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SMALL-BUSINESS GUIDE

When Banks Won’t Lend, There Are Alternatives, Though Often Expensive

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After years of a small-business credit crisis, conditions seem to have improved. But with the economy still struggling and new regulations meant to eliminate bad lending, bank loans continue to lag.

“The days of yesteryear when you could go to your corner bank are over,” said Kenneth Walsleben, who teaches in the entrepreneurship and emerging enterprises department at the Whitman School of Management at Syracuse University. “Small, emerging, growing businesses have few traditional sources to turn to. You have to get a little creative.”

Some creative alternatives have been around forever; others emerged during the crisis. Almost all are substantially more expensive than traditional bank loans, which is why they have been sources of last resort. But as demand for alternative options has increased, some prices have come down. This guide, based on conversations with lenders, brokers and business owners, suggests which products make the most sense for different types of businesses.

Asset-Based Lending

HOW IT WORKS Companies sell their receivables, or invoices, to a factoring company, which gives the companies 80 to 90 percent of the value upfront and the rest when the invoices are paid off. Some lenders offer loans based on a company’s purchase orders, contracts or inventory.

WHO USES IT Business-to-business companies that cannot wait for payment and especially troubled companies, because an invoice factor depends on the client’s ability to pay, not the borrower’s solvency. Purchase-order, contract and inventory loans require more creditworthiness from the borrower. “If you’re in the office supplies business and you get an order from Staples, you can use purchase-order financing, and it can level the playing field,” said Neil Seiden, managing director of Asset Enhancement Solutions, a financial adviser in Port Washington, N.Y. ...