

FRANDSEN BANK & TRUST



MEMBER
FDIC

Your Bridge to Financial Success for Life

TRADITIONAL VS. NONTRADITIONAL LENDING

Banks are not the only sources of financing for business growth, but bank loans offer many important advantages over alternative finance methods.



MICROLOANS

Intended to support disadvantaged entrepreneurs, microloans provide startup cash in small amounts.

BANK LOANS	MICROLOANS (ACCION, KABBAGE, KIVA, GRAMEEN AMERICA)
• Ideal for business investments of all sizes	• Typically for smaller loans of up to \$50,000
• Can be used to purchase real estate, equipment, operating lines of credit	• Often used for initial startup cash, early working capital, or in combination with a bank loan
• Reasonable interest rates	• Typically higher interest rates due to the higher operating cost of managing smaller loans
• Borrowers must meet important financial qualifications, though sometimes community banks may have more flexibility than large national banks	• Tend to be less selective than bank loans—in some cases, even borrowers with poor credit ratings may qualify for a microloan
• Work with a loan officer face to face and build an in-person business relationship for the long term	• Typically an automated online process
• Loans support local business owners, entrepreneurs, and community growth	• May serve a charitable mission to help raise entrepreneurs out of poverty, or may be targeted to specific borrower demographics, such as female entrepreneurs

AVERAGE INTEREST RATES

A number of factors can influence bank loan interest rates, but they tend to be much lower than microloan interest rates.



AVERAGE VALUE OF MICRO LOANS¹

ACCION		\$10,000
GRAMEEN		\$1,500
KIVA		\$416

CREDIT CARD LENDING

Using a credit card to finance a business venture carries a great deal of risk. True, many credit cards charge zero interest for the first 30 days after a purchase, but after that the card's Annual Percentage Rate causes any remaining debt to increase dramatically, in some cases up to 79.9%.²

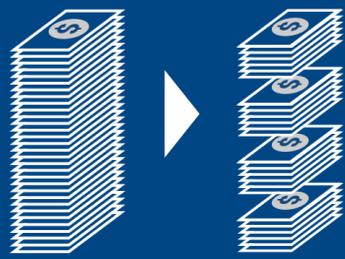


ALWAYS LIMIT CREDIT CARD BORROWING TO EXPENSES THAT CAN BE REPAID WITHIN 30 DAYS.



A GOOD ALTERNATIVE TO CREDIT CARD BORROWING:

Apply for a business line of credit from your bank, and borrow from a predetermined maximum amount of cash in smaller increments as needed. You'll only pay interest on the amounts you actually borrow, and the interest rate will be lower than it would be to borrow the same amount in one lump sum.*



MERCHANT CASH ADVANCE

A merchant cash advance (MCA) can be obtained from some private non-bank lenders. It is money lent in exchange for a portion of a borrowing business' daily credit card income until the loan amount is repaid. If you have poor credit, you may still qualify for an MCA, but as with credit card borrowing, it carries a high degree of risk.

REASONS TO BE WARY OF MCAS³



1. They are generally much more expensive than bank loans
2. It is a largely unregulated market
3. Some service providers may charge extra fees
4. The interest rates are much higher than bank interest rates (10–25%)
5. Entrepreneurs can lose their business if their sales can't cover the repayment in a timely manner

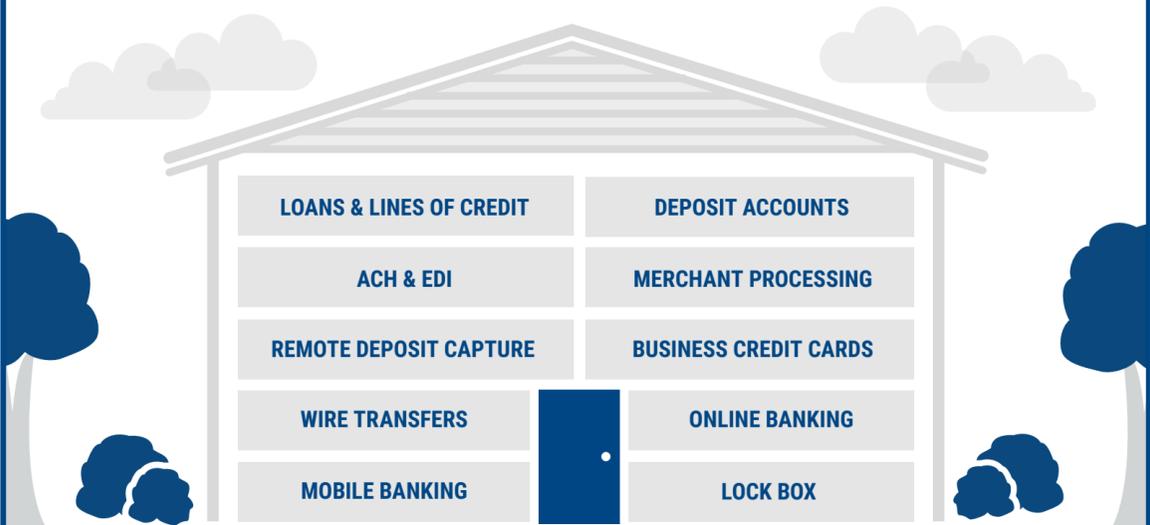
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COMMUNITY BANKS: A HOLISTIC APPROACH

Frandsen Bank & Trust provides a diverse range of financial services for businesses, all under one roof.



UNLIKE CREDIT CARD AND MCA LENDERS, COMMUNITY BANKS ARE INVESTED IN HELPING BUSINESS OWNERS SUCCEED AND DEDICATED TO SUPPORTING A THRIVING LOCAL ECONOMY.



YOUR COMMUNITY BANKER CAN HELP YOU DEVELOP A FINANCING PLAN FOR STABLE AND MANAGEABLE GROWTH AND OFFER PERSONALIZED FINANCIAL GUIDANCE YOU CAN TRUST.

Sources:

1. Ewing Marion Kauffman Foundation, "Entrepreneurship and Microlending," Sept. 22, 2015. <http://www.kauffman.org/blogs/growthology/2015/09/entrepreneurship-and-microlending>
2. Greg McFarlane, "The Pros & Cons Of Personal Loans vs. Credit Cards," Investopedia, April 14, 2015. <http://www.investopedia.com/articles/personal-finance/041415/pros-cons-personal-loans-vs-credit-cards.asp>
3. Michelle Goodman, "Case Study: How a Merchant Cash Advance Worked in a Pinch," Entrepreneur, June 11, 2012. <http://www.entrepreneur.com/article/223523>