HOW TO GET BUSINESS FUNDING

When Banks Say **NO**

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Business owners know better than anyone that accessing sufficient working capital is not just important for success, but it is required for survival. While the competition for customers and market share will always be frenetic, the old saying “cash is king” is as true on today’s business landscape as it ever was. In fact, given that more than half of all businesses fail to reach their fifth anniversary, adequate short-term or long-term funding is arguably more urgent and essential than ever before.

Examples of Short-Term Funding

Short-term funding is generally viewed as a business loan that has a repayment period of less than a year. Some examples of why businesses seek short-term funding include, but are not limited to:

- Hiring seasonal workers, which is common for businesses in retail, construction, agriculture, landscaping, roofing, air conditioning contractors, and so on.
- Covering an unexpectedly high tax bill, which can be due to legislative or rule changes, rate hikes, re-assessments, and so on.
- Adjusting to changes at a major supplier, such as they are going out of business, raising prices, imposing less favorable payment terms, etc.
- Covering a temporary gap between accountsreceivables and accounts payables, which could be due to supply chain issues, inventory management issues, personnel issues, and so on.
- Covering emergency repairs to facilities, equipment, vehicles, etc.

Examples of Long-Term Funding

Long-term funding is generally viewed as a business loan that has a repayment period of more than a year. Some examples of why businesses seek long-term funding include, but are not limited to:

- Undertaking major renovations to existing location(s).
- Expanding into new market(s).
- Establishing a major new business line(s).
- Purchasing a significant volume of inventory (which is projected to deliver expected ROI in the long-term rather than the short-term).
- Acquiring an existing business to merge and grow with current operations.

Why Banks say NO to Funding

Traditionally, banks were the main short and long-term funding source for small and mid-sized businesses. In fact, many banks built their brand identity and reputation on the idea of helping local businesses succeed and grow. However, over the last couple of decades — and especially since the eruption of the "Great Recession" in 2007/2008 — banks across the country have dramatically reduced their lending to small and mid-sized businesses. What's more, even though economists in both the public and private sectors unanimously declare that the recession is over, banks have not even come close to restoring their small and mid-sized business funding levels, and they are under no pressure from their shareholders and stakeholders to do otherwise.

Naturally, this begs the question: why are banks categorically unwilling to provide funding to small and mid-sized businesses nowadays? There are two reasons that can be labeled "explicit factors" (which banks state) and "implicit motivators" (which banks typically keep hidden).

Explicit Reasons Why Banks Say NO to Funding

Essentially, there are 10 explicit reasons why banks turn down far more small and mid-sized business loan applications than they approve — in fact, the acceptance rate at big banks is typically below 20 percent, and in smaller banks it hovers around 30-40 percent.

Low Personal Credit Score

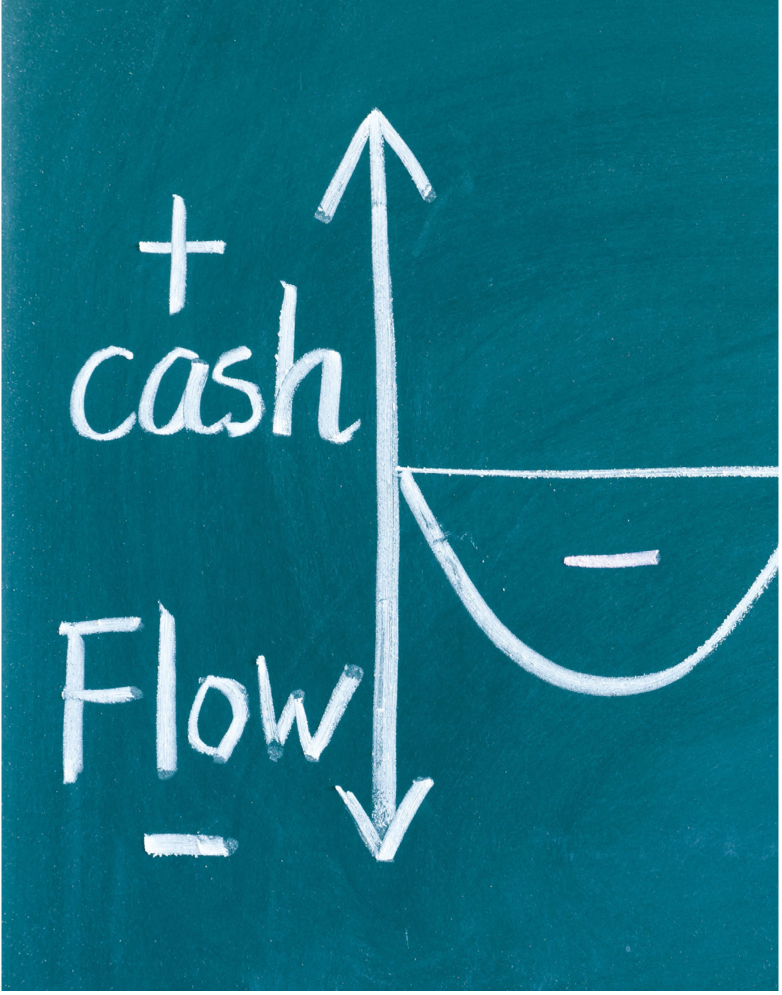
Banks insist that borrowers have exceptional personal credit scores, which means that anything in the impaired credit range is typically a deal breaker. What makes this requirement particularly problematic is that one-third of Americans have bad credit, and it has been well documented by independent researchers that in many cases — including loan situations — credit scores are inherently biased and prejudicial, since they do not necessarily capture a true and objective picture of a borrower's credit worthiness. This is even more of a challenge for people who have filed for bankruptcy, which in many ways is the "financial punishment that keeps on punishing." Yet with this being said, banks are not breaking the law by denying business loans to applicants with low personal credit scores. And so, unless and until this policy changes — and there are absolutely no signs that it will in the foreseeable future — the situation will remain status quo, and borrowers with less-than-stellar personal credit will remain on the outside looking in.

Low Business Credit Score

Banks also insist that borrowers have high business credit scores, which is even more of an obstacle for many small and mid-sized business owners for an unusual reason: they do not even know they have a business credit score in the first place! Indeed, many business owners have not established a business credit score by, for example, obtaining a DUNS Number from Dun & Bradstreet, or asking their suppliers to regularly send positive reports to credit bureaus (e.g. pays on time, pays in full, etc.). And it goes without saying that a previous business bankruptcy that shows up on a business credit score will be a massive red flag for bank loan officers, even if the matter was dealt with responsibly and to the satisfaction of trustees & creditors.

Not Enough Business History

As part of their goal of going to extreme lengths to minimize risk, banks typically insist that borrowers have at least two (but sometimes more) years of established and verifiable business history. Obviously, this is a non-starter for businesses that have been operational for less than 24 months, even though experts and analysts agree that this is often the period in which long-term business success and growth is either enabled — or impeded. However, banks do not see things this way, & just as with the stance on credit scores, there is no expectation that this approach will change.

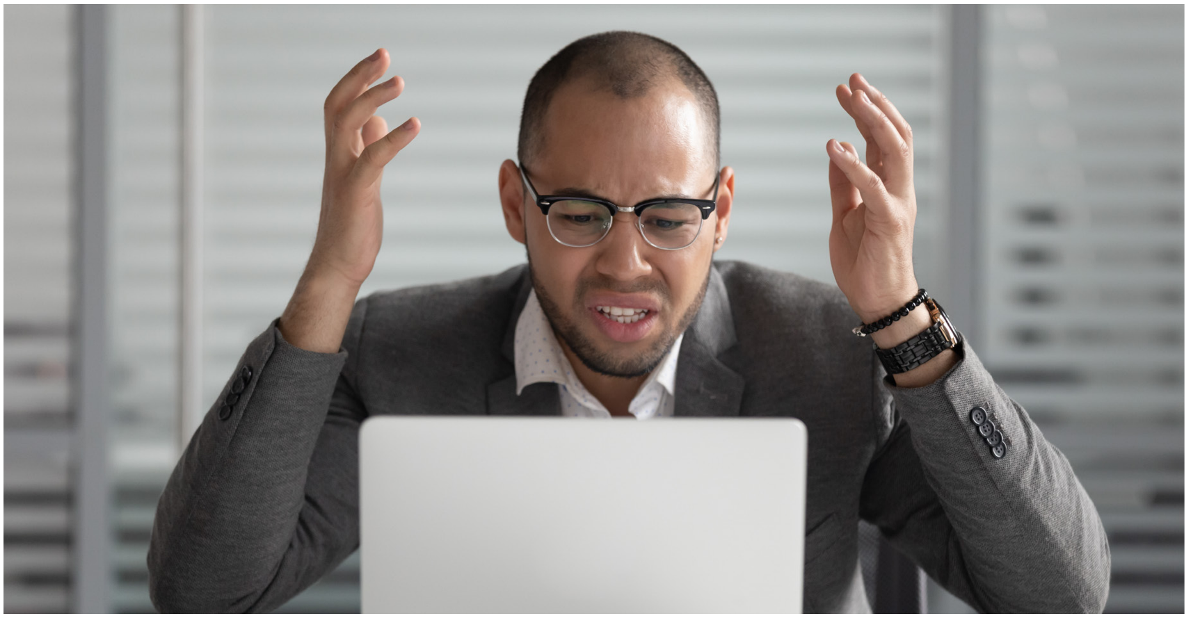


Inadequate Cash Flow

Even if a borrower meets all of the requirements described above — e.g. very high personal and business credit scores, and 2+ years of verified business history — most banks will nevertheless reject an application if the business does not have a strong record of consistent positive cash flow. In simpler and terms: most banks are not interested in helping businesses achieve sustained profitability.

Rather, they are interested in financing businesses that are already profitable, and therefore have a greater chance of paying the loan back as per the agreement. Granted, banks have the right to establish this requirement. However, the criticism that many industry experts — and even some business-minded politicians — have in this regard, is that banks typically do not have a two-tier loan program; i.e. one tier for profitable businesses (that may get relatively better terms and a lower rate), andone tier for business that are not yet consistently profitable (that may get relatively worse terms and a higher rate). Instead, most banks will only deal with business borrowers that are profitable at the time of their application. Business owners who do not fit this profile must look elsewhere for their funding needs.

Note that this is not a comprehensive list, because there is no prescribed law or regulation that dictates what banks can demand. Provided that they are not being discriminatory or otherwise breaking the law, banks can adjust & modify their application requirements on a case-by-case basis as they deem fit.



Insufficient Collateral

All bank loans are secured, which means they are backed by a borrower's pledged assets. In the event of a default, missed payment or any other material violation of the loan agreement terms and conditions, banks reserve the right to take immediate possession of these assets, and liquidate them accordingly to recover the debt. Insisting on collateral poses major problems for many borrowers, including:

- Borrowers may not have enough collateral to obtain the loan.
- Collateral is not limited to business assets, but can also include personal assets (e.g. the borrower's home, car, etc.).
- Banks may insist on cash-secured loans, because they do not want to spend money or time liquidating collateral.
- Banks may insist on blanket liens, which essentially means they can seize any asset(s) related to a borrower's business to make up for any missed payments.
- Banks that provide secured business loans can and often do — under-value collateral, in order to further reduce their risk.
- Borrowers must pay up front fees for collateral valuation — banks do not pay for any of this.
- Borrowers have no appeal or recourse if they do not agree with the bank's valuation, which as noted, is often lower than fair market rate.
- Secured business loans are typically pegged to variable interest rates, which means that payments will rise if rates go up during the loan term.
- Paying a secured business loan back early will not result in any interest savings. On the contrary, it will trigger penalties.
- Because of the collateral valuation and underwriting complexities, secured business loans usually take several months to set up.
- Successfully repaying a secured business loan does not boost a business credit score as much as successfully repaying an unsecured business loan.

Inadequate or Incomplete Business Plan

To apply for a small or midsize business loan from a bank, borrowers need to submit an application package that includes at least all the following:

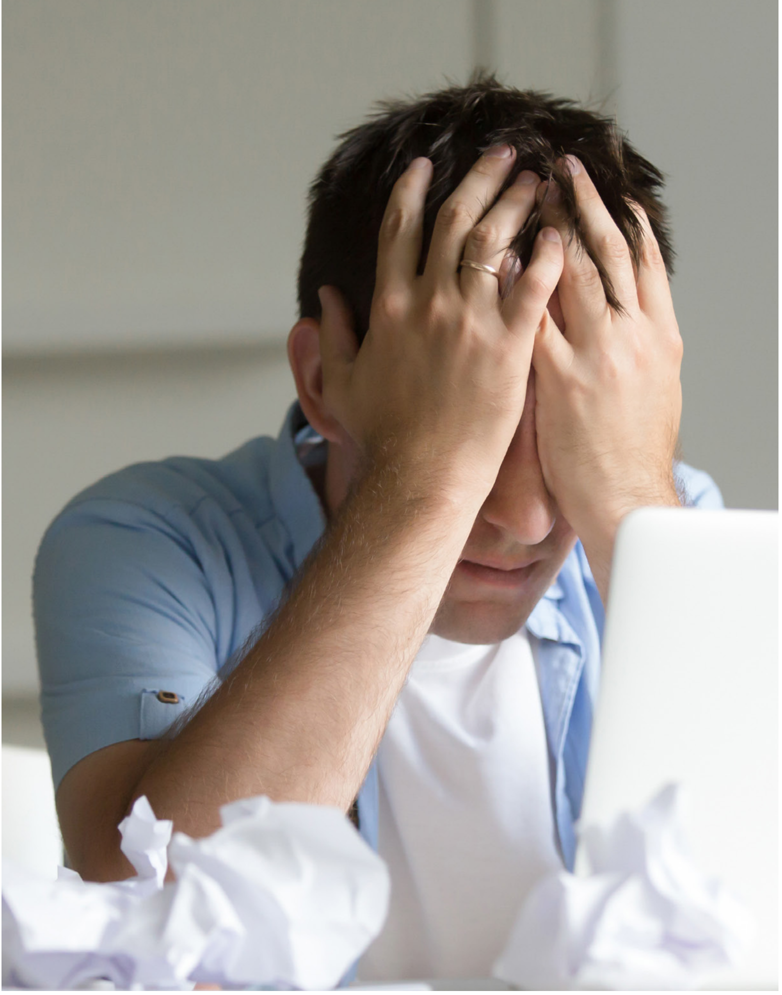
- A comprehensive business plan detailing the marketplace, competitive advantages,core value proposition, product/service offerings, risk management strategy, staffing plan, financial forecasts, and so on.
- Personal and business credit scores (as noted above, both scores must be exceptioal).
- Investment information detailing how much the founder/principals, and any other party, has put into the business.
- Financial statements for at least the last two years, which may also need to be independently reviewed or audited (as noted above, these statements typically must show that the business has a track record of profitability).
- Business and personal tax returns for the last two years.
- Complete details on all accounts payables and accounts receivables.
- Resumes and backgrounds for all principals, members of the executive and management team, and any other key personnel (e.g. specialists, etc.).
- Proof of adequate insurance coverage. Note that some banks further demand that founders/principals take out additional life insurance that pays out to the bank first in the event of death.
- A list of adequate collateral (as noted above, these must include personal and/or business assets that secure the loan in the event of a default).
- A full inventory of all relevant legal documents, which may include: articles of incorporation, franchise agreements, business licenses and registrations, contracts with any third parties (e.g. vendors, suppliers, strategic partners, etc.), and so on.

Lack of Owner Investment

Some banks either give strong preference — if not outright require — that borrowers show evidence that the owner has made significant investments in their business. Frankly, while banks maintain that this demonstrates that a borrower has "faith and commitment in their own success," the real reason is somewhat more cynical: banks believe that borrowers who haveinvested in their business are less risky, since they have skin in the game, and will take a significant personal financial hit in the event of default.

Too Much Debt

Another major red flag for banks — and often more than enough justification to reject a business loan application — is if the borrower and/or the business is deemed to have too much debt. Again, this is purely about risk mitigation. What's more, the notion of "too much debt" is essentially subjective; what an owner thinks is a minimal or normal debt load, a bank may unilaterally and arbitrarily declare as excessive.



Reason(s) for the Loan Aren't Approved

Many borrowers are surprised — and also frankly, offended — to discover that their bank does notapprove of the reason (or reasons) that they want a loan, and as such their application is rejected. What is egregious here is that most bank loan officers do not have expertise in a borrower's industry or marketplace. It is not what they specialize in and focus on each day. Yet despite this limited perspectiveand knowledge, it is the bank — and not the borrower — that ultimately determines what is an acceptable vs. unacceptable way to allocate the funds.

And as noted, if the bank does not approve of the use — even if they only have a cursory understanding of what is strategic and tactical in a particular industry/marketplace and what is not — they will reject the application.ding needs.

Industry or Marketplace Deemed Too Risky

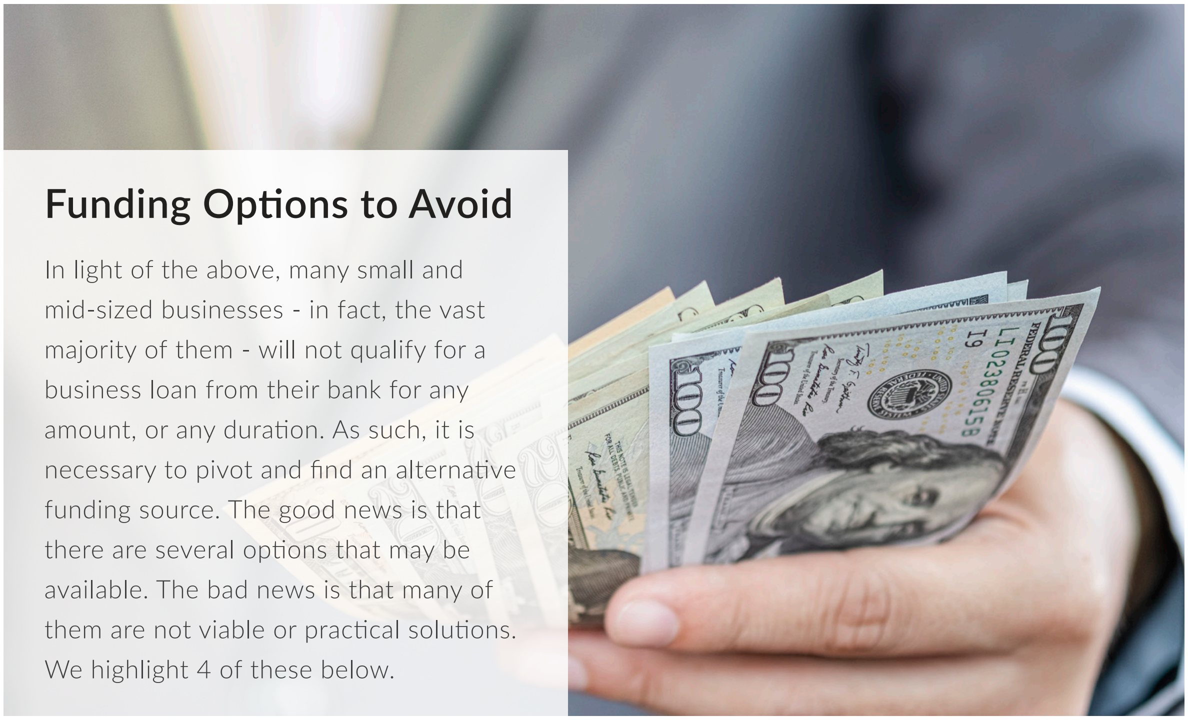
Last but not least, if a bank determines that a borrower's industry or marketplace is too risky — which in more practical terms, means that it may be more innovative, progressive or subject to disruption than conventional spaces — then it is unlikely to approve an application. Again, it does not matter if bank loan officers have a very limited understanding of a marketplace or industry. As long as enough boxes on a checklist are checked (or unchecked as the case may be), the application will be dead in the water, and the borrower will have to look elsewhere.

Implicit Motivations

In addition to the above explicit reasons, banks have an implicit — and "off the record" — motivation for substantially pulling back on small and mid-sized business lending: it is not nearly as profitable as lending to large organizations and enterprises.

This is because it costs banks about the same amount of money and time to underwrite a $100,000 business loan, as it does a $2 million dollar business loan. And while there are some small businesses and midsize businesses that are interested in borrowing this amount, many need and want less, simplybecause having "dead money" in their account is costly, just as spending capital because it is available is as bad an idea for business spending, as it is for personal spending.

Of course, the above assumes that banks are indeed willing to approve small and mid-sized business loans for borrowers who want $2 million or more — which, as discussed in the previous section, is not the case at all. Banks like dealing with big businesses, because it is safer and more profitable for them to do so.



Funding Options to Avoid

In light of the above, many small and mid-sized businesses - in fact, the vast majority of them - will not qualify for a business loan from their bank for any amount, or any duration. As such, it is necessary to pivot and find an alternative funding source. The good news is that there are several options that may be available. The bad news is that many of them are not viable or practical solutions. We highlight 4 of these below.

VC’s and Angel Investors

Reality TV shows (which frankly are not that realistic at all!) have sensationalized the idea of finding VC’s and angel investors. In reality, however, obtaining financing this way is extraordinarily difficult, simply because such investors have so many options, and despite their “player” image, they are sometimes much more risk averse than banks! Furthermore, presuming that a small or mid-size business borrower succeeds in attracting the interest of an investor, naturally that individual or group is going to want more than principal plus interest: they are going to want equity, and probably a seat at the decision-making table. This demand alone convinces many borrowers to avoid going down this path.

Small Business Administration Loans

The good thing about Small Business Administration (SBA) loans - which are facilitated in conjunction with select banks - is that they can be quite lengthy (some even have a duration of 25 years), and the interest rate is also relatively low compared to other funding options.

The bad news, however, is that competition for SBA loans is fierce, and the application process is extremely long. It is not uncommon for applications to snake their way through dozens of loan officers and administrators, and take more than six months to be approved (if at all).

In addition, the application requirements are as odious as seeking a conventional bank loan, and any missing or incomplete documentation will slow the process down to a crawl. For businesses that need funds rapidly - or even in a reasonable timeframe - SBA loans simply are not a viable option.

Peer-to-Peer Lending

Crowdfunding platforms like Kickstarter have created a lot of hype around the idea of peer-to-peer lending. But for every success story, there are literally thousands of business owners who do not even come close to achieving their fundraising targets.Why not? Essentially, it is because competition is extreme, and although most peer-to-peer lenders have little (or no) experience in the business investment world, they tend to back what they feel are sure winners. In other words, 1 percent of businesses surpass their targets and generate a massive amount of attention, and 99 percent are left out in the cold.

As such, counting on crowdfunding/peer-to-peer as a reliable funding source is simply not realistic. Yes, it can happen, but it certainly cannot be Plan A (in fact, it should not even be Plan B or Plan C).

Using Personal Credit Cards

We do not need to spend a lot of time discussing why using personal credit cards is not a good business funding option. Aside from the punitive costs — cash advances are pegged at a much higher rate than ordinary purchases, and interest starts accumulating instantly vs. at the start of a billing cycle - borrowers make themselves, and by extension their business, extremely financially vulnerable. The same warning holds true for taking out payday loans, which we would not even mention here, except for the astonishing fact that the SBA itself advises borrowers to consider this horrible option if they cannot get an SBA loan or a conventional bank loan. Evidently, the SBA has not Googled "payday loan horror stories," which brings up more than 200,000 hits.

The National Business Capital Advantage

Admittedly, the story so far has been rather bleak. After highlighting common reasons why small and midsized businesses need short-term and long-term business loans, we revealed 10 explicit reasons and an implicit motivation why banks are not interested in being part of the solution. We also identified 4 funding sources that, upon further examination, are usually not legitimate or reliable options for most borrowers.

Fortunately, there is a practical and proven way for business owners to avoid all of the obstacles noted above, and get the financing - and indeed, the respect - that they deserve: partner with National Business Capital. Unlike banks, we deeply and personally understand what small and mid-sized business owners deal with on a day-to-basis. We understand that there are opportunities to exploit, obstacles to overcome, and potential to nurture and realize. That is why:

- We proudly provide short-term or long-term financing for clients with impaired excellent or bad credit. We understand that personal and business credit scores are only one piece of the puzzle when it comes toevaluating credit worthiness, and identifying strong partnerships.
- We understand that time can be even more valuable than capital, and as such our application process is streamlined, and can be completed online in about 2 minutes. We also render a decision within 24 hours, and our approval rate is consistently around 90 percent.
- We do not consider a past bankruptcy or even a tax lien to be automatic deal-breakers. We are much more interested in what our clients are doing today and what they have planned for the future, than about what may have transpired in the past. We look ahead, not behind.
- We offer multiple funding solutions, such as working capital loans, purchase order financing, business equipment financing and leasing services, commercial mortgage financing, business lines of credit (which can be excellent options for business that want readily available capital), and many others. We do not impose a "one size fits all" approach, because our clients are unique - and so are their financing needs & goals.

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How We Help Finance Your Journey

- We never push or persuade clients to borrow more than they need. The last thing we want is our clients to have “dead money” sitting in their account, or feel obligated to spend money simply because it is available to them. We work with our clients to help them choose the optimal funding amount that works best for them - not for us.
- We do not dictate or direct how our clients can use their loan proceeds. Frankly, we believe that the best people to understand what a business needs to be strong and successful is the owner and his or her team. With this being said, we are always here to provide guidance, advice and best practices. And we literally mean “always” - we are available 24/7/365.
- We do not insist that our clients have 2 or more years of business history, or that they must be profitable. We are fine with 2-3 months of history, and being cash flow positive is not required. We know from ample experience that some of the most profitable businesses are those that need to spend more time in the red to make investments and build a strong, solid foundation for success.
- We are not reluctant whatsoever to support clients in (so-called) risky industries or marketplaces. On the contrary, as an innovative and forward-looking company, we understand that some of the biggest growth opportunities are precisely in these dynamic sectors and spaces.
- We consistently treat our clients with respect and dignity, regardless of whether they need to borrow $20,000 for 3 months, or $10 million dollars for 5 years. We never lose sight of the fact that we exist to serve our clients, and the best thing we can do is help them succeed and thrive.

Next Steps

To learn more about getting funding when banks say NO, contact the National Business Capital team today. Your consultation with us is free, and there is never any obligation to move forward. We are one of the nation's most established, acclaimed & recommended alternative lenders, & we have earned this stellar reputation by consistently doing the right things the right way - without compromise.

Get started now by connecting with one of National Business Capital's Relationship Development Experts.

We Are Here To Serve You 24/7/365

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