

# What CPAs Need to Know About Alternative Financing

## The Need for Alternative Capital

Historically, institutional banks have represented the bulk of small business lenders. However, even before the “Great Recession,” there has always been a subset of businesses that do not qualify for these traditional loans. Luckily, there is a variety of alternative financing options designed exclusively for small businesses that do not qualify for traditional financing. This guide, provided by New York Business Development Corporation, along with affiliates The 504 Company and Excelsior Growth Fund, summarizes several so that you can give informed guidance when clients turn to you for help.

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**Have questions or a deal to discuss?**

**Contact a loan officer or call 877-575-9281**

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# Types of Alternative Financing

## SBA 7(a) Loans:

The U.S. Small Business Administration (SBA) doesn't make loans directly; instead, the SBA acts as a guarantor to a network of traditional funders (banks and other certified lenders). Of SBA programs, 7(a) loans are the most popular and can be used for a variety of needs related to starting, acquiring or expanding a small business. Minimum and maximum loans vary by the partnering lender but typically range from \$10,000 to \$2,000,000.

## What to know about 7(a) loans

- They offer low interest rates and longer repayment terms than many alternative loans, making them more manageable for borrowers
- 7(a) may require more paperwork or collateral than other alternative loans
- These loans can't be used to refinance existing debt or as reimbursement for past expenses; to pay incurred business taxes; for speculative or development-based real estate purchases; or for large equipment purchases

## CPA Tip:

7(a) and Community Advantage loans are a great fit for start-up businesses seeking working capital or a loan to expand, finance seasonal expenses, renovations, equipment purchase or to acquire a business.

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## SBA 7(a) Community Advantage Loans:

These loans up to \$250,000 are designed especially for small businesses in traditionally underserved communities, and to higher risk businesses or unproven industries. They are administered by Community Development Financial Institutions (CDFIs) and others in the SBA's approved networks, and uses are similar to SBA 7(a) Advantage loans.

### What to know about Community Advantage loans

- More flexible approval requirements with less dependence on collateral or business history
- Lenders make educational and coaching services available to borrowers to support success
- These loans can't be used to refinance existing debt or as reimbursement for past expenses; to pay incurred business taxes; for speculative or development-based real estate purchases; or for large equipment purchases



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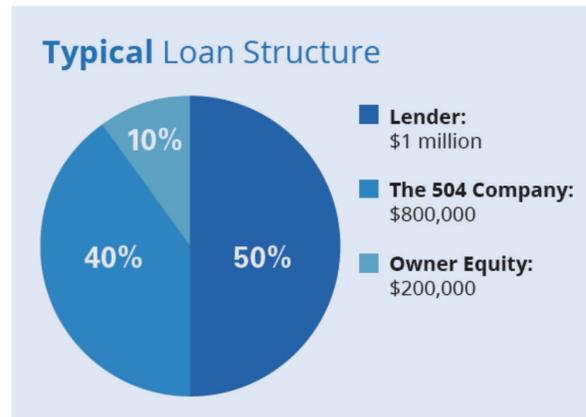
## 504 Loans:

The 504 loan program provides financing for the purchase of fixed assets, such as real estate (including acquisition and improvement of buildings and land), and for long-term equipment purchases. Additionally, 504 loans can support the refinance of debt incurred for these purposes. Importantly, this program provides access to low down payment financing, making it possible for businesses to finance projects that otherwise might not be possible.

504 loans are unique in that the total cost of a project is split among three parties: a bank finances 50%, a Community Development Corporation (CDC), such as NYBDC affiliate The 504 Company, finances 40%, and the borrower puts 10% down.

### What to know about 504 loans

- Can be used for the purchase of fixed assets and most real estate, and large equipment
- If the borrower meets reasonable criteria, these loans can be used to refinance existing loans and consolidate other business-related debt, such as credit cards
- These loans can't be used for working capital or inventory, nor can they be used for speculative real estate purchases or improvements



## CPA Tip:

If your client is seeking to purchase owneroccupied real estate or equipment, would benefit from long-term interest rates, and higher loan-to-value financing, consider recommending a 504 loan.

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## Online Loans:

Options for non-bank online loans have grown tremendously over the last decade and borrowers find plenty that's attractive: Mobile-friendly platforms are available at all hours from anywhere in the world; paperwork and decision-making timeframes are substantially reduced; there are fewer collateral or credit requirements; and funds are typically available quickly.

However, even well-known online lenders have options that can put borrowers at risk – for example, with interest rates that rise at regular intervals throughout the loan term – and borrowers can end up with annual interest rates of 25% to 50% or higher. It's critical to research these options carefully and ensure all terms are fully understood.

### What to know about online loans

- The application and decision processes are simple and fast compared to traditional lending
- Approval rates tend to be comparatively high, even for borrowers with little, no or bad credit
- Once approved, borrowers usually have quick access to funds
- Rates are often high – annual percentage rates (APRs) of 25 to 50 percent and higher are common
- Validity of lenders must be verified or business and personal financial information is at risk

## CPA Tip:

High-interest rate debt can stifle cash flow. If your client is struggling with high-cost online debt, contact NYBDC. Our affiliate Excelsior Growth Fund can refinance online debt, reducing monthly debt payments by \$6,300 on average.

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## Microloans:

With loans averaging less than \$15,000 but available up to \$50,000, microloans can be excellent options for entrepreneurs whose initial overhead or inventory costs are minimal – such as home based businesses and start ups– but who need some funds for small equipment purchases like computers, overhead and marketing. Made by SBA-backed lenders and CDFIs, non-bank lenders, they can be a reliable source of short-term funding.

### What to know about microloans

- Some lenders make educational and coaching services available to borrowers to support success
- Uses typically include working capital, inventory, expansion, seasonal financing, renovations, and purchases of furniture, hardware and software; they can also be used to acquire existing businesses
- Loans can be funded more quickly than other alternative options – typical turnaround time is two to three weeks

## CPA Tip:

Many microloan providers, including NYBDC affiliate Excelsior Growth Fund, will work with business owners one-on-one on loan readiness and packaging, providing a great option when a client needs support in these areas.

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# Alternative Financing Options

## KNOW A BUSINESS IN NEED OF FINANCING? WE CAN HELP

We'll work with you and the business to find the right financing solution

	Refer When	Amounts	Timeline	Interest Rates and Fees
<b>SBA 7(a) and Community Advantage</b>	New or expanding businesses seek affordable rates and are unable to secure bank financing	\$50,000-\$5 million	<ul style="list-style-type: none"> <li>• Approvals in 3-4 weeks</li> <li>• Loans fully funded in 6-8 weeks</li> </ul>	<p><b>Interest Rates:</b> Prime + 2.75-6.0 (variable)</p> <p><b>Fees:</b> Standard SBA, application and 3rd party fees apply</p>
<b>SBA 504 Loans</b>	Existing businesses seek financing to acquire owneroccupied real estate, machinery or equipment, or to refinance qualified business debt at high loan-to-value financing and at extremely affordable rates	\$50,000-\$5.5 million	<ul style="list-style-type: none"> <li>• Approvals in 3-4 weeks</li> <li>• Funding timeframes vary by project</li> </ul>	<p><b>Interest Rates:</b> Visit <a href="http://www.the504company.com">www.the504company.com</a> for current rates</p> <p><b>Fees:</b> Standard SBA, application and 3rd party fees apply</p>
<b>Online Loans</b>	Businesses seek access to affordable funding with a fast, online application process	\$10,000 to \$500,000	<ul style="list-style-type: none"> <li>• 20 minute online application</li> <li>• Loans up to \$100,000 can be fully funded within a week</li> <li>• Loans up to \$500,000 can be funded in approximately two weeks</li> </ul>	<p><b>Interest Rate:</b> 11.9%</p> <p><b>Fees:</b> 5.0% commitment</p>

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## Conclusion:

In the realm of alternative funding, there are many opportunities for small business owners to get needed financing and assistance. While this overview provides insight into several of the most popular options, it's not always easy for CPAs to determine the best source of funding for their clients.

**NYBDC can help. If you are working with small businesses that are currently or will be seeking funding in the future, but that may not qualify for traditional financing contact us to discuss your client's options. NYBDC and our network of affiliates offers a full suite of alternative small business financing products ranging from micro- and online loans to SBA loans and conventional loans.**

## About Us:

New York Business Development Corporation (NYBDC) promotes and advances the business prosperity and economic welfare of New York State by providing small business loans. Throughout its 60-year history, NYBDC has provided thousands of small businesses, including start-ups, mature businesses, and minority- and women-owned businesses, with access to loans when they do not meet the requirements for traditional financing. Learn more at [www.nybdc.com](http://www.nybdc.com).

Together with affiliates Excelsior Growth Fund ([www.excelsiorgrowthfund.org](http://www.excelsiorgrowthfund.org)) and The 504 Company ([www.the504company.com](http://www.the504company.com)), NYBDC offers small businesses access to suite of financing options that includes SBA 504, 7(a) and Community Advantage loans, as well as online alternative loans.

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