

Raising Financing from Alternative Lenders

What is an alternative lender?

Alternative lenders lend to businesses that are unable to qualify for a bank loan but have a viable business. There are many common reasons why businesses might not qualify for a bank loan:

- No personal credit history or poor personal credit history
- Risky industry
- Startup/ less than 2 years in business
- Lack of formal financial documentation (tax returns, income statements etc)
- Tax returns show a loss
- Past bankruptcy or tax lien
- Business is informal and/or home-based
- Loan amount requested is too small

While the strict underwriting requirements at banks provide the tools to make quick decisions for clients, these requirements can also exclude many viable businesses from financing.

How can an alternative lender help me?

Alternative lenders exist to fill the gap that exists between bank requirements and many profitable businesses in need of financing. These lenders are usually non-profit organizations targeting underserved communities to promote economic development in a designated area. While these lenders each have their own guidelines for loan approval, they are usually willing to look beyond traditional lending criteria in determining whether or not a client is creditworthy. They want to hear the business' story and assess the owner's character. Alternative lenders will go beyond the numbers to take into account the human element when analyzing the viability of a business and work creatively to look for non-traditional strengths.

How do alternative lenders work?

- Some do not look at credit history at all – rather, they employ a group loan model in which each member is approved for a certain sum of money and is responsible for paying for other members if someone in the group encounters difficulties paying back the loan.
- Sometimes the alternative lender will add strength to the application by asking for a cosigner or collateral
 - Collateral: something of value (usually a car, jewelry, property) that is put as a guarantee of the loan. If the loan is not repaid, then the lender has the right to keep the collateral in order to offset their costs of the client's default
 - Cosigner: Another person who agrees to be responsible for the loan if the borrower encounters difficulties and is unable to pay. This person signs the loan contract with the borrower and understands that if payments fall behind, he/she will be contacted and obligated to pay for the loan



- Most alternative lenders understand that clients may not be able to provide the kind of formal financial documentation that bigger businesses have such as professional financial statements, two years tax returns or a business certificate.
- Thereafter the alternative lender will work with the client to come up with a financial picture of the business in alternative ways such as:
 - Site visit
 - Sales receipts, recordkeeping book
 - Bank statements
 - Supplier and land lord references
 - Verbal financials
 - Contracts signed can be used as proof of accounts receivable
 - Personal/household income outside the business is evaluated
- Some alternative lenders work with clients that have no credit history in order to identify other ways the client can demonstrate responsibility. Examples include:
 - A reference with a landlord
 - An up to date bill
 - A supplier reference
 - A character reference

How is working with an alternative lender different from working with a bank?

What is important to remember in working with alternative lenders is that the process is longer than with a traditional lender. Since the lender is assuming more risk, they may ask a lot of questions and you will have to work in partnership with your loan officer to build your application from the ground up. They will share their assessment of the type of documentation, guarantees, references, and other strengths you will need to bring to the table to be approved. It is your job to let them know what you can and cannot provide. The more forthcoming you are, the more likely it is that you will have a successful experience.

It should be noted that many lenders practice what is called progressive lending. This is when you obtain an initial loan for a certain amount, and then, when you have a proven history of good payments, you are able to refinance for a larger amount if you so desire. This process allows you to build a relationship with the lender that will assist you in obtaining larger loan amounts over time.

Do alternative lenders charge the same fees and interest rates as banks?

Fees and rates vary across alternative lenders. Usually (but not always) these lenders will charge a higher annual interest rate than a bank. This is because the loans awarded by alternative lenders take more time to process and therefore cost more money to the lender to approve. The loan sizes are also usually less than bank loans which makes them costlier to process.



What else can alternative lender do for me?

Many lenders also provide opportunities for networking, workshops and other technical assistance. Each alternative lender is different and offers a different program. For a list of alternative lenders and basic information about their programs visit :<http://www.nyc.gov/html/sbs/nycbiz/html/financing/financing.shtml>. If you need help assessing which lender is right for you and packaging your loan application, contact your nearest NYC Business Solutions Center.

How do I know if I am ready for an alternative lender?

Contact your nearest NYC Business Solutions Center so they can help you assess your business and the lending opportunities that could help you finding the financing you need. They can also help you package successful loan applications.

Note: While alternative lenders look at more than just credit scores, sometimes it will be necessary to work on your credit before you can qualify for a loan with one of these lenders. This will be especially true if you have serious delinquencies that have gone unpaid over time as this is a red flag for the lender.