

## Commercial Loan for Small Business

Commercial loans are defined as debt financing whose proceeds can go towards business expenses like working capital, equipment, and even real estate. Both banks and private business lenders offer commercial financing, and there are several types of commercial loans, ranging from traditional term loans to SBA loans to online loans. Each form of commercial financing has different commercial loan rates, eligibility requirements, and repayment terms.

The top seven commercial loans of 2019 are:

1. Traditional term loans
2. Short-term loans
3. SBA loans
4. Equipment loans
5. Commercial real estate loans
6. Business line of credit
7. Merchant cash advances

Learn all the details about these seven best commercial loans available, and what you need to know about each before you apply for commercial financing:

### Is Commercial Financing Offered At Your Bank?

When you're on the hunt for commercial lending, the most common place to start is a bank. In the past, your local bank was the only place to get commercial loans. Now, there are many alternatives, but banks still offer the most affordable routes and have a physical presence in your community. So, they are a good place to start searching for your loan.

If you do get approved for a commercial loan from a bank, consider yourself lucky! Although bank lending is on the upswing, only about 20% of small business owners qualify for a bank loan.

Since the 2007 recession, banks have been slow to approve commercial loans for small businesses. The lucky few who get banks loans have excellent credit and established, profitable businesses.

In addition, getting a bank loan is difficult if you only need a small amount of capital. Banks prefer larger loan sizes—over \$250,000—because commercial lending in large chunks is more profitable for them.

# Top Commercial Loan Options to Consider

As you now know, bank commercial lending isn't particularly small business friendly. But don't worry—if your local banks won't work with you, there are still great commercial loans out there for your small business. If you're working with less-than-perfect credentials, or you've already been denied commercial financing from your bank, consider these top commercial loan options:

## 1. Traditional Term Loans

- Commercial Loan Amount: \$5,000 to \$5 million
- Commercial Loan Term: 1 to 5 years
- Commercial Loan Rates: 6.5% to 30%

A traditional business term loan is what most people associate with commercial loans. You borrow a set amount of money from a lender to grow your business, which you'll pay back, plus interest, over time.

Banks offer long-term loans that have 10-, 20-, even 25-year repayment periods. However, these days, you can also find great medium-term loans from online alternative commercial financing companies. These have 2- to 5-year terms.

Medium-term loans are very versatile. They work well for companies that have a specific goal for their funding—whether that's an advertising campaign or a new product experiment. But they're also ideal for less well defined goals, such as business expansion.

### *How to Qualify for Traditional Term Loans*

*If your business has been operating for at least two years, generates over \$100,000 in annual revenue, and your credit score is over 600, a medium-term loan might be a great commercial loan for your company.*

*To qualify for a bank loan, you need to be at the top end of these requirements. Banks only work with the most qualified borrowers and profitable businesses. In exchange, they provide the lowest interest rates you're likely to find in your loan search. However, bank loans also can take several weeks to fund.*

*Medium-term loans are slightly easier to qualify for, but not by much. You still need to have good credit and an established, revenue-producing business. Medium-term lenders work more quickly, funding loans in 1 to 2 weeks.*

### *Typical Loan Amount for a Traditional Term Loan*

*Traditional term loans work well for large business investments because they offer large amounts in funding. Depending on the lender, what you need loan for, and what you qualify for, your loan amount could range from \$5,000 to \$5 million.*

### *Traditional Term Loan Cost*

*The exact cost of your commercial loan depends on which commercial lender you're working with, and your qualifications as a borrower.*

*But in general, a traditional term loan is one of the most affordable commercial ending options. Annual interest rates range from about 6.5% to 30%. On the lower end of this range are bank loans, and on the higher end are online medium-term loans.*

*Some lenders charge origination fees, closing fees, or prepayment penalties. Interest rates from online lenders usually are fixed, but banks might charge fixed or variable rates. Variable rates change based on the market. (i.e.) Wall Street Journal Prime, LIBOR, Treasury rate, etc.*

### *How To Pay Back a Traditional Term Loan*

*With a medium-term loan, you'll have predictable monthly payments. That said, if your loan has a variable rate, it can change as market rates change.*

*Say you borrow \$30,000 at a fixed 12% interest rate and need to pay it back over 4 years. To pay back your loan, you'll make fixed payments of about \$790 over the entire life of the loan.*

## 2. Short-Term Loans

- Commercial Loan Amount: \$2,500 to \$250,000
- Commercial Loan Term: 3 to 18 months
- Commercial Loan Rates: Starting at 10%

With terms from 3 to 18 months, short-term commercial loans work well for business owners who have a small one-time expense, an emergency, or an unexpected business opportunity.

Lenders can process these loans very quickly—oftentimes the same day you apply—so they are ideal for situations where you need fast access to commercial lending. The online applications usually take just a few minutes to complete, and you can even upload any required paperwork online.

In addition, short-term lenders will work with newer companies and owners with lower credit scores.

However, fast cash and easier access come at a price. Short-term loans tend to have the highest interest rates around, except for merchant cash advances. The APR starts at 8.5% but can go all the way up to 80%.

### *How to Qualify for Short-Term Loans*

*Short-term financing is relatively easy to qualify for. The minimum personal credit score is 500. However, you can't have a completely brand-new company. Your business should be at least 1 year old and generating \$50,000 in annual revenues.*

### *Typical Loan Amount for Short-Term Loans*

*Short-term loans are better suited for small business investments, mostly they're small loans extended over short period of time. Depending on the commercial lender you're working with and your qualifications as a borrower, short-term loans can range from \$2,500 to \$250,000.*

### *Short-Term Loan Cost*

*Short-term commercial lenders tend to charge high interest rates as a price for the speed and convenience they offer. They also charge higher rates to account for the fact that they work with less creditworthy borrowers, and there's more risk surrounding their loans.*

*They might also quote the cost in different ways – sometimes as an interest rate and sometimes as a factor rate. A factor rate is a multiple showing the cost of your loan. For instance, on a \$10,000 loan with a factor rate of 1.15, you'll need to pay back \$11,500 (multiply the loan size by the factor rate).*

*Including origination fees, documentation fees, processing fees, prepayment penalties, and other fees, a short-term loan could range from 8.5% to 80% APR.*

#### *How To Pay Back a Short-Term Loan*

*Short-term loans are paid off quickly, often with daily or weekly payments. You'll make payments over a range of 3 to 18 months until you fully pay back the loan. The shorter the term on your loan, the larger your daily (or weekly) loan repayments will be.*

### 3. SBA Loans

- Commercial Loan Amount: \$5,000 to \$13 million
- Commercial Loan Term: 5 to 25 years
- Commercial Loan Rates: starts at 5%

The Small Business Administration (SBA) doesn't perform direct commercial lending, but it partially guarantees SBA loans that banks and other financial institutions make to small business owners. The government guarantees that the lender will still get most of its money back even if the borrower defaults.

The government guarantee incentivizes lenders to make loans to small business owners, even those who don't meet all the requirements for traditional term loans.

SBA loans are like traditional term loans but with longer terms and lower interest rates. But, don't expect to have the money in your bank the next day. Just like regular bank term loans, SBA loans take a while to fund.

The SBA has three types of commercial lending programs: the 7(a) program, the CDC/504 program, and the Microloan program. Each of these commercial loans have their own distinct terms and uses.

#### *7(a) Loan Program*

*The 7(1) loan is the most common SBA loan for small businesses. It is also the most flexible type of commercial loan that the SBA offers – you can get up to \$5 million in capital and use it for virtually any business purpose. Most often, small business owners use the 7(a) to beef up working capital.*

#### *CDC/504 Loan Program*

*If you're looking to purchase major fixed assets with your business funding, the CDC/504 program is your best bet. 504 loans can be used to fund real estate, large equipment, and building purchases or upgrades. Loans from the CDC/504 program are heavily regulated, but this means low interest rates and terms up to 25 years. These options are great for business owners with proven track records and stellar credit scores.*

#### *Microloan Program*

*With the microloan program, the name says it all – the SBA created these commercial loans to give credit access to new or especially small businesses that can't meet most lender requirements. If you need a loan between \$500 and*

*\$50,000, consider a small business loan from the microloan program. Plus, you might be eligible for a microloan even if you have little to no credit history.*

#### *How to Qualify for an SBA Loan*

*SBA loans are easier to qualify for than traditional term loans, but the bar is still high. You need to have strong credit and a profitable business to qualify for the 7(a) or 504 loan.*

*The microloan program has lower requirements. You need to be able to demonstrate enough cash flow to afford the loan payments and no recent bankruptcies or foreclosures. While good personal credit helps, sometimes business owners with spotty credit are still able to access small microloans.*

#### *Typical Loan Amounts for SBA Loans*

*7(a) offers loans up to \$5 million dollars. The average 7(a) loan was about \$4007,616 in 2017.*

*CDC/504 is for major fixed asset purchases. The maximum loan amount is based on the project the loan is being used for, but it can range from \$200,000 to \$13 million.*

*Microloans have loans of the smallest amount up to \$50,000. The average microloan was \$13,884 in 2017.*

#### *SBA Loans Cost*

*In general, 7(a) loans are tied to the prime rate and currently have a spread of 7% to 9.5%. SBA 504 loans have rates about 4% to 5% on the CDC portion of the loan. Microloans have slightly higher rates since new businesses and less creditworthy borrower can qualify.*

#### *How to Pay Back an SBA Loan*

*SBA loans are long-term loans, ranging from 5 to 25 years. The term depends largely on the purpose of the loan. Loans for buying real estate, for instance, usually have 25-year terms. Working capital loans have 7-year terms. Almost all SBA loans have monthly payments, making your loan easy to manage.*

## 4. Equipment Loans

- Commercial Loan Amount: Up to 100% of the equipment value
- Commercial Loan Term: 1 to 5 years
- Commercial Loan Rates: 7% to 30%

For many businesses with a physical storefront, their biggest need is equipment. If you're searching for commercial lending because you need to buy an expensive piece of equipment, a great commercial loan to consider is an equipment loan.

If you've ever taken out a car loan, you already know the basics of equipment financing. The vendor will supply you with the equipment you need, so you can start using it right away. The lender will finance it for you with convenient monthly payments, so you don't have to pay the full cost upfront.

The best part about an equipment loan is that the equipment itself serves as collateral, so you don't have to supply other collateral.

You can use equipment loans for almost any type of equipment, including restaurant equipment, manufacturing machinery, farm equipment, furniture, and computers. You can also finance vehicles with an equipment loan.

### *Example*

*Say you're a baker and you need \$30,000 to buy a new commercial oven. Don't have the cash to pay the oven upfront? An equipment financing company can offer you the money to pay for the oven, but it'll charge you 14% interest to do so. The lender also wants you to pay your equipment loan back in 4 years. What will this equipment loan cost you? With a 14% APR, the \$30,000 oven will cost you \$32,513.84, and your monthly payments would be \$677.37.*

### *How To Pay Back an Equipment Loan*

*Some commercial lenders will extend equipment financing over a term that's equal to the expected lifetime of the equipment you purchase. However, some lenders will require you to pay back the equipment loan over a term of 1 to 5 years, with monthly repayments. Some lenders structure their equipment financing as an equipment lease. This is like an equipment loan but sometimes comes with lower monthly payments.*



## 5. Commercial Real Estate Loans

- Commercial Loan Amount: \$200,000 to \$20 million+
- Commercial Loan Term: 20 to 25 years
- Commercial Loan Rates: 5% to 30%

A commercial real estate loan helps you finance the purchase or upgrade of commercial properties, such as office space, warehouses, and manufacturing facilities. The properties can be very expensive, so most buyers of commercial real estate need a loan.

Like equipment financing, the property itself serves as the collateral for commercial real estate loans. That means the lender has an asset to sell if the borrower defaults on the loan. Since the lender has more assurance of getting their money back, they charge relatively low interest rates on commercial real estate loans. Check out our commercial loan calculator to learn more about this rates.

In addition, since commercial real estate is very pricey, the loan payments are spread out over a long period of time. The typical repayment term on commercial real estate loans is 20 or 25 years.

### *How To Qualify for a Commercial Real Estate Loan:*

*From a bank, you can get a traditional commercial real estate loan or SBA 504 loan. To qualify for these loans, you need high credit and at least 2 or 3 years in business. The next step down is hard money commercial lenders, who work with less qualified borrowers. You can get away with slightly lower credit scores, but the business should be generating revenues.*

### *Typical Loan Amount for Commercial Real Estate Loans*

*It is based on one of two different ratios: After-Repair Value (ARV) and Loan-to-Value (LTV). LTV is a comparison of your loan amount to the current value of the property. ARV is a comparison of your loan amount to the post-renovation value of your property. ARV is used when you're planning to use the loan to renovate a property. Banks usually lend 70% LTV. That means, for instance, if your property is worth \$1 million, maximum loan will be \$700,000. Hard money lenders typically lend 50% to 60%. SBA 504 loans range between \$200,000 and \$5.5 million.*

### *Commercial Real Estate Loan Cost*

*The cost can range anywhere from 5% to 30%. Banks charge the least amount of money because they work with the most qualified borrowers.*

## 6. Business Lines of Credit

- Commercial Loan Amount: \$5,000 to \$1 million
- Commercial Loan Term: 6 months to 5 years
- Commercial Loan Rates: 7% to 40%

If you're looking for commercial loans with flexibility, a business line of credit might be a great option for your small business. A business line of credit is not like a traditional loan, but you're still borrowing money. Banks and online lenders issue lines of credit.

Think of a business line of credit as a credit card: a lender gives you access to a pool of money that you can draw on whenever you need to. You only pay interest on the funds you take out. Once you repay the lender, your pool of money goes back up to its original amount, without you having to reapply for the loan.

The main advantage of a business line of credit is its flexibility. You can withdraw and repay whenever you want to, so it's a good backup source of funding to cover unexpected expenses. And you only pay interest on what you use.

### *How to Qualify for a Business Line of Credit*

*Though it's not an industry standard to separate the two, sometimes it's easier to designate traditional lines of credit and short-term lines of credit. Banks issue traditional lines of credit, and online lenders issue short-term lines of credit.*

*A bank LOC is as difficult to qualify for (or even harder) than a traditional term loan. You should have a credit score over 700, and your business should be profitable and be working for a while.*

### *BLOC Amounts*

*A traditional LOC can go anywhere from \$10,000 to over \$1 million. Shorter-term lines of credit will come with lower credit lines – starting at \$5,000.*

*A business LOC doesn't technically have a "term." You can use and reuse your line of credit as long as you want, so long as you're paying it back.*

### *BLOC Cost*

*Depending on your credit history and the commercial lender you're working with, your business line of credit could have interest rates as low as about 7%, but they could get more into the 20% to 40% range as well.*

*Banks charge a lower amount, and online lenders charge a higher amount. Online lenders process lines of credit much more quickly and work with riskier borrowers, so they charge more.*

*Remember, with a BLOC, you only pay interest on the funds you draw from the credit line.*

#### *Example*

*Let's say you run a small business in a vacation town. During your first two summers, you almost ran out of cash during the busy season. You figure that if you had a \$15,000 cushion on your cash flow for the busy season, your business would operate much more smoothly. Before your third summer in business, you take out a BLOC for \$15,000. A lender grants you a \$15,000 credit line, and in the height of the season, you take out \$5,000 to cover some additional inventory costs. Even though you have a \$15,000 LOC, you'll only need to pay back the \$5,000 you borrowed, plus any interest – which is only charged on the \$5,000. If the interest rate is 10%, you'll end up paying back \$5,500 (\$5,000 plus \$500 in interest). Once that's paid, you can continue to make additional draws on your \$15,000 LOC.*

#### *How To Pay Back a Business Line of Credit*

*In almost all cases, a BLOC is a revolving line of credit. When you draw from the credit line, you'll have to repay the amount you drew (plus interest) with daily, weekly, or monthly repayments (depending on the commercial lender you have the line of credit with). Once you repay the amount you drew, your credit line resets back to its original amount – that's why a line of credit is "revolving."*

## 7. Merchant Cash Advances

- Commercial Loan Amount: \$5,000 to \$250,000
- Commercial Loan Term: Repayment deducted from your credit card sales
- Commercial Loan Rates: 15% to 110%

A merchant cash advance gives you a lump sum loan that you pay back by giving the lender a percentage of your daily credit card sales. The lender keeps taking a cut from your sales until you've paid the debt back in full.

Merchant cash advances are a fast and easy way to access capital for your business. And they provide flexibility which small business owners like.

Not making as many sales one week? The lender gets a smaller slice from your daily credit card sales. However, if you're having a successful week, the lender takes a large cut from those sales, and you won't see as much cash in the bank.

There is a big disadvantage to merchant cash advances: their cost. MCAs are probably the most expensive commercial lending options on the market.

---

# Commercial Financing: Your Next Steps

## How to Choose the Right Commercial Loan

Do any of those commercial lending options seem like the right fit for your small business?

Before you jump into the commercial loan application process, take a step back and ask yourself which options are right for you, given your business's financial position, stage of growth, and your immediate and future goals.

In most cases, the right options for you will sync up with what you qualify for. If you have a strong credit profile, for instance, and a highly profitable business, a bank loan or bank line of credit will make the most sense and save you the most money in the long run.

In other situations, your loan use will point you in the right direction. If you're buying equipment, for example, an equipment loan naturally makes the most sense.

The other part of the equation is what you're eligible for. You don't want to waste time applying for something that's completely out of reach for you. Each small business lender will have its own exact standards for their commercial loan underwriting process. But in general, lender requirements boil down to four essential requirements.

You'll want to keep these in mind as you look for commercial lending and approach the commercial financing process.

### *Annual Revenue*

*Annual revenue is an important indicator of your eligibility of small business loan. Before approving your commercial loan, lenders want to see that you have enough cash coming into your business to cover your loan payments, on top of all your company's operating expenses.*

*Every small business owner knows that unexpected expenses are an unfortunate reality of running a company. Lender know this too. To make sure you can pay unexpected costs and repay your loan, lenders will typically limit your loan to 12%-13% of your business's annual revenue.*

*To verify your business's revenue, lenders will ask for your recent Profit & Loss Statements and your business and personal tax returns.*

### *Average Bank Balance*

*Generating revenue is just one part of running a successful company. Also important is how well you manage money. Lenders will want to be confident that you can maintain a safe cash cushion when unexpected expenses threaten your cash flow. Even if your sales numbers are stellar, a low bank balance will give lenders a reason to question your ability to repay your loan on time and in full.*

*To pass the underwriting process and increase your commercial lending options, aim for an average bank balance equal to at least three months of your business's operating expenses- including your loan payment.*

*Lenders use recent bank statements to calculate what your average bank balance looks like, and decide whether or not your business can stay afloat while paying off your small business loan.*

### *Time in Business*

*Funding a younger business is a lot riskier for a lender than lending to a more established company. A business that has been around for a couple years has shown that it can weather unexpected ups and downs, but a younger business is less likely to make it in the long haul. In fact, only half of all small business make it the first 5 years in business.*

*If you're looking for a term loan or SBA loan, lenders will be especially mindful of your time in business. If you've been in business for more than two years, you're considered highly fundable. Long-term lenders want to see that your doors will be opened long enough for them to get their money back.*

### *Personal Credit Score*

*In the commercial loan underwriting process, this requirement is probably the most important one for small business loans vs. Five C's. Lenders assume that how you handle your personal finances will be a good indication of how you'll manage your business finances. That's why your personal credit score is a major factor in your funding eligibility- especially if you haven't been in business for a while.*

*Your personal credit score is essentially a measure of how trustworthy you are as a borrower. It's based on a host of factors: late payments, credit utilization, inquiries, bankruptcies, and more.*

## Applying for Commercial Financing? Get These Documents in Order

Commercial lenders vary in terms of how much paperwork they'll require from you. Banks and medium-term lenders typically require more paperwork, sometimes all of the documents we list below. Short-term lenders and merchant cash advance providers might ask for just one or two of the documents.

Almost every lender will ask to see recent bank statements, the last couple years of tax returns, the loan purpose, and the time in business.

Here's a complete list of documents you might need to apply for a commercial loan:

- Recent bank statements
- Balance sheet
- Profit & loss statement
- Personal and business tax returns
- Basic personal information (e.g. SSN, monthly income, residential address, etc.)
- Basic business information (e.g. Tax ID, address, number of employees, etc.)
- Time in business
- Use of loan
- Business plan (particularly for new businesses)
- Business debt schedule
- Collateral documentation
- Cash flow forecast

If you have these basic documents ready, you're well on your way to securing a commercial loan for your business. Note that lenders will also check your credit report, but that's not something you have to provide. They will be able to access it from your SSN.

Be prepared before you start searching for commercial loans, and you'll find the entire process—searching, evaluating, applying, and qualifying—a lot easier.