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The *new new* alternatives

A different crop of lenders is emerging, claiming that it will revolutionize tight credit markets. Really?

When credit is tight, it's not unusual for a cadre of alternative lenders to emerge. The current credit crunch is no exception—but this time there are some interesting options.

On Deck Capital is a New York City-based alternative lender targeting small businesses that are unable to qualify for traditional bank loans up to \$100,000. Because they look at business performance in addition to the borrower's credit score, they can be more forgiving of a few black marks and late payments, says CEO and founder Mitch Jacobs. Since 2006, the group has lent \$75 million to approximately 2,000 small businesses.

Another new player is Revenue Loan, based in Seattle. This group lends money to startups in exchange for a percentage of future revenue. The return is traditionally capped at three to five times the revenue of the company, depending on the deal.

Because there aren't a lot of sources of easy credit anymore, small-business expert Steve Strauss, author of *The Small Business Bible*, expects to see more alternative lenders emerging with fresh ideas.

Strauss says anyone looking for an unsecured loan today is going to have to pay for that risk, perhaps through a high interest rate or, as in the case of a revenue-based loan, through a portion of the annual revenue of the business.

In addition to trying to negotiate the best deal possible, Strauss advises entrepreneurs to incur only the debt they truly need. "If you're going to end up paying a high interest rate or one that ends up equaling three times revenue, that could as well cripple you down the road," he says. "You have to run a lean, mean, prudent machine when you get started these days." —G.M.



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