

BUSINESS LOANS 101

A QUICK GUIDE

— TO —

BUSINESS LOANS

Navigating the World of Business Loans to
Better Understand Your Options



Finance it Forward
YOUR TECHNOLOGY PARTNER IN FINANCE

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INTRODUCTION

Great businesses don't happen by accident. They are the result of careful strategic planning and execution. One key element of building a great business is having access to the right financial resources. Business loans can be an invaluable tool for helping businesses grow and achieve their goals, whether those goals revolve around starting a new business, expanding an existing business, or intended to simply cover short-term expenses.

But with so many different types of business loans available, it can be challenging to know which one is right for your business. That's where this E-book comes in! In order to harness the power of affective financial planning, it's imperative to work with an experienced loan agent that will keep your specific concerns in mind. That's why we designed this easy guide to walk you through the various concepts to help you make sense of what can otherwise be a daunting and intimidating process.

In this E-Book, we'll help you navigate the complex world of business loans, providing an overview of the different types of loans, including Term Loans, Equipment Financing, Lines of Credit, Factoring as well as SBA Loans so you can better understand the key features & characteristics of each one– AND how they can be used.

By the end of this ebook, you will have the knowledge and tools you'll need to make informed decisions about business loans so that you can use them to build a great business.

EQUIPMENT FINANCING

Equipment financing is a type of loan that is specifically designed to help businesses purchase equipment. This can be a good option for businesses that need to purchase tangible items, (such as machinery, vehicles, or computer systems) but don't have the capital upfront to pay for it. Key features of equipment financing include:

- **Preserving Cash Flow:** Equipment financing allows businesses to acquire the equipment they need while using very little capital upfront. This can be beneficial and allows company's to use their available cash for other important expenses, such as salaries, rent and inventory.
- **Fixed or Variable Interest Rates:** Equipment financing can have either fixed or variable interest rates, depending on the lender and the loan terms.
- **Short or Long Repayment Terms:** Equipment financing can have short or long repayment terms, depending on the type of equipment being financed and the lender's requirements.
- **Tax Advantages:** Equipment financing can sometimes offer tax advantages, as the interest on the loan may be tax deductible under section 179 of the tax code.



TERM LOAN

Term loans are traditional loans that provide a lump sum of money that must be repaid over a fixed period of time, typically with fixed monthly payments. They are often used for long-term investments (such as financing major expansions or purchasing a franchise) OR for refinancing existing debt. Key features of term loans include:

- **Fixed Interest Rates:** The interest rate on a term loan is typically fixed, which means it won't change over the life of the loan. This can make it easier to factor into your budget, that way you can plan long term and manage your loan payments.
- **Fixed Repayment Terms:** The repayment terms for a term loan are typically fixed, which means you'll know exactly how long you have to pay back the loan and how much you'll be paying each month
- **Collateral Required:** Many term loans require collateral, which is something of value that the lender can seize if you default on the loan. Common forms of collateral include real estate, equipment, or inventory.



LINE OF CREDIT

A line of credit is a flexible financing option that allows you to borrow money as needed, up to a pre-approved credit limit. Lines of credit can be secured or unsecured, and are often used to manage cash flow or finance short-term expenses or seasonal fluctuations in cash flow. You only pay interest on the amount you borrow, and you can reuse the credit as it is repaid. The terms and conditions of a line of credit will depend on the type of line and the lender. Key features of lines of credit include:

- **Revolving Credit:** This allows the borrower to access funds as needed. This can be especially useful for managing cash flow or financing unexpected expenses.
- **Variable Interest Rates:** The interest rate on a line of credit is typically variable, which means it can change over time based on market conditions. This can be a riskier option than a fixed-rate loan, as the amount you pay in interest can vary, yet it may make more sense for certain situations.
- **No collateral required:** Many lines of credit do not require collateral, which means you don't have to pledge any assets to secure the loan.



A vertical strip of the American flag, showing the stars and stripes, runs along the left side of the page.

SBA LOANS

SBA loans are business loans that are partially guaranteed by the Small Business Administration (SBA), a U.S. government agency that supports small businesses. SBA loans are designed to help businesses that may have difficulty obtaining financing from traditional sources, such as banks. There are several types of SBA loans, including 7(a) loans, microloans AND 504 loans. Key features of SBA loans include:

- **Long Repayment Terms:** SBA loans often have longer repayment terms than traditional loans, which can make them more affordable for small businesses.
- **Lower Down Payments:** SBA loans often require lower down payments than traditional loans, which can be helpful for businesses that don't have a lot of capital upfront.
- **Higher Approval Rates:** Because SBA loans are partially guaranteed by the government, they often have higher approval rates than traditional loans.



FACTORING

Invoice Factoring is a financial tool that can provide businesses with immediate cash in exchange for their accounts receivable (invoices). It's often used by businesses that have a lot of accounts receivable but need cash sooner than they would receive payment from their customers. Key features of factoring include:

- **Immediate Cash:** With factoring, businesses can get immediate cash, which can be helpful for covering short-term expenses or bridging cash flow gaps.
- **No Fixed Repayment Schedule:** Unlike traditional loans, factoring doesn't involve a fixed repayment schedule. Instead, businesses are selling their accounts receivable in exchange for cash.
- **Discounted Rate:** In order to receive immediate cash, businesses must sell their accounts receivable at a discounted rate. This means they are giving up the potential to receive the full amount of the invoice.
- **Credit Risk:** Factoring involves taking on credit risk, as the business is relying on its customers to pay their invoices.

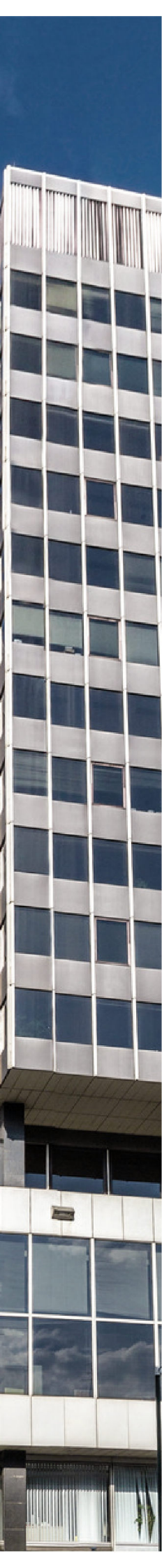


FIX & FLIP LOANS

Fix and flip loans are short-term loans that are specifically designed for real estate investors who are looking to purchase, build, renovate, and sell a property for a profit. They are often used for properties that need extensive renovations or repairs. Key features of fix and flip loans include:

- **Short Repayment Terms:** Fix and flip loans have short repayment terms, typically ranging from six months to a year. This is because the goal is to renovate and sell the property quickly, before the loan comes due.
- **High Interest Rates:** Fix and flip loans often have high interest rates, as they are considered high-risk loans.
- **Collateral Required:** Fix and flip loans typically require collateral, which is often the property being purchased and renovated.
- **Renovation Costs Included:** Fix and flip loans typically require collateral, which is often the property being purchased and renovated.





COMMERCIAL REAL ESTATE LOANS

Commercial real estate loans are loans specifically designed for the purchase of commercial real estate properties– such as office buildings, retail spaces, or industrial properties. They can also be used to refinance existing company real estate assets. These types of loans are often used by businesses that need to purchase or improve a property for their own use or as an investment. Key features of commercial real estate loans include:

- **Long Repayment Terms:** Commercial real estate loans often have long repayment terms, ranging from 10 to 30 years. This is because the properties being financed are typically large and expensive, and the loans are meant to be long-term investments.
- **Fixed or Variable Interest Rates:** Commercial real estate loans can have either fixed or variable interest rates, depending on the lender and the loan terms.
- **Collateral Required:** Commercial real estate loans typically require collateral, which is often the property being purchased or refinanced.
- **Loan-to-Value Ratio:** Commercial real estate loans often have a loan-to-value ratio, which is the amount of the loan compared to the value of the property. Lenders typically require a higher down payment for properties with a higher loan-to-value ratio.

CHOOSING THE RIGHT BUSINESS LOAN

Choosing the right business loan is crucial for the success of your business. It's not just about getting approved for a loan - it's about finding the loan that best meets the needs and goals of your business. There are several factors to consider when choosing a business loan, including:

- **Purpose of the loan:** What do you need the loan for? Different types of business loans are designed for specific purposes, such as starting a business, expanding an existing business, purchasing inventory, or covering short-term expenses. Consider what you need the loan for and choose a loan that is suited to your needs.
- **Amount of funding needed:** How much money do you need to borrow? Different types of business loans have different maximum loan amounts, so it's important to choose a loan that can provide the funding you need.
- **Repayment terms:** How long do you have to pay back the loan? Different business loans have different repayment terms, ranging from a few months to several years. Consider what you can realistically afford to repay over the loan term and choose a loan that fits your budget.
- **Lender's requirements:** What do you need to qualify for the loan? Different lenders have different requirements for business loan applicants, such as credit scores, business financials, and collateral.



CONCLUSION

In this ebook, we've covered the different types of business loans available and how companies can utilize them to grow and achieve their goals. From Term Loans and Equipment Financing to Commercial Real Estate and Fix & Flip Loans, companies can feel confident knowing the right solution exists, if they're willing to explore their options.

When making a big decision regarding your company's financial future, it's important to carefully consider the purpose of your loan, amount of funding needed, and the repayment terms. By exploring different options and finding the right fit for your business's needs and goals, you can take an important step toward creating a successful future for your company.

If you're looking for guidance through the loan process, our financing experts are here to help you navigate the complex world of business loans to find the appropriate solution for you. At Finance It Forward, our mission is to empower small and medium-sized businesses with the tools and resources they need to thrive. Our online financing platform matches applicants with the appropriate commercial lenders suitable to their company's particular goals. We facilitate the entire process, ultimately providing businesses with access to the funding they need, when they need it– to help them grow and succeed.