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The Continuum of Financing

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Before you take out a loan, consider leasing and other options

Your business is growing. In fact, it's growing so fast your need for new equipment or working capital is outstripping your sources of revenue. You know your cash flow will continue to improve, but you can't wait—you need cash NOW. What's a small business owner to do?

First and foremost, consider your business financing as a continuum—a range of choices that will affect your balance sheet and income statement differently. Some don't require collateral; some require lots of collateral. Some methods supplement cash flow; some can be a drain.

Bruce Dawson of Liquid Capital of Colorado, based in Longmont, Col., says you should think of the continuum as ranging between two poles—easily obtained money on one end and low-cost financing on the other. These options range from private investor funding, to leasing, to a public offering of stock, to asset-based lending (factoring, purchase order financing, inventory financing, or sale/lease-back), to venture capital, to bank loans. The table below summarizes the highlights of these types of funding (used with permission from Liquid Capital of Colorado):

Comparative Forms of Financing

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	private investor	leasing	public offering	factoring	venture capital	bank loan
simple application process	varies	no	no	yes	no	no
number of days to fund	15-90	15-30	120-270	3-10	90-180	60-180
approval based on client credit	yes	yes	yes	no	yes	yes
funding related to sales	no	no	no	yes	no	no
need to give up equity	yes	no	yes	no	yes	no
need to give up control	possibly	no	possibly	no	yes	no
limited to asset value	possibly	yes	no	no	no	yes
requires profitability levels	likely	likely	yes	no	likely	yes

requires monitoring process	yes	no	yes	yes	yes	yes
reduces overhead expenses	no	no	no	yes	no	no

Know Where Your Business is on the Financing Continuum

All too often, when small business owners need money to cover equipment or other purchases, their first thought is “I’ll go see my banker and borrow against my house to buy the [fill in the blank] I need for my business,” says Richard Shomo, vice president and director of Key Equipment Finance Express in Columbus, Ohio. Business owners think the solution is always a term loan or they tap home equity, refinance their homes, take out a personal line of credit, or even max out credit cards to keep things going, he says.

But there may be better, less risky ways to raise money. Start by asking your banker to earn his or her keep, Shomo advises: “Ask if there are other alternatives to a term loan or use of your personal assets as collateral,” he says. For example, you may have used vehicle leasing to get a new car. Why not extend that form of borrowing to business equipment? If the equipment is expensive (machinery) or quickly obsolete (computers) leasing can make a lot of sense. “The leasing option is a much more flexible form of financing than either a term loan or a line of credit, with much better terms,” Shomo notes.

Special Loan Programs

Banks and other lenders have a number of programs you may never have heard of, or thought you weren’t qualified for. Need to buy a \$50,000 printing press? Shannon Weis of Key Bank in Denver, Colorado often recommends a stated income, low-documentation loan program that makes getting up to \$50,000 almost a snap. Need more than \$50,000? There are SBA-guaranteed loans and bank loans that will lend \$100,000, \$250,000, or even more. As Weis points out, “You don’t know what’s possible until you meet face-to-face with your banker.”

Small Business Administration (SBA)

Provides guarantees to banks and other lenders, enabling these institutions to take a chance on younger and smaller businesses, providing loans, leasing arrangements, and lines of credit that they otherwise might not qualify for.

“What the business often needs is an equipment lease, not an outright purchase,” says Weis. Many lenders have programs that will allow you to lease all sorts of equipment. Often the lenders’ terms may be better than the terms you can get from the actual equipment vendors. Sites like [Business Finance.com](http://BusinessFinance.com) list thousands of lenders and can take online applications. Lenders range from national giants like Kennedy Funding to smaller operators—be as choosy about your lender as your lender will be about you.

The better your credit, of course, the choosier you can be. “It is critically important for a business owner to maintain excellent personal credit,” says Jennifer Burnham, a small business specialist with Wells Fargo Bank in Denver. “Almost all decisions are made because of how the guarantor has managed their personal credit. I would recommend working with a good banker on credit issues before seeking unsecured lending and always shop for quality.”

Consider Asset-Based Lending

Dawson is an asset-based lending expert. As he points out, borrowing against your receivables (factoring) or other options such as purchase-order or inventory financing can provide much-needed cash to supplement cash flow and get a business over occasional rough spots. In Dawson’s line of business, “The idea is to unlock the value of the assets a company has so they can use them as working capital.” According to Dawson, while rates vary, “factoring is similar in cost to credit card processing.”

Don’t Overlook the Tax Benefits and Lending Costs

Financing is not free. Whether you choose the factoring approach, a lease, a term loan, a line of credit, or some other option, there are costs. Poor personal credit can cost you one-quarter percent or more in higher interest charges. Loans and asset-based lending have fees. Lines of credit have fees and floating interest rates (which have move upward dramatically over the past two years).

Factor in tax benefits, too. Interest associated with business purchases generally is deductible, according to Pam Feely, CPA, owner of Feely & Associates in Lakewood, Col. In addition, many purchases can be either immediately expensed under IRS Section 179 or depreciated over several years, generating large tax savings for the small business owner.


Choose your financing with care. Each type of financing has its own features, benefits, and shortcomings. Look for the details in upcoming issues of the Small Business Review newsletter and at www.smallbusinessreview.com.

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