TYPES OF WORKING CAPITAL LOANS

TYPES OF LOANS	PROS	CONS
TRADITIONAL BANK	• Lowest interest rates • Reliable	• Very high qualification standards • Low approval rates
LINE OF CREDIT	• Instant money when you need it • No additional paperwork • No outside lenders	• Low caps on loans—not good for large • funding needs. • Lots of extra fees • Not a long-term solution • Limited amount of times to use this service
PRIVATE BUSINESS	• Available to young companies and startups • Works for companies that may not make a profit for the first year • Higher risk tolerance, so better approval rates	• Getting investing funding is highly competitive • Slow process finding the right investor • The interest charged can be pricey
ACCOUNTS RECEIVABLE	• Fast cash • No collateral required	• Lose control of certain business processes • Cost: Not only will you be paying a percentage of your invoice for the loan, but there will be interest taken as well.
FACTORING	• Fast cash • No collateral required • Don't have to worry about collecting on invoices	• Lose control of certain business processes • Some factoring companies require a lengthy contract, which can be against your favor if you only need the loan short-term • It can be confusing and concerning for your customers when they start getting invoices from another company instead of you
MERCHANT CASH ADVANCES	• Fast cash • Minimal paperwork • No fixed monthly payment • High approval rates • No collateral required • Automated repayment, which means you'll never overlook a due date and incur a late fee • Small loans available	• Unregulated lending industry, so you need to make sure you do your homework and know your lender beforehand • Can put limitations on your business—like penalties for encouraging customers to pay with cash or prohibiting switching credit card processing companies • No fixed repayment term, which means if sales go down, it may take you longer to repay the loan • Your lender has first access to the money, so you may not have enough left after paying the debt to meet other payment responsibilities
SHORT TERM (ALTERNATIVE)	• Fast cash • No lengthy contract • High approval rate	• High interest rates • High monthly payments • Short repayment terms • May require collateral
SBA	• Low interest rate • High approval rate • Flexible uses • Higher cap	• Low interest rate • High approval rate • Flexible uses • Higher cap

Traditional Bank Loans

Traditional big bank loans provide affordable, low-interest funding for businesses that qualify. Unfortunately, with rigid qualification standards, getting approved for these loans can be extremely difficult for many small businesses.

Line of Credit

Line of credit. A line of credit provides a quick, simple cushion for companies that need a little extra cash. Unlike traditional loans that come in a set lump sum, a line of credit allows you to borrow any amount up to a certain limit whenever you need it, then pay it back with interest later. This makes them great for handling basic working capital needs. Business credit cards and overdraft protection are two examples of commonly used lines of credit for businesses.

Private Business Loans

Private business loans, like venture debt, are a great option for startup companies and other young businesses. They have a higher risk tolerance than traditional bank loans, but the interest they charge is also pricier—starting between 9% and 13%. Private loans look for a history of rapid, steady sales growth—or potential for buyout from another larger company—rather than years in business, making them an accessible option for younger companies.

Accounts Reciveable Loans

Accounts receivable loans take your invoices as collateral against the loan, advancing you the money that will be coming in. This is more common in business-to-business scenarios, where customers have up to 90 days to pay their invoices. The account receivable loan makes the cash from the invoices available when needed—and not 90 days later. But they also mean that you lose control of certain aspects of your business and can be costly!

Factoring

Similar to accounts receivable loans, factoring allows you to see your accounts receivable invoices for less than they're worth to get cash now. Again, it's fast cash, but there are some things to be aware of. Many factoring companies require you to enter into lengthy contracts, which can be frustrating if you only need the loan for a short time. It can also cause confusion for your customers to see invoices coming from another company.

Merchant Cash Advances

Merchant cash advances offer a quick turnaround loan for businesses who live on credit and debit card sales. You agree to give a percentage of your credit/debit sales as repayment, they give you the loan, and then the lender deducts that percentage of those sales each day, week, or month until the debt and interest have been paid off in full. These are nice for their high approval rates and minimum paperwork. But they are also an unregulated lending industry—which means your lender could charge sky-high interest rates for your loan without government regulation or repercussions.

Short Term (Alternative)

Short term loans are similar to bank loans or SBA loans. They're based on credit, and may require collateral. However, the funding for these loans is fast. Very fast. Getting you funding within weeks or even days. They can be great for a pinch, because you have access to the money when you need it, instead of going through a lengthy paperwork process. However, these short-term loans can come at a high cost--with interest rates starting at 11% or 12%, and APRs up to 99% once all your other fees are taken into consideration. They also have short repayment terms (one year average, up to three years), which can mean high monthly payments.

SBA Loans

SBA loans are offered by lenders and backed by the Small Business Administration. This "backing" lessens the lender's risk of loss and increases your odds of getting the loan. And SBA loans come with low interest rates—especially compared to some other quick turn-around lending options—meaning that your short-term loan won't cause long-term financial hardship. If you can get approved, these are arguably one of the best working capital loan options (though we do claim a little bias here).