



Where's the Money?

10 Types of Small Business
Financing and How to Qualify

10 Questions to Ask Before You Borrow

Choosing the right financing option for your small business—and figuring out which ones you can get—can feel confusing or overwhelming. This guide will help you understand ten popular types of financing often available to small businesses. More importantly, it can help you understand which ones are available and appropriate for your business now.

You'll find a list of 138+ places to check your credit scores for free at [Nav.com/free-scores](https://www.nav.com/free-scores)

Here are ten questions to ask yourself if you need financing.

1. How much do I need?

How much you need may be different than how much you want, so be sure to crunch some numbers to figure out much you need to borrow to accomplish specific goals. Also ask yourself what you might do if you are approved for more than you expected—should you take it? If you're not sure, your accounting professional or a business adviser such as a SBDC advisor can help.

2. How fast do I need it?

Some types of financing, including online lending options, can be obtained in just a few hours or a few days. Others, such as traditional bank loans, including SBA loans, can take a month or more to be approved. Many fall somewhere in between.

3. What are my credit scores?

Some lenders review personal credit scores, business credit scores, or both. In addition, certain negative information that may appear on your credit reports such as bankruptcy (especially open bankruptcies) or business tax liens could affect your ability to secure financing. Simply knowing your scores is an important starting point, but the more important question is, "How do lenders view my credit scores?"

4. How long has my company been in business?

"Time in business" is a common question on loan applications. Some lenders require that your company has been in business for minimum number of years (more than one year is common) before you can qualify. Lenders recognize that younger businesses are higher risk.

5. How much revenue does my business make?

A number of lenders will want to know your annual revenue. Some may drill down deeper and look at average monthly revenue, cash flow, and/or debt-to-income ratios. If your business is seasonal or cyclical, lenders may want to review a longer history of revenue. It's recommended (and sometimes required) that you have a business bank account so that you can easily gather this information and provide the lender with monthly business bank statements when requested.

10 Questions to Ask Before You Borrow

6. How quickly do I plan to pay it back?

Small business financing is often categorized as short term (usually less than 24 months), medium term (often 2-5 years) and long-term (5 years+). While short-term loans may carry higher interest rates, longer term loans may cost more in the long run because the repayment period is longer.

7. Do I need collateral?

Some lenders prefer to make loans secured by real estate, equipment or other assets such as outstanding invoices. When you pledge collateral, the lender will use a [“UCC filing”](#) to protect its interest in your property. UCC filings appear on business credit reports and, in some cases, multiple UCC filings may affect your ability to get financing.

8. What is the impact of a personal guarantee?

If you sign a personal guarantee, the lender can try to collect from your personal income or assets if the business doesn't repay the debt. Lenders often prefer personal guarantees. The stronger the qualifications of your business (time in business, revenues and/or business credit scores), the sooner you can move away from them.

9. What's my industry?

Lenders may place restrictions on the types of businesses they will fund. Standard Industrial Classification (SIC) codes and the newer [North American Industry Classification System \(NAICS\) codes](#) are used by the government to categorize businesses by industry. These codes typically appear on business credit reports and may be used by lenders to identify the types of businesses they will or will not lend to. It's not uncommon for the wrong code to be listed so check your business credit reports to make sure your SIC or NAICS code is correct.

10. Am I ready to apply?

Businesses often fail to qualify because they fail to complete the application process. Gathering the information you need to apply ahead of time will save you time – and quite often, money. Use the financing checklist on page 7 to get prepared.

HOW MUCH DOES IT COST?

Unlike consumer credit, commercial lenders are not required to disclose an annual percentage rate (APR) which is used in consumer lending to compare costs. That's why it's important to consider the interest rate, all unavoidable fees, and how long it will take to repay the debt to understand the total cost. With that information, you can use [free small business loan calculators](#) to help you translate the cost to an APR so you can more easily compare offers.

Remember, the length of repayment can have a dramatic impact on the APR. Typically, loans that have a very short repayment (less than a year) will have a higher APR.

10 Popular Business Financing Options Defined

Here are brief definitions of the types of financing included in this guide.

Business Credit Cards: Credit cards issued in the name of the business. Applications are often evaluated based on the owner's personal credit scores and income from all sources (not just the business). These cards can also help build business credit, and many do not report to the owner's personal credit report unless they are not paid back. Personal guarantee required.

Business/Merchant Cash Advance: Funds are advanced based on expected cash flow or credit card receipts, usually by reviewing previous sales/receipts. These are short-term arrangements, and payments, which are usually a percentage of sales, are taken from future credit card sales or revenue on a daily or weekly basis.

Crowdfunding: Funds are raised from large numbers of individuals, usually using online platforms. Reward crowdfunding offers backers an early version of the product or other rewards, while debt crowdfunding enables lenders (individuals or institutional investors) to lend part of the money the business needs and earn interest when the debt is repaid. Equity crowdfunding allows individuals to invest in a business for potential future return.

Equipment Financing: Financing is secured by equipment or other collateral, including leasing arrangements. It may be used to acquire assets, or assets owned by the business may be used as collateral to secure financing.

Invoices/Receivables Financing: Funds are advanced against unpaid invoices or receivables, with a portion advanced upfront and the rest (minus fees) when the invoice is paid. This may also be called "factoring." Alternatively, financing may be extended based on expected receivables, requiring the business to make payments.

Line of Credit: This financing makes a specific amount available to the business to be used as needed. Lines of credit are often short-term arrangements, but may be renewable. Offered through traditional financial institutions such as banks, as well as through online lenders.

Microloan: Small loans, usually for \$50,000 or less. Some microloans are offered through Community Development Financial Institutions ([CDFIs](#)). The SBA microloan program offers small loans through financial institutions. Some microloans aim to help underserved entrepreneurs.

SBA Loan: The Small Business Administration (SBA) guarantees loans offered through banks and other financial institutions. Terms are often attractive with low interest rates and favorable repayment terms. There are several different SBA loan programs, and terms and qualifications vary for each. The most popular is the 7(a) program.

Term Loan: A specific amount of money borrowed for a specific period of time. Interest rates and payments are often fixed, though some term loans carry variable interest rates.

Vendor Terms: Suppliers or vendors allow the business to purchase goods or services and pay for them in 10 - 180 days. Net-30 terms require payment in thirty days, for example.

10 Types of Small Business Financing: What They Offer



Type of Financing



Amounts



Time to Fund



Repayment



Typical Cost (APR)

Type of Financing	Amounts	Time to Fund	Repayment	Typical Cost (APR)
Business credit cards	\$500–\$50,000	Hours–days	Monthly	11–23%. (Some 0% intro offers.)
Business/merchant cash advance	\$200–\$250,000	Hours–days	Daily or weekly payments, 3–12 months	15–150% (cost often expressed as factor rate)
Crowdfunding (debt, equity and reward-based)	Debt: Up to \$500,000 Equity: Up to \$1.07 million Rewards: No limit	Weeks–months	Debt: Monthly, 6 months–5 years Equity and rewards: N/A	Debt: 5–27% Rewards: 8–10% in fees Equity: 3–6% in fees, plus \$10,000–\$100,000 professional fees Plus marketing costs for all types
Equipment financing/leases	\$5,000–\$5,000,000	Days–weeks	Monthly, 1–5 years	5–30%
Invoice/receivables financing	Up to \$5 million	Hours–days	Weekly, up to 12 weeks (if required)	10–75%
Line of credit	\$1,000–\$500,000+	Hours–days	Weekly or monthly payments, 12–24 months (often renewable)	10–100%
Microloan	\$50–\$50,000	1–3 months	Monthly, 1–5 years	8–21%
SBA loan	Up to \$5 million	Weeks–months	Monthly, 5–25 years	6–13%
Term loan	\$1,000–\$1 million	Days–weeks	Weekly or monthly payments, 3–60 months	8–30%
Vendor terms	\$50–\$50,000+	Hours–weeks	Net–30, 60, 90 or 120 days	0–36%

*This chart lists typical amounts, costs and time frames. Individual programs will vary.

10 Types of Small Business Financing: Basic Requirements



Type of Financing



Minimum
Credit Scores



Minimum
Time in Business



Minimum
Annual Revenue



Other

Type of Financing	Minimum Credit Scores	Minimum Time in Business	Minimum Annual Revenue	Other
Business credit cards	650–700 personal	0–12 months	Income from all sources (incl. personal) usually considered	Total personal credit limits of at least \$1,000; no more than 6 personal inquiries in last 6 months; 30–60% personal debt usage
Business/merchant cash advance	550 personal (if required)	3–24 months	\$50,000	May require changing payment processor
Crowdfunding (debt, equity, and rewards-based)	Debt: 620–640 Equity and rewards: N/A	Debt: 12–24 months Equity and rewards: No minimum	Debt: \$50,000 Equity and rewards: Not required	Substantial marketing effort required
Equipment Financing	550–640 Business credit may also be reviewed	0–24 months	\$50,000–\$100,000	Down payment may be required
Invoice/Receivables	If required, 550–620 personal	3–24 months	\$25,000–\$180,000	
Line of credit	600–680 personal	2–36 months	\$25,000–\$180,000	
Microloan	620–680	0–24 months	\$25,000–\$50,000 (personal income may be used)	May be more flexible with credit requirements
SBA loan	FICO SBSS score of 140–160 and/or 640–680 personal	0–60 months	\$50,000+	
Term loan	550–775	12 months	\$42,000–\$180,000	
Vendor terms	May require moderate personal and/or business scores	1–36 months	Flexible	

*This chart shows typical borrower requirements. Individual lenders' criteria will vary.

Financing Checklist

If a credit check is required, the lender will pull its own copy of your credit reports and scores.

Before you start submitting applications, it's helpful to gather the following information. Not all lenders will require all of these items, but if you have these ready, applying can be faster and easier.

Personal Items

- Review personal credit reports and scores
- Most recent personal tax return
- Government-issued photo ID

Business Items

- Review business credit reports and scores
- Statement of why you need funding and how you plan to use it
- Most recent two years business tax returns (1 year may suffice)
- Last six months of business bank account statements
- Profit and loss statement
- Business plan
- Financial projections
- Proof of ownership (business license, articles of incorporation and/or business tax returns)
- Trade references

Other Items

- Verification of address (personal and business)
- Completed application
- Voided check (for ACH payment and/or direct deposit)

Additional Items (If Applicable)

- Franchise agreement/UFOC
- Affiliate business financial information
- Lease agreement (if your business leases space)

Check your personal and business credit for free at [Nav.com/sbdc](https://www.nav.com/sbdc) and find financing tailored to your profile. No credit card required and it won't impact your credit scores.

America's SBDCs

Small business owners and aspiring entrepreneurs can go to their local SBDCs for free face-to-face business consulting and at-cost training, on topics including business planning, accessing capital, marketing, regulatory compliance, technology development, international trade and much more.

SBDCs are hosted by leading universities, colleges, state economic development agencies and private sector partners, and funded in part by the United States Congress through a partnership with the U.S. Small Business Administration.

There are nearly 1,000 local centers available to provide no-cost business consulting and low-cost training to new and existing businesses. Find your local [SBDC](#) today!

Check your personal and business credit for free at [Nav.com/sbdc](https://nav.com/sbdc) and find financing tailored to your profile. No credit card required and it won't impact your credit scores.