



What Is a Business Loan? tkfinancegroup.com.au

A business loan provides businesses with financing by requiring them to pay back the money they borrow plus interest. Business loans can be secured or unsecured and may require collateral like commercial real estate, cash or equipment.

Understanding the features, terms and requirements of a [business loan](#) can empower entrepreneurs to take control of their finances.

Definition

Business loans are financing options that let you borrow money from a lender to finance the growth of your business. They can help you cover gaps in cash flow, purchase equipment and more. There are many types of business loan, each with its own requirements and terms. Some require collateral, while others do not.

Some business loan types, such as term loans and commercial mortgages, are secured by real estate or equipment. Other loans, such as invoice financing and lines of credit, are unsecured.

Some lenders offer special programs for small businesses, such as those with minority ownership or that are government contractors. These may include grants, loans and "small business set-asides" contracts that limit competition with larger companies. To qualify, you typically need to meet size standards and have a strong financial history.

Purpose

Business loans are offered by a variety of sources. Banks are the major source and offer demand and line of credit loans. Other sources include commercial finance companies, private equity groups and government-backed loan programs like those from the Small Business Administration.

The type of business loan a company needs depends on its stage in growth and financial situation. Larger businesses with good cash flow can negotiate better rates on loans. Startups or those in depressed industries may find it harder to qualify for loans.

The purpose of a business loan can also vary depending on the type of company. It can be used to fund expansion or buy equipment, or it could be a tool for navigating financial challenges. It's important for a business to carefully assess its financial needs and to compare different types of business loans to find the best fit.

Requirements

Before you apply for a [business loan](#), review and compile your personal and business financial documents. Lenders often look at several factors, including your business credit score, cash flow projections and the amount of time you've been in business.

Depending on the lender and type of business loan, some other requirements may include collateral and a personal guarantee. The size and industry of your company also impact eligibility. For example, many lenders don't lend to adult entertainment, drug dispensaries or gambling businesses.

Banks typically require good personal credit, strong finances and at least two years in business to qualify for a small business loan. Online lenders may offer a more streamlined application process and quicker funding. You may need to submit a business plan and other documentation, too.

Fees

You may encounter a variety of business loan fees in addition to the interest rate charged on your financing. These fees may vary by type of funding and lender and are important to understand when evaluating your options for business financing.

One of the most common business loan fees is a loan origination fee, which is a onetime fee that covers the cost of processing your application. This can range from a flat fee to a percentage of your total loan amount. Other common fees include:

Collateral

Collateral is another requirement of some business loan types, and it provides the lender with additional security to protect their [investment property loan](#). This can help lenders offer lower interest rates and more flexible repayment terms for the borrower.

Some common forms of collateral include real estate, equipment and inventory.

Other assets can include future earnings, such as accounts receivable or invoices. Invoice financing, for example, allows businesses to receive funding based on unpaid customer invoices and then use those funds to repay the loan.

Other collateral requirements may include business tax returns, financial statements and other legal documentation. Some business loans also require a personal credit score, debt-to-income ratio and other criteria that lenders consider in their assessment of the risk associated with the business.