

EXPLORING FINANCING OPTIONS FOR YOUR BUSINESS



In today's uncertain economic climate, business owners face challenges in selecting the right financing options to support their operations and navigate financial uncertainties. Whether you require funding for equipment upgrades or wish to expand your business, it's crucial to explore and understand the various financing options available before you lock in your borrowing strategy. Let's simplify the decision-making process by discussing different types of financing and their suitability in challenging times.

Understanding Different Types of Financing

When it comes to bank loans, there are several common types that can be categorized as follows:

Operating Lines of Credit

This type of loan offers simplicity and flexibility. Once approved, you can borrow up to your credit limit without needing to reapply each time. Applying for a line of credit – before you actually need it – is advisable for quick access when the need

arises. It's also beneficial to negotiate a maturity date that extends beyond one year past your balance sheet date, if feasible.

Term Loans

These loans are issued for a specific period and are typically used to purchase fixed assets such as machinery and equipment. They are repaid with interest over a set number of years.

Commercial Mortgages

Commercial mortgages are specialized term loans used for buying new or existing commercial real estate, including retail spaces, warehouses, and office buildings.

Governmental Loan Program

While certain pandemic-related governmental loan programs have expired, various non-pandemic-specific programs are still available. Small Business Administration (SBA) loan programs, such as SBA 7(a), SBA 504, and SBA Express, remain popular options. These programs offer partial loan guarantees, enabling banks to lend to smaller businesses that may not meet regular underwriting criteria. However, they often require personal guarantees from business owners.

Matching Debt Capital with Your Business Needs

To determine the most appropriate loan type for your business, it's crucial to understand your specific financing requirements. Collaborating with your CPA and banker can help identify the right fit. Consider the following example:

Operating Line of Credit: If your business experiences periodic cash flow shortfalls or needs to fund accounts receivable and inventory, an operating line of credit is a suitable option. However, for equipment or real estate purchases, a term loan or commercial mortgage is more appropriate. These loans align with the long-term repayment schedules that match the useful lives of these assets.

Exploring Alternative Financing Sources

Aside from traditional bank loans, alternative financing sources are gaining popularity among businesses. Consider the following options:

Commercial Finance Companies

These companies offer alternative financing solutions such as factoring, where businesses receive advances against uncollected receivables. They also provide asset-based and accounts receivable loans, securing capital with real estate, equipment, inventory, or receivables.

Peer-to-Peer Lending (Crowdfunding)

Crowdfunding platforms provide opportunities for entrepreneurial businesses to access capital through online lending. These platforms connect businesses with individuals or lenders focused on supporting small entrepreneurial ventures.

Equipment Leasing

For equipment acquisitions, leasing often provides advantages over borrowing. Leasing allows for easy replacement or upgrades at the end of the lease term, particularly for assets with built-in obsolescence like computers. It can offer attractive tax benefits and may provide essentially 100% financing, freeing up cash flow.

The Best Loan for Your Business

As businesses continue to recover from the pandemic's impact, it is essential to explore all available financing options to ensure long-term profitability. Contact your [BMF Advisor](#) when you are going to market for debt financing and we can help you get the option that works best for your business.