LENDERS | Alternative & Conventional

NOTE

Bay Area Small Business Finance has outlined a generalized comparison chart highlighting the key differences between "Conventional" and "Alternative" lenders.

For illustration purposes, Conventional lenders are defined as banks.

Alternative lenders are firms that provide a source of financing/funding for a business other than a bank (non-bank). The alternative category range from non-profit community lenders such as Bay Area Small Business Finance (www.basbf.com) to firms that provide accounts receivable financing. The maximum loan amounts & credit products offered differ between each lender.

All information in the comparison chart are general statements. Each lender will have different eligibility and underwriting criteria. The entrepreneur should connect directly with their lender(s) of interest and carefully research their options to determine the best fit for their business needs and personal situation.

	Conventional	Alternative
Business Performance	Typically, at least 2-3 years of profitability. (Business sales should also not trend downwards without an acceptable reason.)	Reasonable losses to profitability. (Business sales should also not trend downwards without an acceptable reason.)
Collateral	Highly preferred to required, primarily in the form of real estate, property, significant business assets, and/or cash security instruments.	Differs by lender. If required, the type of collateral is likely to be more flexible than those accepted by conventional lenders.
Credit	The personal credit (FICO) score is very important. Credit *history* may also be reviewed. A minimum FICO score of 680+ is highly desirable.	Many will require a reasonable credit history (not necessarily score-based). Alternative lenders that are able to provide financing through future business sales (e.g., credit card or account receivables advances) will be most flexible regarding derogatory credit.
Loan Decision | Timing	Typically, conventional lenders are quickest to turnaround a credit decision.	Community lenders are the lengthiest ranging from a few to several weeks. | Other types of alternative lenders may be able to reach a decision equally as quickly as a conventional lender.
Documentation	Highly streamlined on most loan requests, particularly loan requests below $100,000.	Depends on the lender. Community lenders can be document-intensive regardless of the loan amount. | Other types of alternative lenders may have a streamlined process similar to to a bank.
Industry Experience	Required unless there are mitigating factors such as the owner of the business will hire the expertise to run the operations.	Typically required (depends on the lender and the situation). Similar to conventional lenders, if there are mitigating factors such as the hiring of an expert in the industry that is a non-owner, it may overcome the requirement.

	Conventional	Alternative
Startup Business	A minimum of 2-3 years profitable sales history.	Startups are firms with 0-1 year of sales history.
Existing Business	Yes; demonstrated profitable 2 to 3 plus years of sales history.	Yes, including existing firms with reasonable historical losses.
Owner's Contribution (Equity Injection)	A minimum of 10%-30% depending on lender requirements.	Community lenders will require a minimum of 20%-30% as a startup firm and 10%-15% for existing. | This may not be a requirement for other types of alternative lenders.
Credit Products	Highly diverse including term loans, credit cards, credit lines, accounts receivable financing, and depository accounts.	Community lenders are typically limited to term loans. | Other alternative lenders will offer products they specialize in such as receivable financing.
Technical Assistance (Advising)	Majority of bankers are well-connected and very helpful. They provide referrals and resources that may assist the entrepreneur (including referrals to alternative lenders).	Majority of community lenders offer advising during the pre- and a few, post-loan stages; some, more extensively than others (such as assisting in the development of a business plan). | Other alternative lenders may provide limited advising but are typically well connected and can refer an entrepreneur to the correct resources as needed.