

## Small Businesses Find Alternatives to Banks to Fund Expansion

By [Mitchell York](#), About.com Guide

Small business owners have become well aware that the days of walking into a commercial bank for an easy loan are long gone. And we may all grow very old before Congress approve's President Obama's plan to expand SBA loans and infuse capital into community banks. This doesn't mean that everyone is folding up their tents. On the contrary, small businesses are getting very creative about financing and are leveraging the many alternative sources available to them.

For example, some firms are turning to [purchase-order financing](#)<sup>1</sup>, in which a middle-man finance company pays a factory to manufacture goods for a small business. Once the purchase order financier is paid, it takes a commission and delivers the goods to the small business. Then there is [peer-to-peer lending](#)<sup>2</sup>, in which individuals lend to each other through exchanges.

There are many other types of alternative financing out there -- you just need to know where to look. Mitch Jacobs, CEO of [On Deck Capital](#)<sup>3</sup>, provided About.com with perspective on the alternative lending market.

### **What's the environment going to be like this year for small businesses and startups in terms of raising capital?**

Of course, the environment is tough, but it has always been tough. This year is not that different from 2006 and 2007 for Main Street small business owners and entrepreneurs. Larger, mid-market small businesses that had traditionally received bank financing are struggling to figure out where to turn without their traditional bank source in the picture. But successful owners and start-up entrepreneurs have always been scrappy and resourceful when it comes to raising capital because banks have never been their primary source of financing. If anything, the current focus on creating new solutions only creates a greater likelihood of Main Street businesses and start-up entrepreneurs being funded.

### **What are some of the key decision criteria small companies and entrepreneurs should use when deciding whether to raise money through angel investors or bootstrapping through family, friends and credit cards?**

Once you have defined the goal or vision you want to pursue then step back and create a very conservative plan to go along with your very big dream to make sure that you are seeking the right amount of capital. Then be very realistic about which sources are available to you. If you are starting a business that is technology-based and could scale significantly, then angels are a likely option and you should use them -- most likely you will need more capital and your family, friend and credit cards will not be enough. If you are opening a retail small business or business-to-business operation then use personal savings, friends and family and available debt rather than angel financing. Angel financing most likely will not be available to you because smart angels will know that they will not be able to get liquidity in their investment or adequate upside for the risk. Absolutely spare every dollar that you can without sacrificing the quality of your product or your initial customers' experience, but start sales as soon as possible so that customers become a source of the cash available to grow your business.

### **Is there anything new in terms of financing that people should know?**

Yes. Companies have started to use new data sources and new processes to make small loans available fast and with less work by the potential borrower to get an answer. [On Deck Capital](#)<sup>4</sup>, my company, provides financing based on business performance data rather than the business owners credit score. [Prosper.com](#)<sup>5</sup> and [Lending Club](#)<sup>6</sup> allow individual lenders to bid on loans for individual borrowers. The [Receivables Exchange](#)<sup>7</sup> allows mid-market companies to auction their receivables. [Progreso Financiero](#)<sup>8</sup> enables first time, thin-file borrowers to get small loans and build a

track record. In the midst of a lot of bad news about capital availability an exciting future is taking shape.

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