Strive Financial®

The Strive Financial Guide to Short and Long Term Business loans

For many small businesses seeking finance, going through the big banks can be prohibitive. Larger finance institutions are slowed down by heavy processes, and small businesses are asked to provide mountains of financials and paperwork.

This complexity caused by the big players has led to an estimated $90 billion small business funding gap. The good news is private lenders are stepping up to help Australian businesses by lending their own funds, and delivering excellent 1:1 customer experiences.

This guide will help brokers and small businesses understand the differences between short-term and long-term business loans - and what should be considered before committing.

As always we recommend clients seek the advice of a financial adviser before making any financial commitments. Whether you're seizing the moment or saving the day, we hope you find this guide useful.

Helping Clients Make The Decision

The 5 questions Every Broker Should Ask

Short-term business loans shouldn't be scary. But, like any financial decision, careful consideration needs to be made into choosing the right solution. These five questions will help your client figure out if short-term business finance is right for them.

How long are the funds needed for?

There's more than one way to get from A to B. And one of the main factors to consider when looking at business loans is how long the journey needs to be. Because short term business loans are offered at a higher interest rate - typically around 1% per week, borrowers should clearly establish how long they intend to hold the loan for so they can set up a realistic payment plan. When considering short term business loans in particular, we recommend loan terms of a maximum of 6 months - any longer than that, and medium and long term become much more viable with lower interest rates.

When are the funds needed by?

The most important question. Determine with your clients how important speed is. If the funds are needed urgently, then short term finance can be the solution. You'll usually pay a premium for the ability to access funds quickly - that's the trade off of short term finance. But, if the funds aren't needed yesterday, then medium or even long term loans could be the better option - allowing businesses to get their documentation in order and plan for longer payment terms.

What will the funds be used for?

Different loans serve different purposes. Unlike medium and long term loans which are offered only as lump sum payments, short-term loans are also offered as a line of credit. So they're best used by businesses needing ongoing access to a bucket of funds. Typically, most of our clients are looking to lump sums to close real estate deals, or complete construction on developments. However, in many cases they're also looking to pay subcontractors or purchase stock to keep the registers ticking over while they wait for their own payment to come in. Considering how the funds are intended to be used is a big factor in the loan type to apply for.

How will they repay the loan?

Despite a poor industry reputation, most short term lenders want to work with brokers and businesses to find sustainable payment terms. It's why boutique lenders like Strive Financial work very closely to establish flexible terms which help the borrower get the funds they need, but also give them security they can pay it back without crippling their own business.

We look very closely at what exit strategy a business is planning to use. Because it tells us how organised they are and how likely they're going to be able to pay their loan out. Ultimately it's about giving confidence to the lender, and sustainability to the borrower.

And this is a point of difference for Strive Financial. We do all the work up front and will look clearly at a proposed exit strategy - if the plan isn't viable, then we'll tell our clients up front - saving everyone precious time and potential fees.

What security will be used?

The reason why smaller lenders are able to be more flexible than the big banks and credit unions is because we look at various factors, including security, to reduce the risk of a loan and get it funded fast. Assessing multiple factors is a great alternative to traditional unsecured loans, as it enables us to make fast, informed decisions. So, while we look at many factors, good security is a must for any loan we offer.

Super fast, short-term loans aren't common for most businesses, but they do happen. When Brokers come to us looking to help a business client out our first step is to always make sure they've asked a few simple but very important questions. It isn't always the right solution, but when applied in the right scenario and with the right planning short-term finance can make a significant difference between closing or missing a deal.

Selecting a loan

The Pros and Cons of Long Term Business Loans

Long-term loans can unlock the funds Australian businesses need to grow. But when it comes to choosing the right one, what do you need to consider? The first thing to mention when it comes to long term loans, is that it primarily boils down to the needs of the business.

Frankly, if your business is looking for funds ASAP, then you need to be looking at medium and short-term loans. A little more on that later, but first, let's look at the pros and cons of long term business loans.

What is a long term business loan?

At Strive Financial we define a long-term business loan as a lump sum of cash provided to the business which is paid off over a period of 12 months to 3 years. Repayments are made according to the maximum term schedule and are structured as interest only with a clear exit strategy in place. This enables businesses to keep repayments low and allows them to pay the loan off in one hit when the time is right. For our long-term loans, valuation fees are paid up front and other loan preparation fees are capitalised as part of the loan. There are no ongoing fees as part of servicing the loan and they are typically not offered as lines of credit.

The Pros of a long-term business loan

Length of Payment Terms:

Obviously the clue is in the name. A longer payment term enables a business to structure a stable line of payments to accommodate their regular running costs and even growth aspirations. Take for example a factory investing in manufacturing equipment. A long-term business loan would enable them to acquire the equipment which will in turn be put to use, and the extra production may offset the payments on the loan. A scenario like this could enable them to continue expanding other areas of the business, safe in the knowledge the loan is being serviced at a manageable rate.

Benefit: more time to forward plan budgets and allocate cash flow elsewhere as needed.

More affordable:

the single biggest trade off when it comes to business loans is speed versus interest rate. If a business requires funding sooner rather than later, a premium interest rate reflects the effort needed to fund ASAP and the risk associated with a secured loan (desktop evaluation). This is where long term loans are different. If time is not urgent, and a business can afford to spend more time on documentation, and registered valuations of security, a lower interest rate is the positive trade off.

Here's a hypothetical calculation:

Short term loan:
250,000 @ 1% per week = $10,000 interest only repayment per month

Long Term loan:
250,000 @ 9.99% per year = $2,081 interest only repayment per month

Clearly, the difference is in the repayments. The shorter term loan enables a business to fund and close the loan quickly to move onto the next big thing. While the longer term option enables smaller, more manageable interest repayments to better manage cash flow.

Benefit: smaller monthly repayments versus short and medium term loans.

Cons of Long Term Business Loans

Flexibility:

With the stability of longer term repayments, comes reduced flexibility. Where short term loans can be paid off as quickly as possible, with no minimum terms - long-term business loans do have a minimum term. What this means is if a business were to pay off a loan before the minimum term was completed, they would need to pay the required interest up to and including the minimum term. So this reduces the benefit of paying the long-term loan off early, and results in less flexibility, if for example, the business was doing well and wanted to get ahead of repayments.

Trade-off: minimum terms mean less flexibility to pay loans off early.

Registered Valuations:

With our short-term loans, as we are lending our own money, we do our own desktop valuations of security. This enables us to make fast decisions, but at a premium interest rate. Now, for long term loans, registered valuations are required because typically the amounts are much higher, the rate lower and the risk to the lender is different. So any long term loan will need a registered valuation, which comes with it it's own fees and of course extra time needed. So you'll need to account for valuation fees in your loan costs.

Trade-off: unlike short-term loans, registered valuations for long-term loans have fees attached.

Turnaround Time:

Because long-term loans require registered valuations on first mortgages, they invariably need more time to complete the required documentation before funding. So, as the name suggests, long-term loans aren't for businesses needing funds yesterday. That's where there is a clear benefit for short term loans when time is of the essence. If funding needs are not urgent, long term loans are the go.

Trade-off: between valuations, documentation and lawyers, the average turnaround time for a long term loan is 14 days. This needs to be taken into account when looking for funding.

There is of course no one size fits all when it comes to business loans. And when weighing up whether a long-term loan is right for your client or business, it's about making sure you're fully informed on the differences between loan types. We've been helping australian businesses fund new opportunities and get out of tight spots for a long time, so if you need help assessing the right loan option, all you need to do is pick up the phone. We're here to help.

Selecting a loan

Five Reasons Why To Consider a Short-Term Loan

There is a lot of stigma attached to short term lending. And with good reason in some cases. But, the reality is that almost every business at some stage will need access to finance – and that's not something to be ashamed of.

Short term finance can help businesses react to changing situations or take advantage of new opportunities. Here are the key differences when comparing loans offered through the big banks, and smaller more nimble private lenders.

Minimal Documentation makes things easier.

So lenders can fund loans faster, documentation is minimised. Typically, as long as proof the business is legitimate, other detailed documents such as financial statements aren't required. Short and concise loan and security documentation is all that's needed. Good boutique lenders will also have in-house lawyers to process security and loan documentation faster.

Short-term loans are non-recourse.

For traditional loans, borrowers can be made personally liable for risk attached to the loan. Smaller lenders offering non-recourse loans protect the borrower from personal liability should something go wrong. With security as the primary guarantor of the loan, risk is managed much more simply and loans funded much faster than using traditional lending methods.

Smaller lenders look at mitigating factors.

Smaller lenders offering short-term business loans are able take into account factors the big banks simply won't consider. If a business is light on with documentation and financials, has only been operating for a short time, or even has unusual security to offer - small lenders can look at a range of factors to make an informed lending decision.

Interest Only terms keep cash flowing.

Short-term loans are usually offered on interest only terms. For small businesses this means they can maintain cash flow rather than being tied down to interest and principal repayments. This is hugely beneficial to businesses who have a plan to pay off the loan but want to keep cash flowing through the business in the meantime.

They're Fast and flexible.

Quite simply, because smaller lenders are not tied down rigid processes the big banks follow, nimble lenders are able to make fast decisions. In addition, borrowers often deal directly with the lending decision maker - leading to a far more consultative and flexible interaction which is beneficial for all parties involved.

Strive Financial®

www.strive.financial

Business Loans Summary

We offer a range of loan solutions for Australian businesses. We're fast and flexible with a commitment to funding loans just 24 hours after approval.

Loans are provided for any business purpose and we'll work with you to find the best solution for your clients.

Short Term	Instant Capital Injection	Financial Stability
Business Bridging Loans	**Medium Term Loans**	**Long Term Business Loans**
Super-fast and flexible business line of credit.	Super fast, secured business loans.	Long term finance for any business transaction.
Loan Term **$15,000 to $2,000,000**	Loan Size **$50,000 to $250,000**	Loan Size **$250,000 to $2,500,000**
Loan Term **1 week to 6 months**	Loan Term **6 to 18 months**	Loan Term **12 months to 3 years**
Minimum Term **None**	Minimum Term **6 months**	Minimum Term **12 months**
Valuations **Not Required**	Valuations **Not Required**	Valuations **Required**
Funding Timeline **Within 24 hours**	Funding Timeline **Within 24 hours**	Funding Timeline **2 weeks**
Upfront Fees **None**	Upfront Fees **None**	Upfront Fees **Valuation at cost**
ABN Requirements **1 day companies considered**	ABN Requirements **1 day companies considered**	ABN Requirements **1 day companies considered**
Line of Credit **Yes**	Line of Credit **No**	Line of Credit **No**
Security **First and Second Mortgages. PPSR over Cars, Trucks and Boats**	Security **First and Second Mortgages**	Security **First Mortgages**
Australia Wide	**Australia Wide**	**Australia Wide**
Rate **1% per week on the outstanding balance**	Rate: **2% per month**	Rate: **From 9.99% per annum**
Loan Preparation Fee **From $2,950 fully capitalised**	Loan Preparation Fee **From $3,450 fully capitalised**	Loan Preparation Fee **From $3,450 fully capitalised**

Accurate as of 21 April 2021