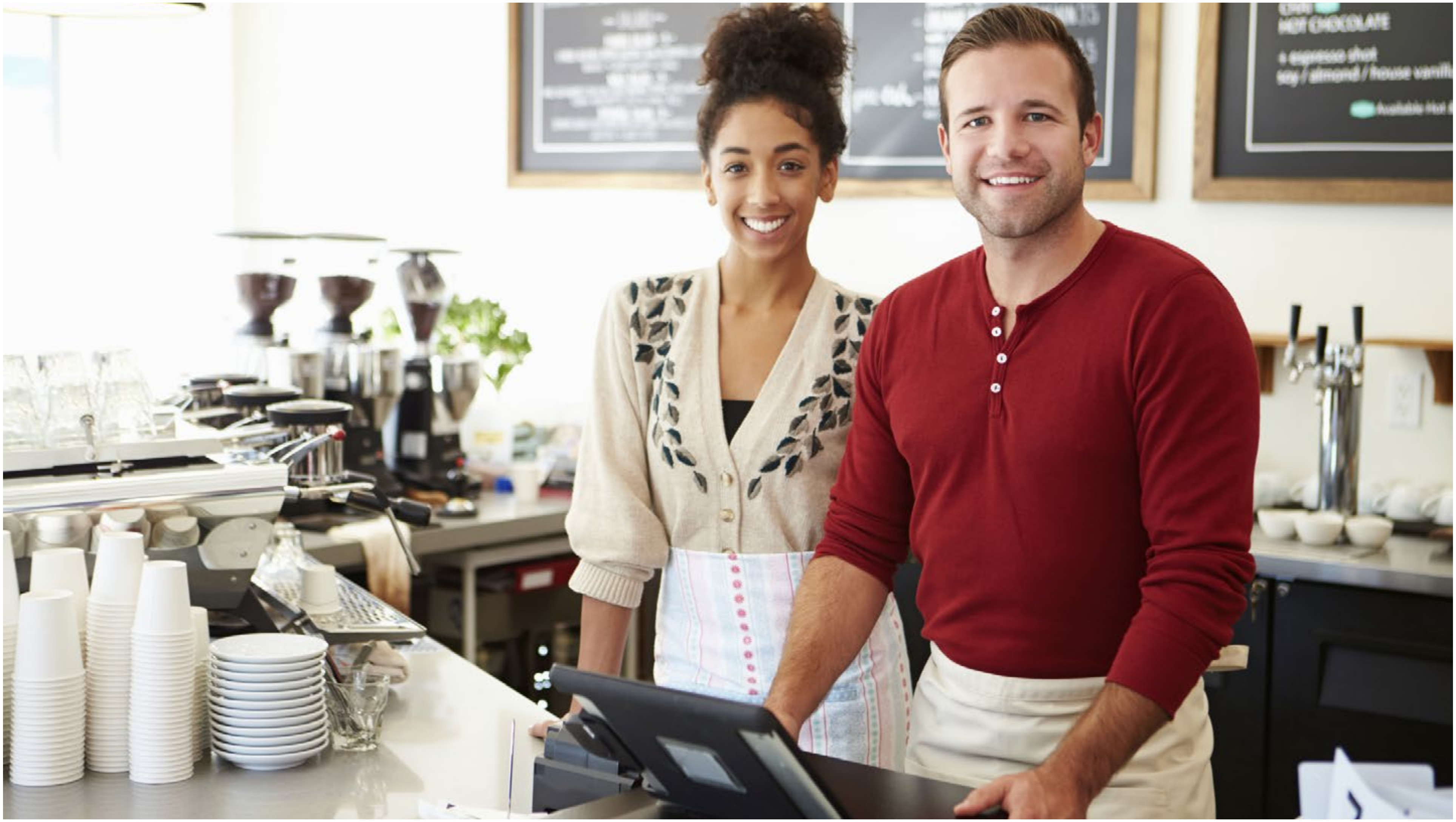

Visit NFIB.com/LoanHelp for more resources for your business.

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