The Five Biggest Mistakes Business Owners make when Getting a Working Capital Loan

In my 10 plus years of working in the Financial Space, and being a business owner myself, I have witnessed these top mistakes made by business owners every day.
In most cases, they lead to the business being overleveraged by Business Debts and unfortunately sometimes closing the business.

Number One- **They do not Know and Explore ALL Funding Options available .**

Many owners do not do their own research before shopping for a business loan so they take the first option that some broker offers them.Which is usually Alternative Financing or Merchant Cash Advances. This type of Financing costs a lot more because approvals are available in 24-48 hours and they will fund less than perfect credit scores with lower business monthly revenues.
Also the higher interest rates on these types of loans yields bigger commissions for Brokers,so this incentivizes them to recommend these first.
I am not knocking Merchant Cash Advances here, because for some businesses this is all they qualify for and these MCA's gives them the Working capital to grow their businesses.

However, Depending on your busines's monthly revenue and credit score and reasons for needing the loan, there are many low interest options available for businesses in the marketplace.

Some examples of these Business loans are

SBA Loans- Small Business Administration loans are business loans that are partially guaranteed by the U.S. Small Business Administration and issued by participating lenders, usually banks. These loans have stringent underwriting standards, but if you can qualify for an SBA loan, their flexible terms and low interest rates can make them one of the best loans for Businesses.

Business Term loans - A business term loan provides businesses with a large sum of cash upfront in exchange for longer lending terms (2-5 years) and usually bi weekly or one monthly payment.
Business term loans are secured or unsecured. Secured loans require a personal guarantee or collateral to the lender, which can be legally seized by the lender should you fail to repay the loan. On the other hand, unsecured term loans do not have any collateral. Because of this, lenders will charge higher costs, higher interest rates, and shorter repayment periods. Unsecured business term loans may be more appealing to the borrower, but they require a healthy cash flow due to the shorter repayment period.

Business lines of Credit - A business line of credit is a flexible business loan that works similarly to Credit card . Borrowers can be approved up to a certain amount and can withdraw on their line of credit as needed, paying interest only on the amount actively borrowed. Unlike a traditional or term business loan, which disburses funds in a lump sum at one time and is repaid with interest, a business line of credit is renewable, so As the borrower makes repayments, the amount of credit available is increased similar to payments toward a credit card limit. Business lines of credit are typically approved for several months or up to several years, depending on the lender.

A business line of credit is either Secured or unsecured. A secured line of credit generally includes collateral, such as cash, investments, or real estate. The benefit to providing Collateral is generally more favorable loan terms and a lower interest rate.

To get Approved for a business line of Credit your business will need a strong financial profile (e.g., good credit score, at least two years in business, consistent or growing annual revenue). Because it raises risk for the lender, opting for Unsecured Line of Credit rather than secured generally may mean slightly higher interest rates.

Equipment Financing - Equipment financing is a loan used to purchase business-related equipment, such as a restaurant Refrigerator, Construction Machinery or Vehicles like Trucks, Trailers or even a copy machine. When you take out an equipment loan, you'll need to make periodic payments (Usually monthly) that include interest and principal over a fixed term.

As Collateral for the loan, the lender may require a lien on the equipment as Security against your debt, similar to how an auto loan works. Once the loan is paid in full, you own the equipment free of any lien.

Just a few more Loan options available to business owners are

Factoring

Accounts Receivables Financing

Purchase Order Financing

Alternative Lending or Merchant Cash Advances

Please take some time to check these out so you can figure out which works best for your funding needs.

Number Two- -Many Business owners are not willing to be patient and wait for A term loan or SBA Loan to process, so they take the capital that is quicker to access although it costs more..

So there are some reasons why a business owner may not want to wait for a loan to process. For example,they may have equipment breakdown or a truck needs repairs or may just need extra capital to take advantage of a business opportunity. As a result they take the first offer they get for Capital so they can get that money in their account in a few days, versus a few weeks or months.

Number Three -They do not know that there are ways to effectively reduce their loan payment, and get out of business debt if they can no longer pay and STOP payments or run into difficulty repaying loans.

There are Debt Relief programs like Revive Debt solutions - (**revivedebtsolutiosn.org**) that can lower your payments and negotiate with your lenders to Reduce, Restructure OR Settle your business debts successfully.

With reduced daily or weekly, or even Monthly loan payments Which gives the business the breathing room and increased Cash Flow so they can manage their cash flow and pay off their debts in a reasonable time frame.

Number Four - Business Owners do not take the time to read a Lending agreement or Lending Contract.

When a business gets Approved for a loan or much needed capital to invest in their business, it's an exciting and happy time, unfortunately in their rush to get that money deposited into their account, they do not take a few minutes to read the terms of Contract . A lender may include terms that allows them to freeze bank accounts, enforce liens on Credit Card Processing and accounts receivables etc Hence the reason it's important to know what you are agreeing to in a lending contract.

Number Five - They make the mistake of using a loan or Working Capital to pay for Business Expenses instead of Business Investments.

This, by far , is one of the biggest mistakes I see Entrepreneurs make when using borrowed money.

Business Expenses are costs that a business incurs in order to operate, so It's the cost associated with running a business like Payroll, rent, and utilities.

These expenses are considered " money spent' and have already produced its Return on investment. With Expenses there is no potential to increase revenue because it already has.

A Business investment is an asset or item acquired with the goal of increasing Income or value over time. Some examples of these are Equipment, Marketing and Advertising and Inventory.

When a business spends borrowed money on Expenses instead of Investments, there is no Return on Investments , so they are basically putting money towards expenses that will not produce a profit.
Instead they should invest that money where it can produce a profit and money to pay back the loan borrowed.
- So Equipment can increase the volume of work performed and increase profitability .
- Marketing and Advertising can increase sales which lead to increased revenue.
- Inventory can be turned over to increase profits and generate more revenue over time.

All of these investments can provide the money needed for businesses to pay back their loans and if they save some for a rainy day, can cause them to avoid taking out business debt altogether.

In closing, if your business is experiencing difficulty paying Daily,Weekly or even Monthly to a lender, we can help. Reach out to us at **786-539-3067 or**

Revivedebtsolutions.org for a free consultation.

Blessings and Increase to you and your Business

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