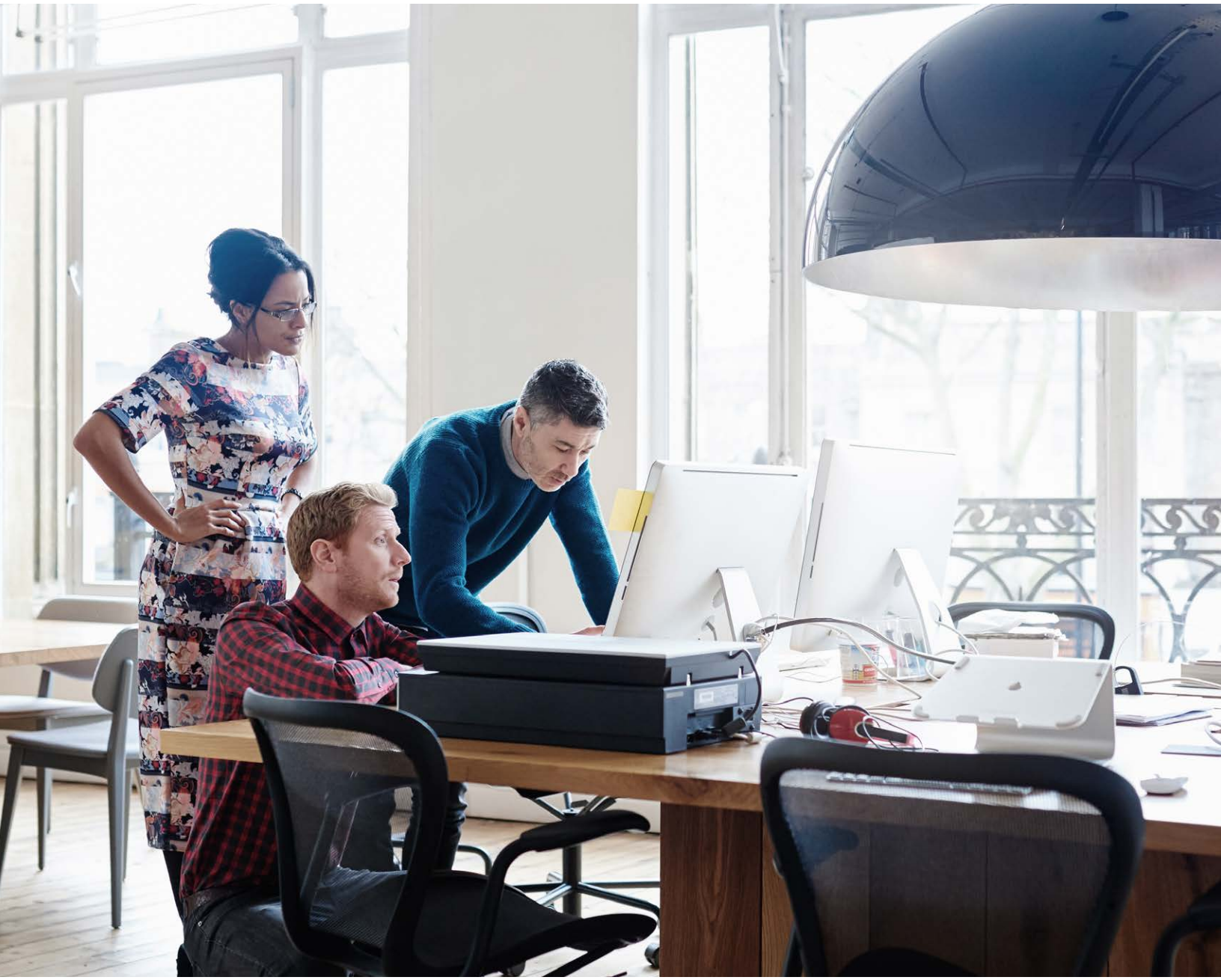
QuickBooks Capital



The Smart Guide to Business Funding

Brought to you by the team at QuickBooks Capital

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ONE

Business funding basics

Creating and running a successful business takes passion, focus, and drive. It also takes money. Whether it's time to manage your cash flow, invest in equipment, or hire your first employee, these decisions can revolutionize your business.

Yet many businesses don't reach their full potential because of a lack of cash—in fact, it's the second-largest reason businesses close. Fortunately, you don't have to let big opportunities pass you by. Our guide highlights the many paths to business funding, including QuickBooks Capital, to help you succeed.

Small Businesses Matter

- Young firms account for nearly all net new jobs in the U.S. and almost 20% of gross jobs added. [1]
- Companies less than one year old have created an average of 1.5 million jobs per year over the past three decades. [2]
- Young firms are drivers of innovation and productivity, historically producing 15x more patents per employee versus large firms. [3]
- Young firms exist in almost all sectors and often create new industries.

1 "The Importance of Young Firms for Economic Growth," Jason Wiens and Chris Jackson. Kauffman Foundation Entrepreneurship Policy Digest, September 2015

2 "Who Creates Jobs? Small Versus Large Versus Young," John Haltiwanger, Ron S. Jarmin, and Javier Miranda. The Review of Economics and Statistics, May 2013, 95(2): 347-361

3 "Patent Trends among Small and Large Innovative Firms during the 2007-2009 Recession," Anthony Breitzman. SBA Office of Advocacy, May 2013

Funding is a make-or-break for most young businesses

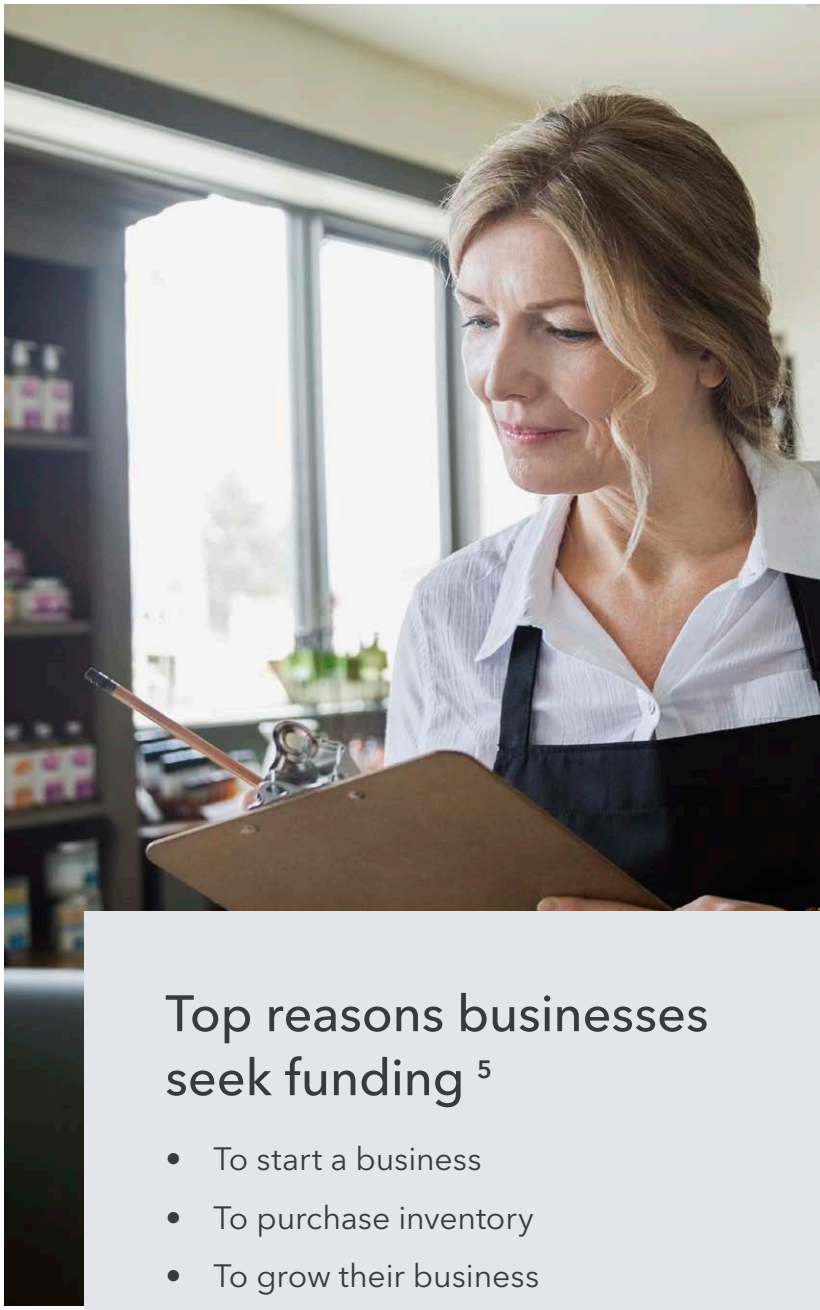
Most businesses seek working capital to grow. Many also use funding to bridge cash flow gaps including operating costs and wages, and to refinance existing debt.

56% of young businesses report struggling to get the credit they need [4]

The main factors are:

- Insufficient credit history
- Small loan amounts
- Small company size

The good news? There are several things you can do to improve your chances of getting approved for the funding your business needs. First, you should know what types of funding exist so you can find the right one for your needs.



Top reasons businesses seek funding [5]

- To start a business
- To purchase inventory
- To grow their business
- To make improvements

4 "Small Business Credit Survey: Report on Startup Firms," Federal Reserve Bank of New York, August 2017

5 U.S. Small Business Administration

Business funding 101

A loan is "money lent at interest," according to Merriam Webster. This means the borrower agrees to repay the money over a period of time, including interest and any fees. There are two different types of loans: secured and unsecured.

TIP: the interest from business loans is tax deductible, unlike personal loans or credit cards. Talk to a qualified tax preparer for specific advice, but look at the big picture costs when you compare funding sources.

Secured Loans

Mortgages and car loans are secured loans. Your house or car serves as collateral if you have a secured loan, meaning the lender can take it back if you don't pay back the loan.

Unsecured Loans

An unsecured loan doesn't require collateral to guarantee repayment. If you don't repay, the lender may increase the interest rate, charge fees, sue your business, or garnish wages.

Top funding options for business owners

There are many ways to fund your business, each with its own set of pros and cons, depending on how you'll use the money. Keep these key points in mind as you weigh your choices.

Business term loans

Short-term business loans make sense for quick purchases or when you need gap funding or for cash flow. The repayment term is usually less than a year.

PROS

These loans have shorter repayment periods, lower fees, and may have lower costs for the life of the loan. There are no fees for QuickBooks Capital loans. They usually have fixed, predictable payments.

CONS

Borrowing limits may be smaller and payments can be high because of the short repayment window. Interest rates may be higher than for a long-term loan.

Long-term business loans make sense when you're making a major, one-time purchase or an investment.

PROS

Long-term loans allow you more time to repay and offer lower monthly payments. Payment amounts are usually fixed and therefore predictable.

CONS

These loans have shorter repayment periods and usually have fixed, predictable payments. In the case of QuickBooks Capital, there are no fees for the loan.

SBA Loans

SBA loans are a type of business term loan offered by select lenders and guaranteed by the federal government in order to help small businesses get more access to credit. There are two main types:

SBA 7(a) loans - You can borrow up to $5 million with this loan to fund a startup, refinance debt, buy land, make renovations, or get equipment, materials, or supplies. This program includes a Standard 7(a) loan, an SBA Express loan that offers a faster response time (36 hours), a 7(a) Small Loan, and others.

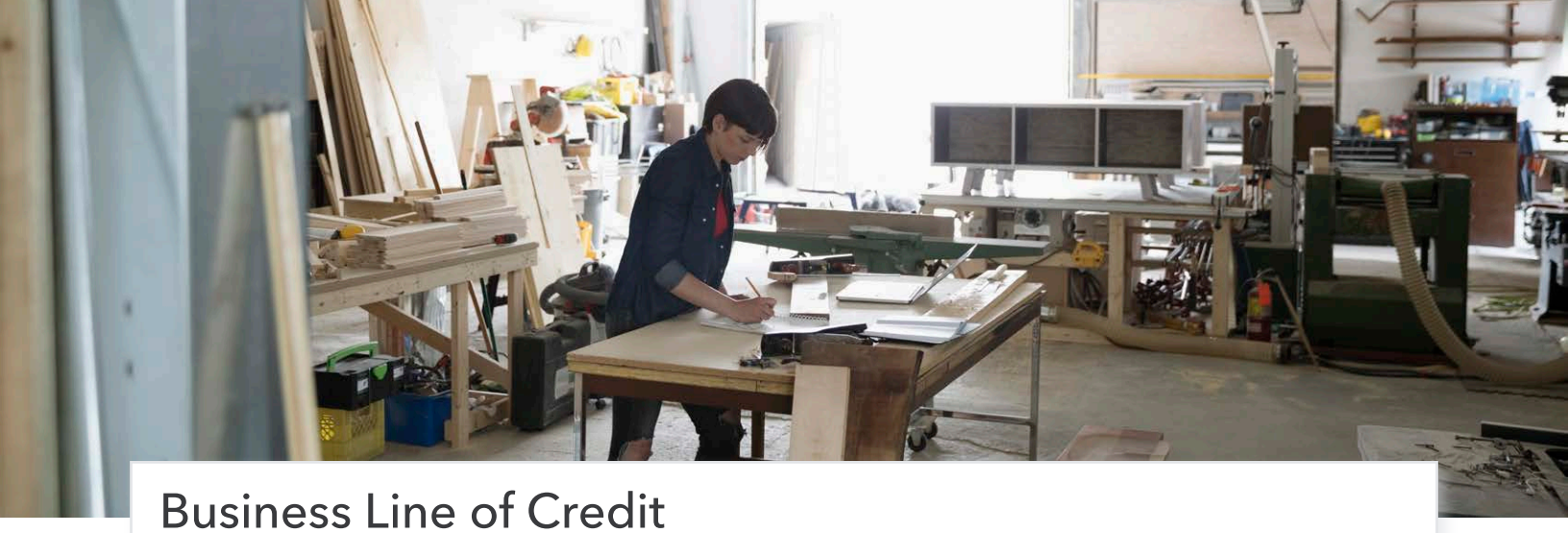
SBA 504 loans - This loan program lets you borrow up to $5.5 million and may have lower rates and fees than a 7(a) loan. You can't use a 504 loan for working capital or refinancing debt. But you can use it to buy property or equipment, pay for improvements, build a new facility, or renovate.

PROS

SBA loans come with competitive rates, lower down payments, longer repayment terms, flexible overhead requirements, and some loans don't require collateral. May be a good option if you've been turned down for other loans. Startups may qualify.

CONS

These loans require a lot of paperwork and have specific terms for approval. Then there's the wait time—up to 5 to 10 business days to get a response to your application and up to several months or longer before you actually get the funding.



Business Line of Credit

A line of credit gives you access to credit you can tap into whenever you need it, usually within a set time period, for a fee. This can be used to help cover cash flow gaps and unexpected expenses.

Lines of credit can be secured or unsecured. If it's secured, the lender will ask you to offer collateral—like cash, property, inventory, and so on—in case you don't repay the loan. An unsecured line of credit won't require collateral.

PROS

As a revolving line of credit, this is a flexible option that you can reuse as you pay off the balance. Interest rates may be lower than a credit card.

CONS

A line of credit may carry a monthly or annual fee and have higher interest rates than a term loan. This means you may pay more for the convenience of having a line of credit.

Business Credit Card

This is another flexible option that works well for managing everyday expenses and earning rewards. Business credit cards are considered revolving credit and are typically unsecured. Used responsibly, this can help you build credit but it can also be challenging if you maintain a high balance and you don't have consistent cash flow.

The ideal way to use a business credit card is to pay off the balance each month to keep borrowing costs low. To limit your personal risk, use business funding sources rather than personal sources whenever possible.

PROS

These are more flexible than lines of credit and do not carry a term limit.

CONS

Because of higher interest rates, this option gets expensive if you carry a balance. It may also have an annual fee.

Personal loan

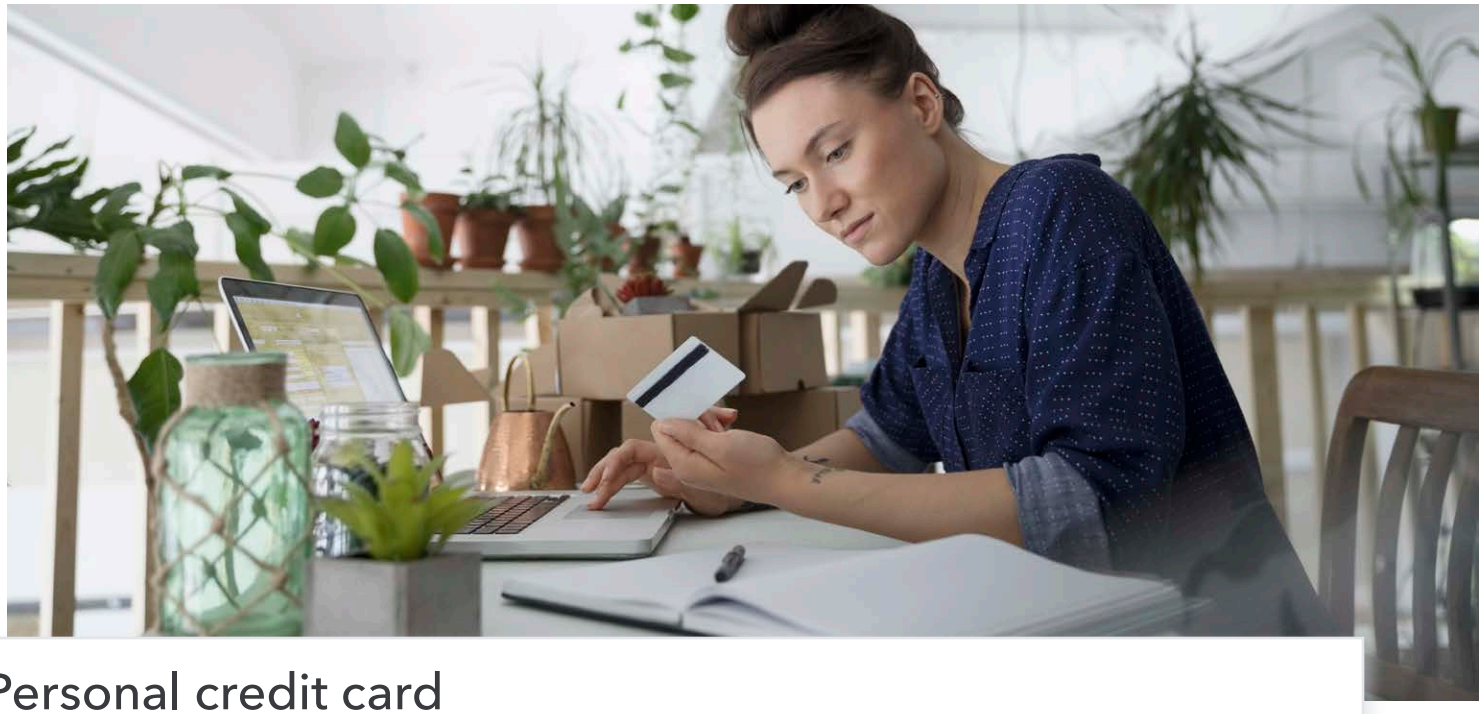
If you have difficulty getting a business loan or business credit because your business doesn't have an established credit history, you might turn to personal loans.

PROS

Personal loans are usually easier and faster to get than some business loans. Interest rates may be lower than credit cards. Could be an option for startups and young businesses.

CONS

The lending limits are typically lower and the interest rates are generally higher than a business loan. If you fail to pay the personal loan, your personal credit will take a hit.



Personal credit card

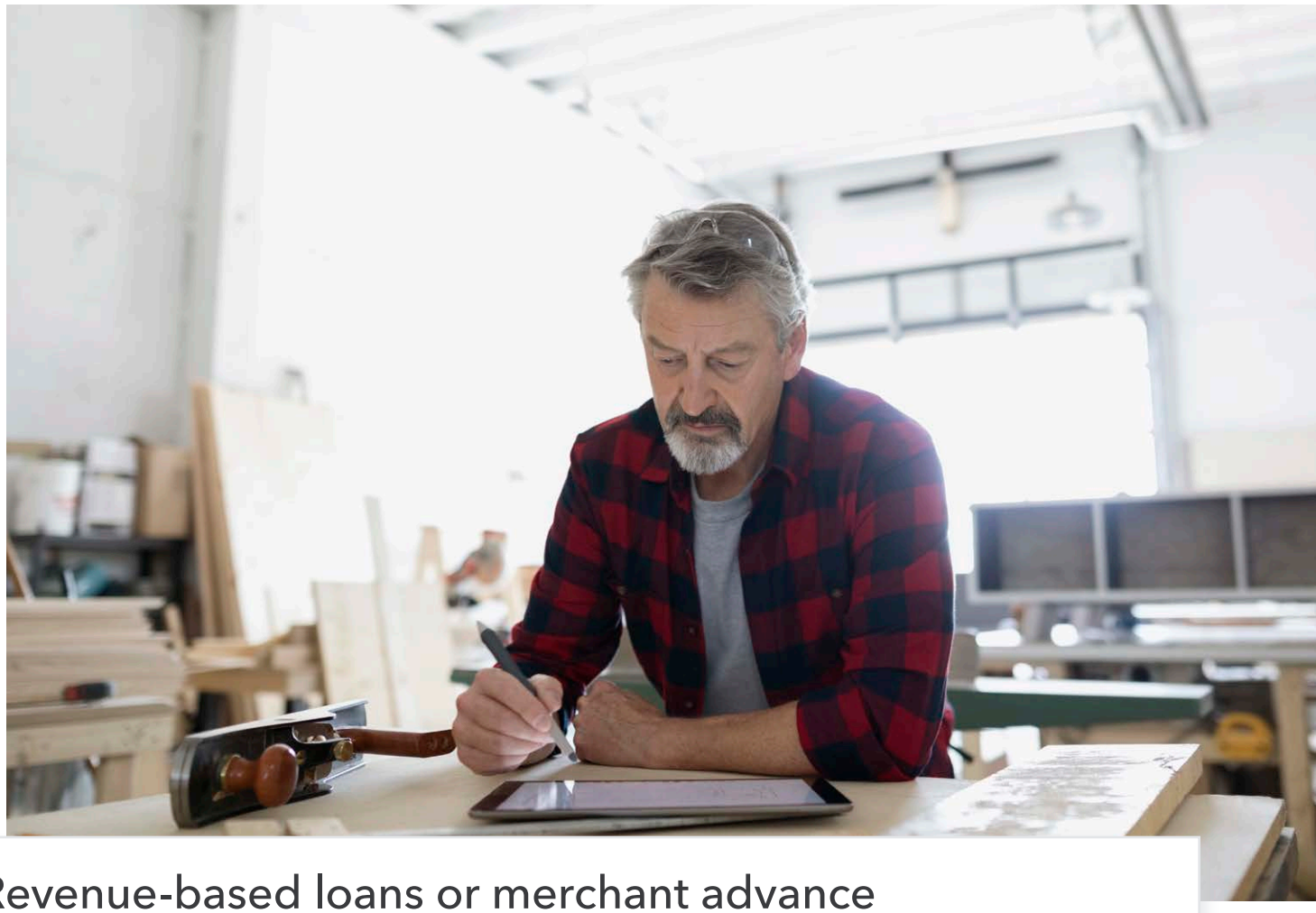
Using personal credit cards is another unsecured option used by people who lack business credit or substantial revenue. If you're using a personal card for business, it is still linked to your personal credit score which means you aren't building business credit.

PROS

This can be another easy option for a new business that lacks a credit history.

CONS

A high balance and any late or non-payments can negatively affect your personal credit.



Revenue-based loans or merchant advance

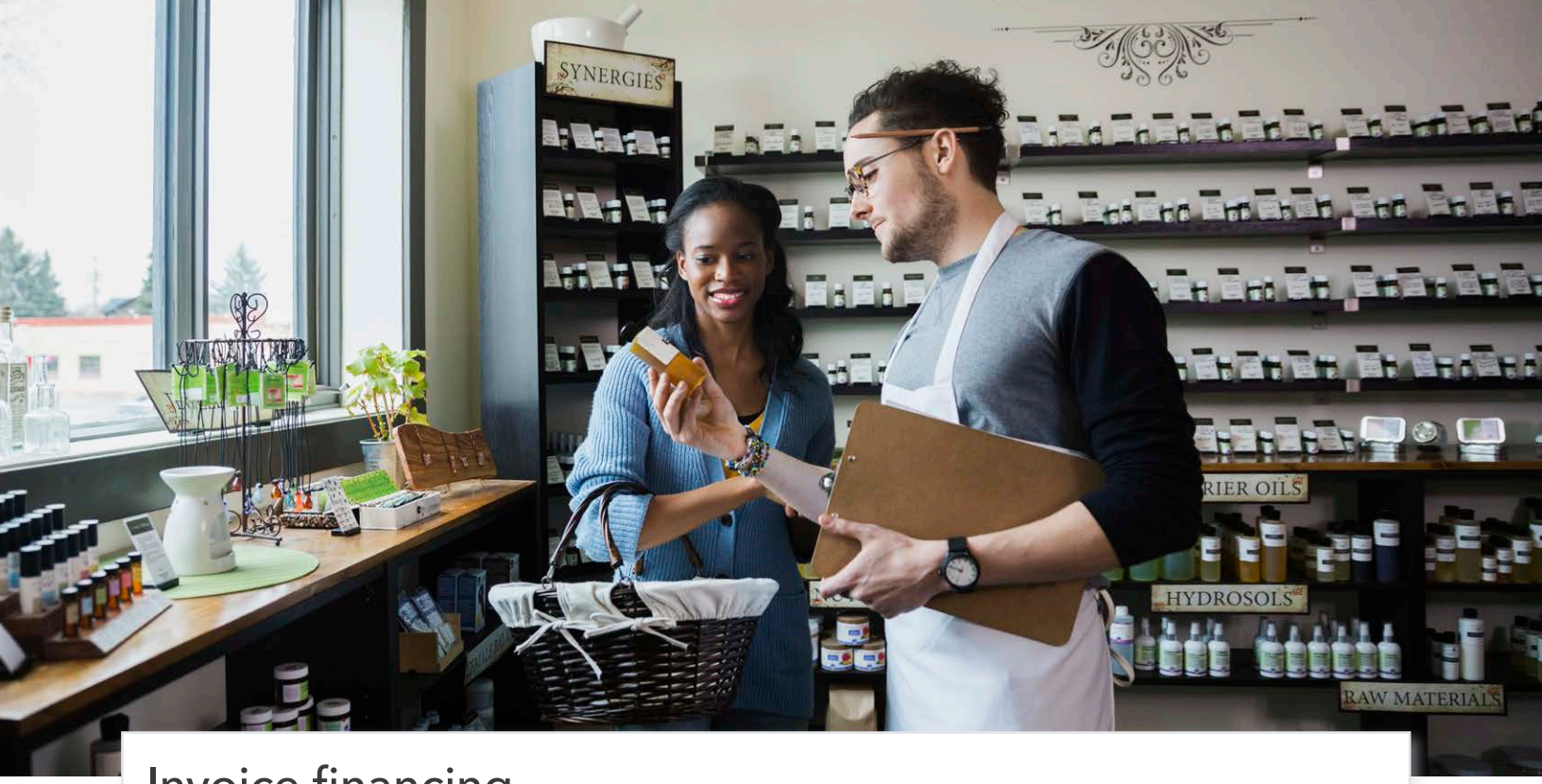
Some business lenders tie your loan or advance repayments to a specific percentage of your daily, weekly, or monthly sales and apply that amount to your outstanding debt. The percentage is determined by the total amount due including fees, but the repayment period and payment amount can fluctuate as your revenue fluctuates.

PROS

Your payment schedule is flexible, based on your revenue. When your revenue is lower, you may pay less during a specific period of time. This can be helpful for setting your budget.

CONS

When revenue is strong, you may pay more for the capital you borrow than what you would have paid fo another type of funding. Some loans have daily repayments. Be sure you understand the total cost of funding up front.



Invoice financing

To manage your cash flow until your customers pay you, invoice financing allows you to use your outstanding invoices from customers as collateral for a loan. You typically have a few months to repay the advance plus a fee.

PROS

You can usually borrow up to the full amount of your outstanding invoices without selling the invoices to the lender.

CONS

You usually need solid financials and good repayment history to qualify. Risky if customers don't pay their invoices.

Invoice factoring

Invoice factoring is another option that is based on what your customers owe you, but it is different from invoice financing in that you effectively sell your accounts receivables to a lender.

PROS

Invoice factoring is relatively easy to get so you may qualify even if you have bad credit.

CONS

You give up a percentage of the owed invoice or potential revenue to the lender. Fees can be high.

How to use funding wisely

Best uses for business funding

Quick question: What are the top reasons why a business will seek business funding? According to the SBA, people borrow funds to start a business, buy inventory, grow a business, and improve the business' financial standing. A business might seek funding to cover a cash flow gap or use credit to manage expenses.

Calculate how much you'll need so you have enough working capital. Here are some ways to keep your business going strong when you borrow:

- Be sure you're using the right kind of funding for your needs.
- Be realistic when calculating the return on investment (ROI) for your debt.
- Have a solid plan to carry out your plans for your funding.
- Take a hard look at your finances and know how your debt repayment fits in.

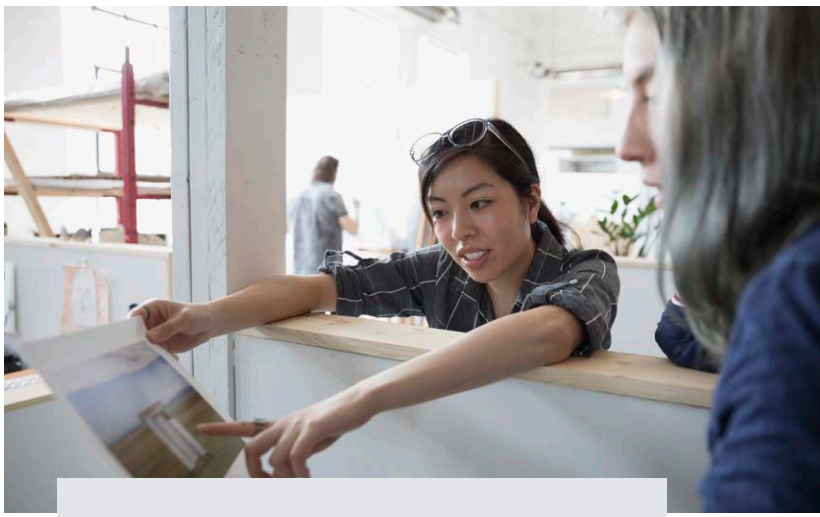
TWO

The truth about APR

It's all about the fine print

Loans can involve a lot of paperwork. It pays to know the real story before you sign anything. That means you need to dive in to the fine print, but here's some helpful guidance to help you find your way.

One of the top questions potential borrowers ask is about interest rate and APR—what are they, anyway? Other items, like repayment term and personal guarantees, can also have an impact on your cost and liability.



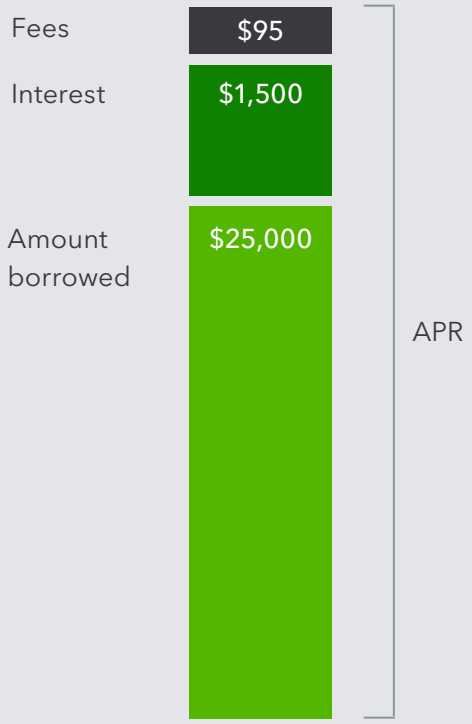
What's the difference between the interest rate and APR?

Interest is the cost of borrowing money from a lender. A borrower's interest rate, which is presented as a percentage, is typically based on a variety of factors including their credit history and existing finances.

Interest, however, is not the only cost associated with a loan. Instead, borrowers may also incur numerous fees, like origination, application, or draw fees.

The true cost of a loan depends on the interest as well as any applicable fees. The annual percentage rate (APR) takes into account all costs, including interest and fees, and offers a clear picture of the annual cost of a loan product.

What is included in APR?



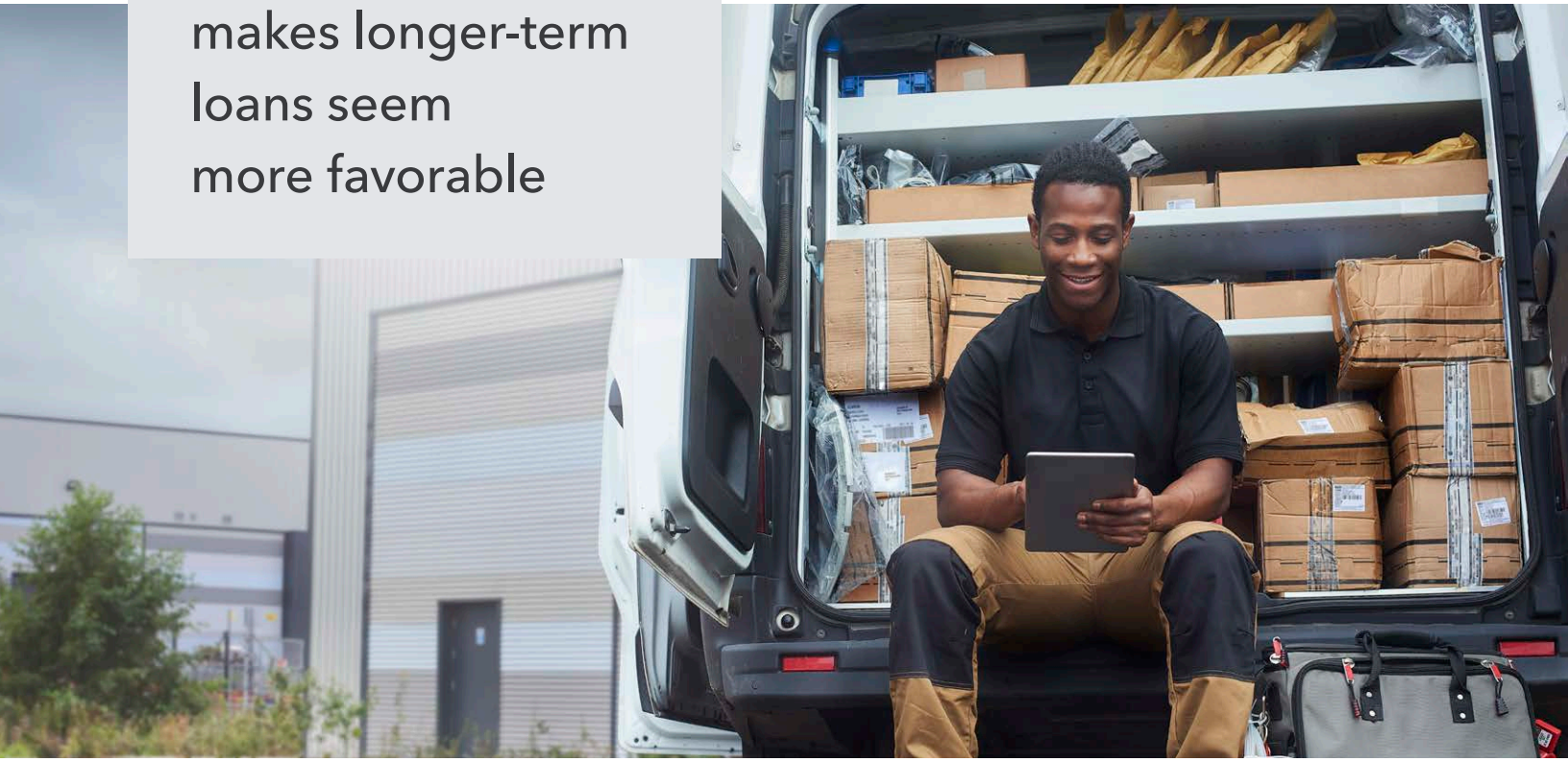
*example only

What to watch out for

Lenders have different ways of promoting their rates. Sometimes they don't even list APR, which can make it difficult for small business owners trying to compare online loans. When comparing costs, it's important to look at the interest rates and fees individually, but you must also specifically consider the APR, too.

If an APR is not provided, be sure to ask the lender to provide it or only compare offers that provide it upfront.

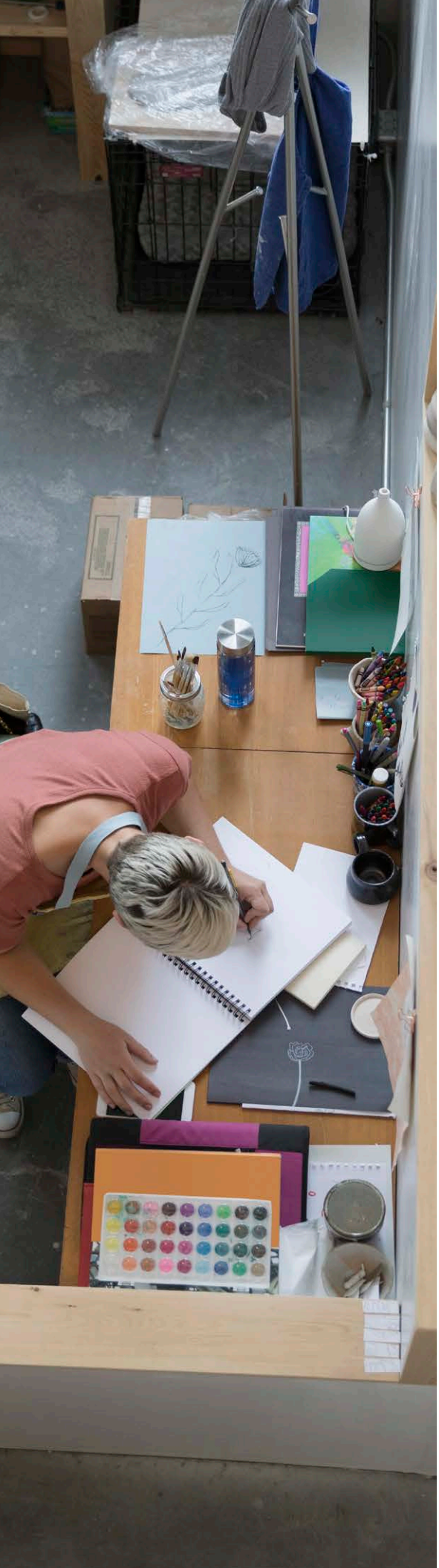
APR sometimes makes longer-term loans seem more favorable



APR and short-term business loans (less than 12 months)

Though APR typically offers a straightforward and transparent way to understand the cost of a loan, it can be a source of confusion if your loan term is less than 12 months.

Some lenders may set lower monthly payments to mask the fees and costs. Or they may extend the term of the loan—but you'll pay a lot more for the funding over time. This is why APR often makes long-term loans appear more favorable than short-term loans.



A loan might have a relatively low interest rate during the repayment period, but it will have a higher APR than a loan with a similar interest rate but longer repayment term. The interest rate is what affects your regular payments, not APR. With a shorter loan you'll end up paying less in interest overall than with a longer term loan.

With this in mind, an APR is still a helpful tool for comparing loan offers. Just make sure to compare loans with similar repayment terms.

Do the math yourself with QuickBooks Capital's loan calculator to determine total loan costs and repayments based on your situation. You can even compare other sources of funding.

Now, you're ready to find a lender that shares loan costs and terms upfront and has no hidden fees, so that you can make better informed decisions for your business.

How can you tell if an APR is good or bad?

The APR shows the costs associated with a loan, including interest and fees. Compare several products that are similar—loans or credit cards, for example—to find their typical APR range. Lenders usually publish their current lending rates to show you what you might get.

However, there are other factors that affect the interest rate you'll actually get, including your personal or business credit, the type of loan you're considering, and the repayment term you choose.

It's important to look at the total cost of a loan and to compare offers. That way, you know exactly how much you're paying to borrow money. A low APR over a long term, with or without fees or penalties, may not be as good of a deal when you look at the total cost of the loan.

How does the repayment term affect overall cost?

Repayment term will also affect how much you ultimately spend in interest and fees. A shorter repayment term will typically result in you paying less in interest charges and fees over time.

For example, a 6-month installment loan for $25,000 with a 12% interest rate would cost $882, while the same exact loan with a 24-month repayment term would cost $3,244 over the life of the loan.

$25,000 loan with a **12%** interest rate

Repayment term

6 months

Total interest paid

$882

Repayment term

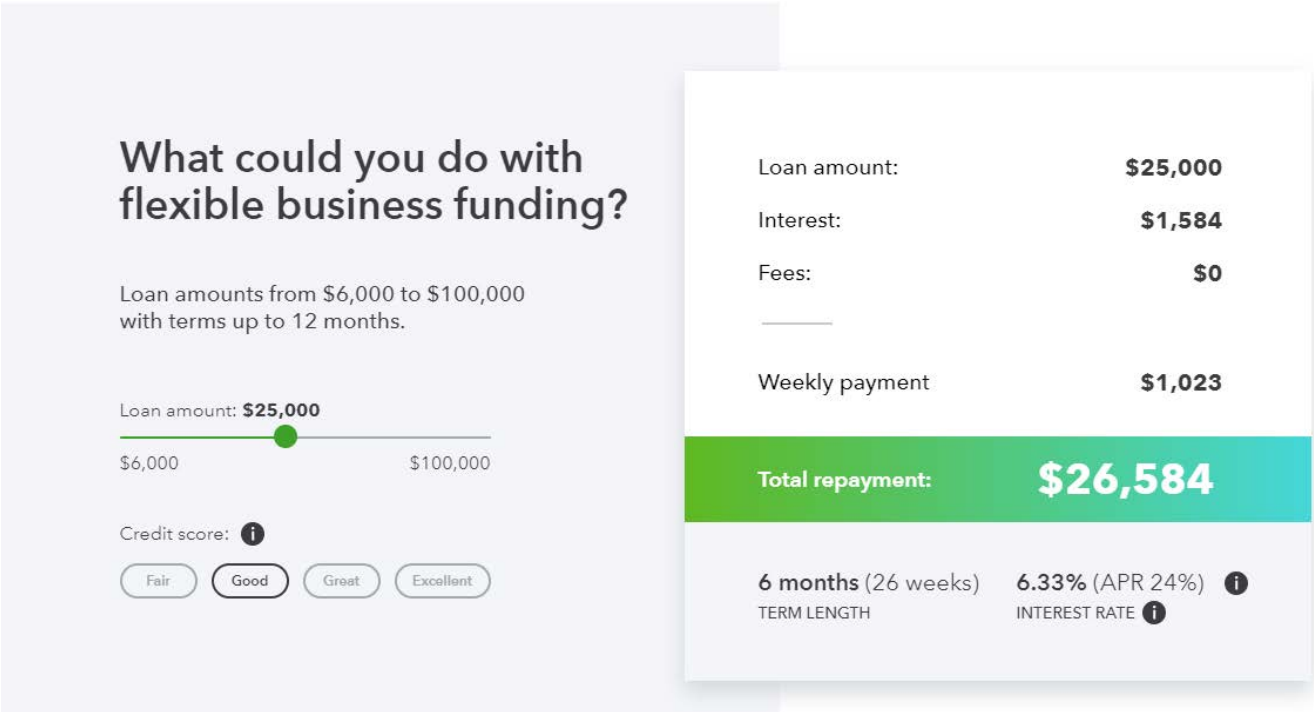
24 months

Total intrest paid

$3,244

When comparing cost, keep in mind that, a 6-month installment loan could have a higher APR than a 24-month installment loan, even if the interest rates, fees, and loan amounts are the same. Why? Because the APR is an annualized rate. Annualizing the cost of credit on a loan with a duration of less than a year can inflate the loan's APR.

Use a repayment calculator to get the full picture on your borrowing costs and payment amount.



THREE

Getting ready for funding

Building business credit

Business credit tells a story about how trustworthy your business is. Lenders, other businesses, and government entities use that information to assess risk and trustworthiness when they choose vendors. Having good business credit may also protect your personal assets.

Business credit is different from personal credit in that it is connected to your Federal Tax Identification Number/Employer Identification Number (EIN) and NOT to your Social Security number (SSN). This creates a clear distinction between what's personal and what's business related.

Because it takes time to build business credit, new business owners or small businesses may have a difficult time getting funding.

QuickBooks Capital makes funding available to more young businesses, so you have more predictable options beyond credit cards and savings. A limited business history and a small company size don't have to be barriers to your success.

TIP: Business credit is tied to your Federal Tax Identification Number/ Employer Identification Number (EIN) and NOT to your Social Security number (SSN).

TIP: Business credit is often tied to your personal credit, so be sure to pay bills on time and reduce credit card balances.

How to build your business credit

If you haven't established business credit, get started now. Assuming you've already taken care of the basics, like incorporating your business and obtaining an EIN from the IRS, start taking other steps to establish business credit.

1. Improve personal credit

Yes, that's right. To build business credit, you might need to rely on your personal credit first. Therefore, it's important to have strong personal credit. To do this, be sure to pay your personal bills on time, reduce your balances on revolving accounts like credit cards, and dispute any errors on your personal credit reports.

2. Obtain a vendor account

Making on-time payments and managing your business credit obligations responsibly can help you build your business credit history and improve your business credit score—but only if it's reported to the business credit bureaus. Ask one of your vendors to extend credit to your business and report your payment history to the major business credit reporting agencies—Dun & Bradstreet, Equifax and Experian.

3. Consider getting a business credit card or loan with a personal guarantee

This is another example of how you may need to use your personal credit to pave the way for your business credit. But by borrowing responsibly (paying on time and not borrowing more than you can afford), you'll be on your way to building good business credit, a strong foundation that can help your business thrive. Again, make sure the creditor reports your payment history to business credit reporting agencies.

TIP: If you don't want to rely on collateral, a personal guarantee is one way to get unsecured business funding by agreeing to personally repay the loan.

4. Pay your bills on time

Or better yet, pay them early, as that may bolster your credit over time.

Getting ready for funding

Is your business ready to borrow? Here are the main things to cross off your list according to the SBA. Keep in mind that what you're required to provide will depend on your business, the loan type, the lender, and other factors.

Your statement of purpose

Set the stage for your business, what you're using the funding for, the effect the funding will have on your business, how much you want to borrow, how long you'd like to repay, available collateral, and how much capital you've invested in your business so far.

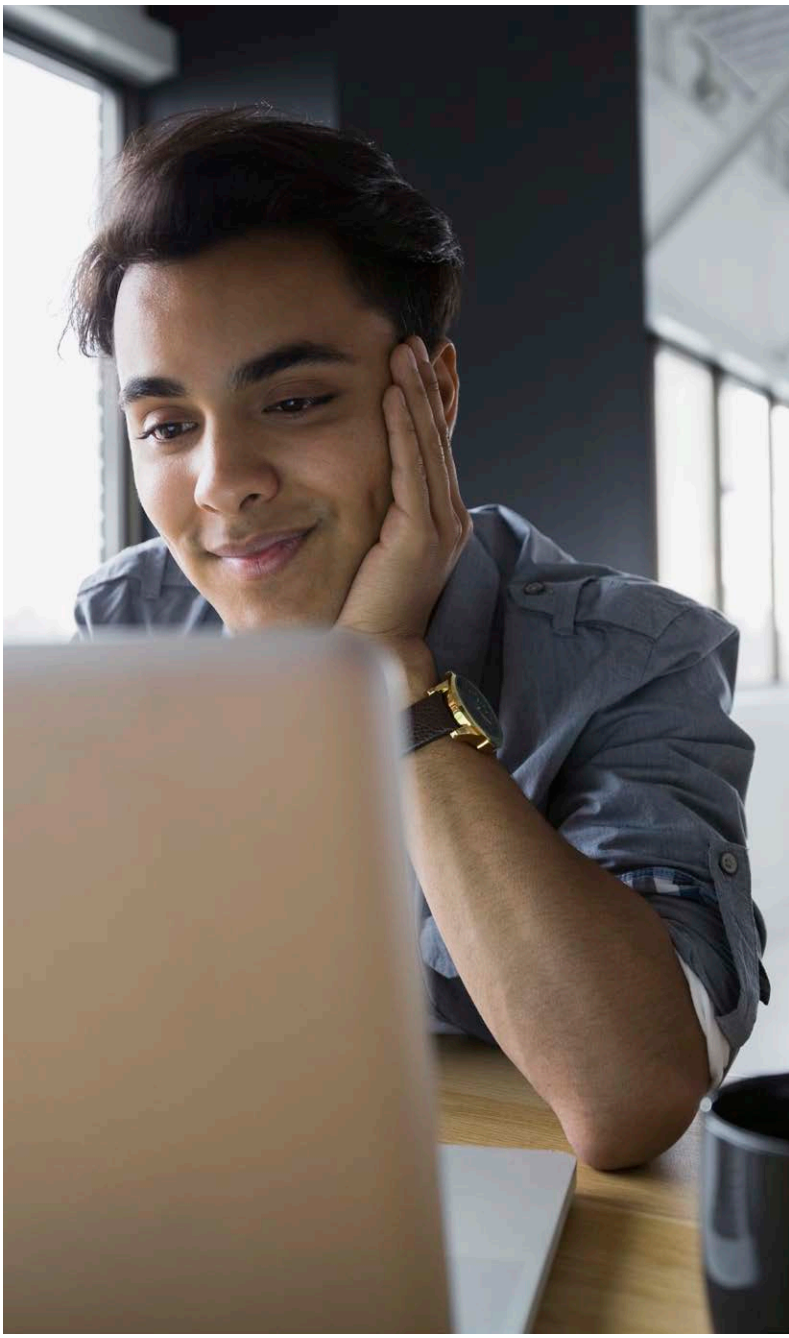
Your business plan

Make sure it's current and includes a description of your business and vision, the market analysis, the products or services, and your organization and management.

Your financials

For many lenders, you'll need to prepare a loan package including a cash flow statement, income statement, a balance sheet, and your personal financial statement. If you choose a lender like QuickBooks Capital, much of the work is done for you if your books are up to date.

It pays to have this information on hand, and make sure it's clear, concise, free of errors, and tells a compelling story about your business.



Common business loan mistakes to avoid

- Seeking the wrong type of loan
- Being unfamiliar with your personal credit standing
- Not being prepared, especially if you need funding at the last minute
- Not offering financial projections of at least 1-3 years
- Having no business plan

Top reasons lenders say no

There are many reasons why a lender might turn down an application for a business loan. You might not have been in business long enough, or you might not have enough personal or business credit history. Here are some other reasons:

- The business plan wasn't solid
- The business is too small
- Didn't clearly outline the use of the funds
- No clear plan to repay the debt
- Errors in the financial statements
- Not enough cash flow
- No profit
- Too much existing debt on the books
- Didn't demonstrate enough demand for the product or service
- Insufficient collateral

Sources:

The Small Business Development Center at the University of Georgia

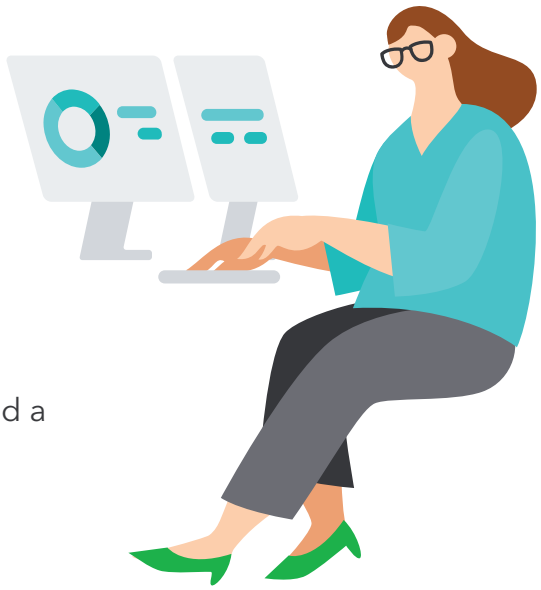
The Washington Small Business Development Center

"2018 Private Capital Markets Report," Pepperdine University Graziadio School of Business and Management

CHECKLIST

Questions to ask yourself before you apply

- [ ] What do I need the funding for?
- [ ] Do I really need financing or does my business have the cash or access to other capital?
- [ ] What type of financing works best for my needs?
- [ ] How quickly do I need funding?
- [ ] Is my business credit strong or will I need to use my personal credit?
- [ ] Am I comfortable using my personal credit to guarantee a business loan?
- [ ] How much do I need to borrow?
- [ ] What is the ROI on this loan?
- [ ] How much can I comfortably afford to repay?
- [ ] What is my plan to repay?
- [ ] Can I personally afford to repay the debt if I used a personal guarantee?
- [ ] What are my most affordable loan options?
- [ ] Do I meet the general loan requirements?
- [ ] What documents does the lender need for the application process?



Why QuickBooks Capital is different

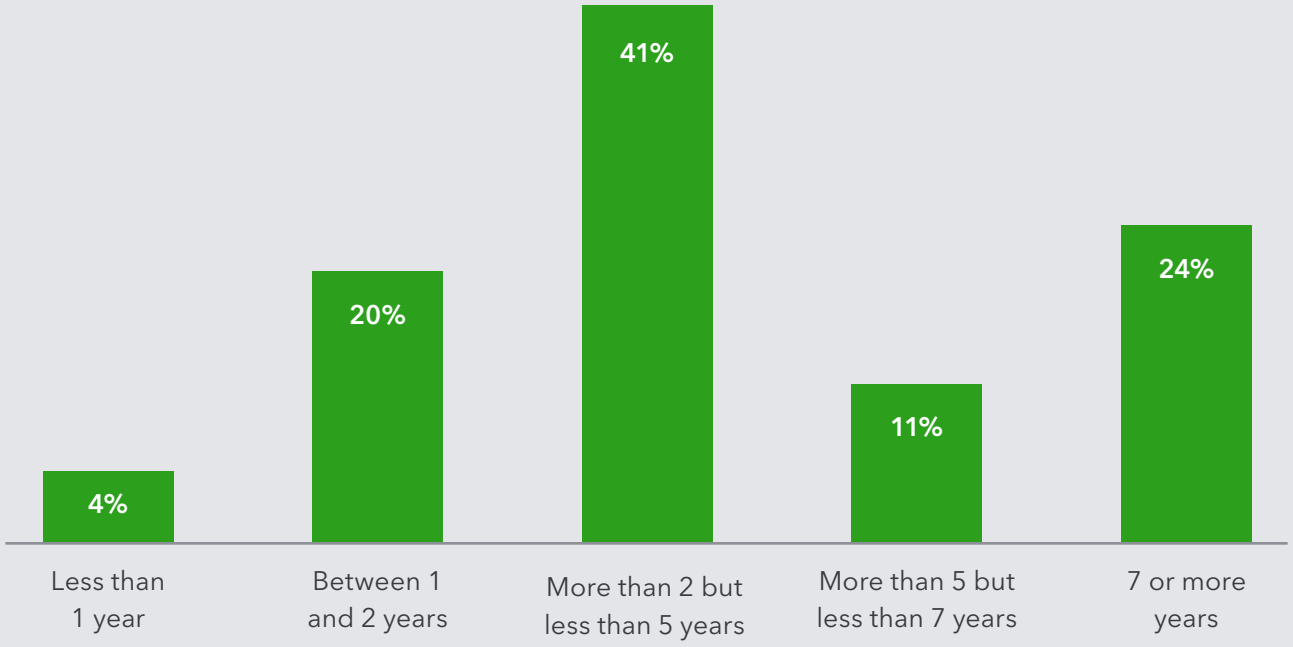
Why QuickBooks Capital is different

If you've tried to get funding for your business or wondered what your options are, you're not alone. QuickBooks Capital was built to help QuickBooks customers like you.

Because QuickBooks Capital is the lender, we can offer funding based on your business history within QuickBooks. We make it easier for a business like yours to take advantage of the personal and business credit you've already earned.

65% of QuickBooks Capital businesses are < 5 years old

Source: QuickBooks Capital 2018 Customer Survey



Flexible business funding with no fees

With QuickBooks Capital, you'll also pay no origination fees and no prepayment penalties. You'll know up front what your costs are – with no surprises.

Minimum criteria for QuickBooks Capital

To apply for a QuickBooks Capital loan, you should generally have:

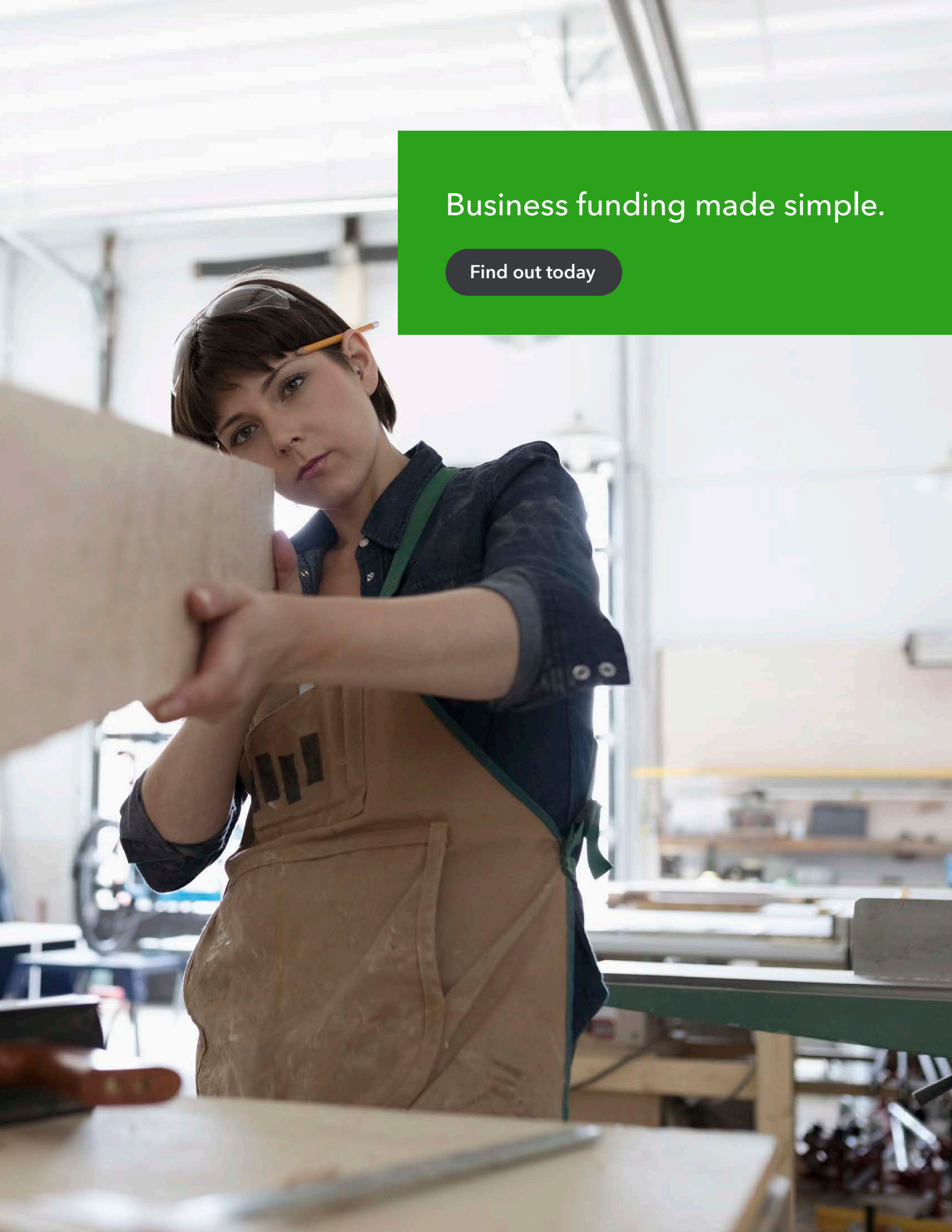
- A QuickBooks account showing at least 6 months of activity
- Both personal and business credit history; a personal FICO credit score of 620+
- Primary business bank account linked in QuickBooks
- A minimum revenue of $50,000 during the last 12 months

Ready, set, go

1. Confirm your QuickBooks business records are up-to-date.
2. Apply in minutes right in QuickBooks.
3. We'll follow up with you if we have questions.
4. Get funded in 1-2 business days after approval.

Get funding when it matters

QuickBooks Capital understands the challenges small businesses face and offers a seamless process when you need working capital. You'll find competitive rates, a quick online application, no origination fees, and no prepayment penalties. Compare your options to see what works best for you.


Business funding made simple.
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