



When Banks Won't Lend: 7 alternative financing options for small businesses

By Sylvia Browder

Since the economic downturn, small business owners seeking funding for operation and growth are finding it increasingly difficult to secure financing from banks and commercial lending institutions. As Project Director and Business Consultant for a non-profit organization and providing Technical Assistant to small businesses seeking funding through the SBA Community Express Loan program, several of the SBA lenders that I work with admitted being reluctant to lend but feel a little ease since SBA guarantees 80 percent of the loan programs.

What does this mean to small businesses? When traditional bank financing is unavailable, small businesses need alternative business financing sources to start or stay in business! To help, here are 7 alternative financing options for small businesses.

Option 1: Accounts Receivable Factoring

The selling of accounts receivables is known as factoring. Lenders known as 'factors,' will purchase outstanding business invoices as collateral for funding. It allows businesses to convert slow paying receivables into cash, by financing them through an invoice. When you use this type of financing, there are two options. A small business can finance its own outstanding receivables from a rate of 65% to 85% of the invoice's face value or sell the invoices at 70% to 90% of the total value and in turn, the lender will collect the outstanding debt from the customers.

When I started my first business in 2000, I was awarded several lucrative government and corporate contracts. After hiring staff to manage these contracts, I found that clients paid invoices from thirty to forty five days out. Since I had to meet payroll, I used a factoring company to meet some of my obligations.

Resources:

- Factoring of Receivables Audit Technique Guide: <http://www.irs.gov/businesses/article/0,,id=159770,00.html>
- Factoring Process: http://www.ehow.com/about_5152872_receivable-factoring.html

Option 2: Community Banks

Many small businesses tend to establish relationships with Community banks because of the personal and friendly service, local ownership and local credit decisions. Of the nearly 8,000 community banks in the United States, most weren't affected by the mortgage crisis, thus, are able to lend money to small businesses at competitive interest rates.

Resources:

- Independent Community Bankers of America: <http://www.icba.org/>
- American Bankers Association: <http://www.aba.com/>

Option 3: SBA Community Express Loan

Micro loans range from \$500 to \$50,000, are typically offered by community banks and credit unions backed by Small Business Administration (SBA). Most small businesses have a better chance to be financed when the loans are backed by third-party guarantors, such as SBA loan program.

As a technical assistance provider for this program, I've helped many clients who was denied loans from traditional banks but funded through the SBA Community Express Loan program.

Resources:

- SBA Community Express:
http://www.sba.gov/financialassistance/prospectivelenders/7a/ep/FA_PL_7ALOAN_COMMEXPR_ESS.html
- SBA Patriot Express:
http://www.sba.gov/financialassistance/prospectivelenders/7a/ep/FA_PL_7ALOAN_PATRIOTEX_PRESS.html

Option 4: Unsecured Lines of Credit

As a small business, an unsecured business line of credit is a great solution to supplement cash flow, business expansions or cover business expenditures. The better your credit rating will determine your interest rate and repayment terms. A line of credit means you have access to the funds whenever you need them!

Some commercial banks have become stricter with offering business lines of credit, even cancelling some companies with established histories, so you may have to shop around. Community banks and credit unions may be a better option. Always check with the bank that you have established a relationship with to negotiate better terms and rates.

Option 5: Credit cards

Securing a small business credit card can be beneficial to your business. This will allow your business to establish credit and can ease short term cash flow issues. The rewards offered by credit cards make them a viable option for funding. Some offers include 0 interest rate introductory offer, low APR, balance transfer options and travel rewards.

Resources:

- [Visa](#) and [MasterCard](#) provide links to cooperating banks on their Web sites
- Check with your local banks or credit unions for competitive terms and offers

Option 6: Angel investors:

Affluent individuals who provide capital for small businesses! They typically are willing to accept risk and demand little or no control in return for the chance to own a piece of a business that may be valuable someday. Funding estimates vary, but usually range from \$150,000 to \$1.5 million.

Resources:

- Small Business Notes: <http://www.smallbusinessnotes.com/financing/angelinvestors.html>
- ACE-Net (The Angel Capital Electronic Network): <http://acenet.csusb.edu/resource.html>
- Investor's Circle: <http://www.investorscircle.net/>
- Tribe of Angels: <http://www.tribeofangels.com/>
- Alliance of Angels: <http://www.allianceofangels.com/>

Option 7: Friends and family:

Though it can be a balancing act to mix money with friends and family, it is still can be a good source for borrowing money. They are typically less stringent regarding your credit and have less rules and contractual obligations attached to the loan. I suggest to clients to treat it as a 'real' loan by preparing a business plan and formal documents outlining the terms that you both have agreed upon.

In closing, to keep your doors open, small business owners must be vigilant in finding financial resources available to them as needed. Since banks are lending less, finding alternative financing that will work for your business is essential for business survival!

WANT TO USE THIS ARTICLE IN YOUR E-ZINE OR WEB SITE? You can, as long as you include this complete blurb with it: Sylvia Browder is CEO of [Browder Consulting Group](#), a virtual small business consulting firm. In her role, she helps Women in Business grow and succeed. She is Founder of [National Association Women on the Rise](#), a virtual community for aspiring and established women entrepreneurs. The association's mission is to provide professional and personal resources while uplifting and empowering women entrepreneurs through collaboration, education, mentoring, spiritual and peer support, leadership and networking. She is 'employed as Project Director and business consultant for the [Women's Business Center](#), Inc, a non-profit economic development organization with a mission of empowering women to start and grow successful businesses. She has served as an online volunteer [SCORE](#) counselor since 2004. She also serves as a Technical Assistant Provider for [SBA's Community Express Loan Program](#). For FREE weekly articles go to Sylvia Browder's Blog for Women Entrepreneurs, www.sylviabrowder.com. She can be contacted at info@browderconsultinggroup.com.

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