Financing options for small businesses.

CHOOSING THE RIGHT FUNDING FOR YOUR GROWING BUSINESS.
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Finding your way to the right financing.

A COMMON STRUGGLE.

Many small business owners in the U.S. have difficulty getting needed funds. When asked whether they could obtain adequate financing in 2017, 27% said no.1

Growing businesses often need financing to buy inventory, invest in equipment, expand operations, or smooth out uneven cash flow. In recent years, many small U.S. businesses have had trouble getting necessary funding.

Partly in response, a number of alternative sources have sprung up—so many, in fact, it’s hard to keep track of all the options.

As many small business owners will tell you, choosing the right financing option involves much more than comparing rates and fees. An unbeatable annual percentage rate (APR) won’t pay off if the type, amount, and duration of your financing don’t match the realities of your business. This guide can help you understand common financing options and which ones make sense for your business right now:

1. Traditional loans.
2. Business credit cards and lines of credit.
4. Crowdfunding.
5. Merchant cash advances.
6. Payment gateway lending.

1 2017 Year-End Economic Report, National Small Business Association, p. 10. The 2017 Year-End Economic Report was conducted online Dec. 18, 2017–January 8, 2018 among 1,633 small business owners—both members and nonmembers of NSBA.

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Your cheat sheet.

Seven of the most common small business financing options.

1. Traditional loans.
   Secure a competitive rate with a Small Business Administration or other traditional loan.

2. Business credit cards and lines of credit.
   Put credit cards and lines of credit to work for your business.

   Get matched with a combination of individual and institutional investors.

4. Crowdfunding.
   Finance new or unproven products.

5. Merchant cash advances.
   Get quick access to cash in return for a portion of future sales.

6. Payment gateway lending.
   Access funding through the payment processor you already use.

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Traditional loans.

For just about every online business—from the smallest shopfront to the largest mega-retailer.

PROS:
Favorable interest rates, familiarity.

CONS:
Extensive application, collateral requirements, slow decision, relatively low approval rate (especially for online businesses) versus other types of lending.

BEST FOR:
A well-established, well-documented business that needs to make a large investment.

A traditional loan remains an alluring option for one reason: a competitive APR. You borrow a lump sum and gradually repay it over a predetermined length of time, typically 1–10 years. If you need a lot of cash and don’t expect to be able to pay it all back soon, a traditional loan might be your best option.

Unfortunately, securing a traditional loan can be difficult, even from a bank you’ve worked with for years. If your business is young, or your personal or business credit rating isn’t stellar, or you lack collateral to secure the loan, it may be difficult to obtain a traditional loan. And assuming you meet these requirements, some banks might still require more assurance—or sheer sales volume—than you can deliver.

Application requirements vary, but often include personal and business credit histories (potentially affecting your credit scores), financial statements, a business plan, and cash flow projections. A decision may take anywhere from a week to several months.

GET UNCLE SAM ON YOUR SIDE.
Despite the name, SBA loans aren’t actually lent by the Small Business Administration. Instead, the SBA reviews and guarantees the loan, in effect promising to repay part of the loan amount to the bank if you default. Much like traditional loans, SBA loans require extensive paperwork.
Business credit cards and lines of credit

**Pros:**
Convenient, rewards, good way to build up business credit.

**Cons:**
Potentially high interest and fees, easy to misuse.

**Best for:**
Recurring expenses and purchases you can pay off promptly.

Business credit cards and lines of credit are best for recurring expenses and purchases you can pay off before interest kicks in every month. They can be easier to get than most forms of small business financing. With business credit cards, you can free up cash for less predictable needs, build your business credit profile, and gain rewards such as airline tickets and cash back for your business.

However, plastic can be an expensive form of business funding when you go beyond such targeted uses and use for things like cash advances. Cash advance fees are often high. Some credit cards charge a higher APR for cash advances than they do for purchases—and that’s on top of the cash advance fees. For a major purchase, it may be wiser to seek another source of financing.

A line of credit works much like a credit card. You get approved for a maximum amount, can borrow up to that amount anytime, and are charged interest only on what you owe. The same caveats apply, except that a line of credit may be more useful for bridging cash flow gaps, as you can borrow funds without incurring the fees and higher APRs that can come with credit card cash advances.
Marketplace/peer-to-peer platforms.

**PROS:**
Fast decision, lower rates than other lenders.

**CONS:**
Fees can be high, unfavorable terms for weaker applications.

**BEST FOR:**
A fledgling business with near-term capital investment needs.

Marketplaces and peer-to-peer lending platforms are best for fledgling businesses with near-term capital investment needs. Marketplace and peer-to-peer lending platforms don’t lend money themselves. Instead, they match borrowers and lenders. Marketplace typically market and service the loans, sometimes in partnership with, or on behalf of, an originating bank. You receive your business funding funds from many different investors, ranging from individuals to institutional investors. Each platform calculates interest rates based partly on proprietary credit scores. A marketplace platform may be right for you if you don’t need the simplest application or an immediate infusion of cash. But be prepared to walk away if an offer doesn’t suit your needs. Just because it’s the best available product from multiple lenders doesn’t mean it’s the best you can do.

Before accepting a marketplace loan, make sure the offer truly suits your needs. Just because it’s the best available product from multiple lenders doesn’t mean it’s the best you can do.
Crowdfunding.

**PROS:**
Some are donations, some are loans. Can help you understand and build your customer base.

**CONS:**
Marketing requirements, risk of wasting resources.

**BEST FOR:**
Launching a new business or product that has a noteworthy story.

You can use an online platform like Kickstarter or Indiegogo to solicit donations, often in return for a reward to donors. Other sources of crowdfunding come in the form of loans. Crowdfunding works best for a narrow band of businesses. Before launching a campaign, ask yourself if your company has:

- A product or service with a compelling angle. Would your venture make for an interesting news story?
- Time and resources to create and deliver the necessary rewards for donors.
- Sufficient marketing resources to promote the campaign, or at least enthusiastic supporters who will spread the word.

If your business meets these requirements, be sure to set a realistic funding goal. With some crowdfunding sites, if you don’t reach your goal—and many campaigns don’t—all donations are returned to backers. Other sites don’t have this all-or-nothing rule, but a halfhearted attempt to raise money isn’t likely to succeed, either. Note that most platforms charge a fee of up to 10% of donations.

**KIVA: A UNIQUE OPTION FOR MICROBUSINESSES.**

Kiva combines crowdfunding with peer-to-peer lending. First, you join the Kiva community by making a loan to another small business. Next, you invite family and friends to begin your funding. Once their contributions reach a baseline amount, you may qualify for a no-interest loan with no fees. Unlike other loan providers, Kiva relies on local trustees—such as service organizations and community leaders—to vouch for borrowers. Kiva has relied on PayPal to process their loan funds. As part of our commitment to empowering small businesses, PayPal waives all processing fees related to Kiva transactions. Learn more at kiva.org.
Merchant cash advances.

**PROS:**
Fast decision, easy approval with strong sales history, variable repayment.

**CONS:**
Higher costs, possibly unfamiliar terms.

**BEST FOR:**
Filling a short-term need when you don’t qualify for other options.

Merchant cash advances are best for filling short term needs when you have difficulty qualifying for other options. With a merchant cash advance (MCA), you get a lump sum in return for a percentage of your daily debit and credit card sales until the advance is repaid. Merchant cash advance lenders typically base approval and terms on your sales history more than on your credit rating and other factors. Because repayment amounts fluctuate with your daily sales, an MCA can have a gentler impact on cash flow than a term loan can. But fees may be high, and a lack of robust regulation means it’s especially important to take the time to understand all of the terms.

MCAs also confuse many borrowers because their terms are unfamiliar. Most borrowers are accustomed to comparing loans using APR—basically, the cost of a loan per year—which is a fairly well understood term. MCAs and similar short-term agreements instead use a “factor rate” (also called a “buy rate”) instead of APR. A factor rate is calculated differently than an APR. For example, a factor rate of 1.2 means you’ll repay $1.20 for each dollar borrowed, regardless of how long it takes you to fully repay the loan.

Comparing a factor rate with an APR is like comparing apples to oranges, and highlights the importance of knowing exactly how the total cost of a loan is calculated. For many business owners, the critical question is whether it’s more important to protect cash flow by minimizing each repayment, or to limit the total cost of the loan. When facing this decision, remember to account for the possibility of unexpected expenses and slowdowns.
Payment gateway lending.

PROS:
Convenience, shorter payment terms, variable repayment, competitive cost.

CONS:
Available only to members/customers, possibly smaller loan sizes.

BEST FOR:
Quick capital for inventory or to manage seasonal cash flow fluctuations.

A payment gateway is a company, such as PayPal, that processes credit and debit card transactions, that may offer access to financing for businesses that regularly use its services. It assesses risk by using what it already knows about your business and sales patterns, instead of obtaining your business or personal credit score.

Most payment gateway loans are issued by a non-affiliate bank sharing some characteristics with merchant cash advances. You typically get a lump sum for a fixed fee, and agree to use a percentage of your sales to repay the combined amount. Since you pay less—or nothing at all—when sales are slow, these loans can help smooth uneven cash flow.

Both receiving and repaying a payment gateway loan tend to be simple, and you’ll typically avoid late payment penalties due to automated repayment. But make sure you understand the exact terms before accepting an offer, including minimum payment requirements.

The most important distinction between merchant cash advances and payment gateway lending is that MCAs are not loans—rather, they’re a sale of a portion of your future credit and/or debit card receivables. They’re typically from non-bank companies, so are largely unregulated.

ACCESS TO FUNDING FROM A COMPANY THAT ALREADY KNOWS YOUR BUSINESS.

PayPal Working Capital relies primarily on your PayPal account history to assess risk, so the application process is quick and easy. No credit check required.
FEATURED OPTIONS:
FAST AND SIMPLE
WAYS TO FUND YOUR BUSINESS.
Now there are fast and simple ways to fund your business with the PayPal Business Loan and PayPal Working Capital.⁴

Learn more about both types of business loans and how to access the cash your business needs, for the growth you want.

* The lender for PayPal Business Loan and PayPal Working Capital is WebBank, Member FDIC.
PayPal Business Loan⁵.

A term loan based on a full picture of your business with fixed, regular payments that come directly from your business’s bank account.

**PayPal Business Loan** is best suited for businesses with at least 9 months in business and $42,000 in annual revenue. Processing payments with PayPal is optional.

Loans from $5,000 to $500,000 can help boost your sales and grow your business:

- Purchase inventory
- Invest in marketing
- Upgrade equipment
- Expand product lines
- Manage cash flow

Check eligibility in minutes online or over the phone. Complete the application, and if approved, funds are transferred as fast as the next business day.⁶

Predictable weekly payments will be made automatically from your business bank account so there are no monthly bills to remember.

Pay one, competitively-priced fixed fee that you know in advance. No late fees, no early repayment fees, and not processing fees.⁷

**HOW IT WORKS: APPLYING IS SIMPLE AND EASY.**

1. Provide basic business information to see if you business is eligible. Checking eligibility will not affect your credit score and takes minutes.⁸

2. If eligible, choose the loan and term that work for your business. Get started online but know a Business Funding Expert is always a phone call away at 1-800-941-5614.

3. We quickly review your application looking at a full picture of your business. Once you accept your loan offer, funding is deposited into your PayPal Business account as fast as the next business day.⁸

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⁵ The lender for PayPal Business Loan is WebBank, Member FDIC.

⁶ The lender transfers funds to your PayPal Business account as fast as the next business day if the lender has received the documents the lender asked for and approved the loan by 5:00 p.m. Eastern Time, Monday through Friday (excluding bank holidays).

⁷ In addition to the fixed fee for the loan, the only other cost is a $20 Returned Item Fee that is only assessed if a payment is returned.

⁸ Completing the questionnaire will assess your business’s eligibility, allow you to review estimated offers if eligible, and will not impact your credit score. Should you decide to complete the loan application process, credit checks and other public records checks will be performed which may impact your credit score.

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PayPal Working Capital.⁹

A loan based primarily on your PayPal account history that’s repaid with a percentage of your PayPal sales.¹⁰

PayPal Working Capital is best suited for existing PayPal customers that have had a PayPal Business account for at least 90 days and have processed $15,000+ with a PayPal Business account within the last 12 months.

You choose the loan amount (up to a maximum based, in part, on your PayPal account history), as well as the percentage of sales used to repay the loan.

The cost of the loan—a single, fixed fee—depends in part on that percentage. There are no early repayment or other fees.

There’s no time-consuming application or check of your financial history.

Approved loans are funded in minutes.

There’s no credit check or personal guarantee required, so applying does not affect your credit score.

Upon approval and acceptance, PayPal Working Capital funds are instantly deposited into your PayPal account, and can be used immediately for your business needs.

scenario 1

You need cash to hire staff for summer, your strongest sales season. You can choose a higher percentage of your sales, to minimize the loan cost.

scenario 2

Your business is growing and you need inventory immediately, but you don’t expect spectacular revenues soon. You can choose a lower percentage of your sales, increasing the loan cost, but spreading it over a longer period to keep more capital on hand.

scenario 3

You need cash to help pay for opening a new location. Your income outlook is uncertain. You can choose a moderate repayment percentage to keep your options open.

³ The lender for PayPal Working Capital is WebBank, Member FDIC. To apply for PayPal Working Capital, your business must have a PayPal business or premier account for at least 90 days and process between $15,000 (or for premier accounts $20,000) and $20 million within those 90 days or any time period less than or equal to 12 months. PayPal sales include processing on PayPal Express Checkout, PayPal Payments Standard, PayPal Payments Pro, and PayPal Here.

¹⁰ Minimum payment required every 90 days. See Terms and Conditions for details.

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Your options at a glance.

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A decision too important to rush.

The faster and more convenient financing becomes, the more important it is to carefully consider how well a loan or other product will meet the needs of your business.

Invest the time it takes to learn the terms of any financing options you’re considering. If you have trouble understanding what those terms might mean for your business, contact the issuer. If you’re still not sure after doing so, it’s probably wise to move on.

Need a little help navigating the world of financing? Small Business Development Centers throughout the U.S. provide free in-person counseling to help you identify and apply for the best financing options for your business.

Knowing when to borrow can be just as important as knowing what to borrow. Timing isn’t everything, but it’s a piece of the borrowing puzzle that too many business owners overlook. Getting a loan before you’re sure you can pay it back can be asking for trouble, but so can waiting until you desperately need cash. By exploring your financing options well before you urgently need capital, you can make it easier to choose not only the right type of financing, but also the right time for it. And that means you’ll stand a better chance of growing your business for years to come.

WHAT OUR CUSTOMERS HAVE TO SAY:

“It’s hard to get reasonable loans owning your own business. I prefer working with PayPal.” Brian M., Finish Your Plates

“It was a relief to have money available when I needed it the most.” Brenda D., Peak Landscaping Inc.

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