UCS Business Financing Product Guide

United Capital SOURCE

What Is a Business Term Loan?

A business term loan is what most small business owners think of when they hear the words “small business loan.” The repayment terms and fee structure are straightforward. Borrowers receive this money and agree to pay it back in regularly scheduled payments over a set period. The period is known as a loan term. In most cases, you make fixed payments every month for a set repayment term.

In addition to the loan amount, known as the principal, borrowers agree to pay interest, which is the fee lenders charge for borrowing that money. The principal loan amount and the interest/factor rate determine the amount of your payments. This rate also determines the total amount you’ll be paying back over the loan term.

Business term loans can come with fixed or variable rates. A fixed interest rate means lenders won’t change the rate during the term, while variable rates change with the WSJ Prime Rate in most cases. Many small business owners prefer the stability of fixed-interest rate business loans.

Small business term loans generally carry lower costs and higher borrowing amounts than other small business financing products. However, they are also the hardest to qualify for. SBA Loans (Small Business Administration) are prime examples of long-term loans that are hard to qualify for.

MAX FUNDING AMOUNT
$5k - $10M

FUNDING TERM
3 Months - 5 Years

APR/FACTOR RATES
Starting at 1-4% Monthly

SPEED
1-3 Business Days

CREDIT SCORE
550 +

TIME IN BUSINESS
1 Year +

REPAYMENT TERM
Daily, Weekly, Monthly

Example of how a Business Term Loan works:

Let's say you want to purchase a large one-time inventory order for $100,000. This would let you expand your in-store product offerings to meet your existing customers' demand and reach new customers. Yet you don't have $100,000 in your bank account.

You apply for a small business loan. You negotiate a five-year term at a fixed interest rate of 8% with monthly repayments. You get the money and buy your inventory now. And the cost of purchasing that inventory gets spread over sixty months – this type of term loan is easier on your cash flow than, say, a merchant cash advance with a higher factor rate and payback that is due within six months to one year.

PROS

- Fixed monthly payments
- Longer loan terms
- Less than perfect credit accepted
- Use for a variety of business purposes

CONS

- Possible prepayment penalties
- Could require more years in business
- More requirements than most short-term loans
- Same payment even when business is slow

What is an SBA Loan?

SBA stands for "Small Business Administration." The Small Business Administration is a government agency, not a business lender. Applications for SBA Loans are not sent directly to the SBA. Instead, you must apply through one of three types of financial institutions: commercial banks, credit unions, or alternative business financing facilitators like United Capital Source. These loans help small business owners just like you start or grow businesses.

What makes an SBA Loan different than all other business loans is that the SBA guarantees up to 85% of loans up to $150,000 and up to 75% of loans over that amount and up to $500,000. This means that even if the borrower were to default on the loan, the financial institution would still make back 85% or 75% of the borrowed funds. The SBA also sets limits on the interest rates and fees lenders can charge.

The SBA, however, does not approve or reject applications. That's all up to the financial institution, each of which has its own criteria for approval. Once the institution approves an application, it submits its own application requesting the SBA's guarantee.

MAX FUNDING AMOUNT

$50k - $5.5M

FUNDING TERM

10 – 25 Years

INTEREST RATES

Starting at Prime + 2.75%

SPEED

8 – 12 Weeks Funding Time

CREDIT SCORE

675 + (640+ for CRE Loans)

TIME IN BUSINESS

5 Years +

REPAYMENT TERM

Monthly

How Do SBA Loans Work?

The CDC 504 Loan

This loan can only be used to purchase major assets, like heavy-duty machinery and commercial real estate. In most cases, the assets being financed are used for collateral. You can access up to $5.5M, with repayment terms of up to 20 years. Interest rates range from 5% – 6.3%. Total fees cannot exceed 3% of the loan amount, and you'll have to make a down payment of approximately 10% in most cases. What makes this loan unique is that you must specify the use of the funds. This will determine your borrowing limit, as well as whether you are approved at all.

For example, if you use the loan to create jobs, you must create one job for every $65,000 borrowed. Manufacturing businesses must create one job for every $100,000 borrowed. Your borrowing limit will be $5 million.

If you use the loan for something related to public policy (i.e., business district revitalization, minority business development, expansion of women-owned businesses), your borrowing limit is $5.5 million.

Lastly, your loan must also be used for purposes related to public policy. If you meet these criteria, your borrowing limit will be $4 million.

PROS

- Lowest interest rates
- Longest repayment terms
- Use for a variety of business services

CONS

- Lengthy approval process
- Large amount of paperwork
- Might require collateral
- Excellent credit required

How Do SBA Loans Work?

The SBA Microloan

This product only gets its name from the size of the average SBA Loan. You can access up to $50K, with repayment terms of up to 6 years. Interest rates vary but the average is between 6%-9%. SBA's Microloan product also carries no fees.

PROS

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- Longest repayment terms
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CONS

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How Do SBA Loans Work?

The 7(a) Loan

This is the most popular type of SBA Loan. It can be used for almost any purpose: hiring more people, purchasing new equipment, paying off existing debts, ordering bulk inventory, etc. You can access up to $5M, with repayment terms of up to 25 years for commercial real estate and 10 years for all other purposes. Interest rates range from 7.75% – 15.75%. There is a 1.7% guarantee fee for loans up to $150K and a 2.25% fee for loans greater than that amount. This fee might be presented as part of the total cost of the loan. There may also be an origination fee or loan packaging fee.

7(a) Loans cannot be used for certain purposes. These purposes include: purchasing a building that will be leased to another business, reimbursing a business owner for a previous investment in the business, and repaying debts owed to the US government.

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CONS

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What are Employee Tax Credit Retention Advances?

Employee Tax Credit

UCS understands the strain your customers are experiencing as they await their Employee Retention Credit (ERC) reimbursements from the IRS. The recent IRS announcement on September 14th about the postponement of new ERC claims processing and the delay in existing claims has resulted in significant financial uncertainty for businesses expecting these funds. Recognizing this challenge, we are delighted to introduce a specialized financing solution, in collaboration with Finance ERC, to support your customers during this waiting period.

FUNDING RANGE
$75,000-$5M

ADVANCE RATES
70%

SPEED
7 – 10 Business Days

CREDIT SCORE
550+

TIME IN BUSINESS
From 2020 and on

Here's how our offering can benefit your customers:

1. Immediate Financial Relief

Our partnership with Finance ERC ensures that your customers don't have to endure lengthy waiting periods for their ERC checks. We offer immediate liquidity, providing a much-needed financial cushion as Finance ERC will purchase your customer's ERC today at a discount.

2. Zero Cash Repayment

This financing product is uniquely structured to ease merchants' cash flow burden. Unlike other working capital products that require regular repayments from a business and can impact cash flow, our ERC advance arrangement necessitates repayment when the checks arrive from the IRS.

This solution is tailored to support businesses in maintaining their operations and financial stability while they await their ERC payments without having to take on additional debt and additional cash repayments/cash flow strain on their business.

FUNDING RANGE
$75,000-$5M

ADVANCE RATES
70%

SPEED
7 – 10 Business Days

CREDIT SCORE
550+

TIME IN BUSINESS
From 2020 and on

How Employee Tax Credit Retention Advances Work?

UCS has a Strategic Partnership with Finance ERC, a leading ERC Advance Company. As a business owner, you essentially sign over your rights to the ERTC in exchange for the advance. This is one of the most cash-flow-friendly products we offer. There are **NO Payments** from the business at all during the term of the Advance. This gets paid once the IRS check arrives.

When the IRS issues the ERTC refund check, it goes to the lender to repay the advance. Some lenders will charge a small monthly interest rate until the check is received, while others might charge a one-time fee.

Ensure your clients fully understand the advance payment policy before signing over ownership of the credit.

PROS

- Quick access to approved funds
- Cover operational expenses
- Potential tax deduction on interest & fees paid

CONS

- Interest/Fees on the ERC Advance
- Requires extensive documentation
- Must reconcile the ERC advance against the actual ERC at the end of the quarter

What is a Business Line of Credit?

A business line of credit functions almost like a business credit card. You have a credit line that you can draw funds from at any time. If you're carrying a balance, you'll have a minimum payment. You only pay interest, and potentially a draw fee on the portion that you borrow. And when you pay off a part of your balance on time, that money usually becomes available to you again. This is because most business lines of credit are technically "revolving" lines of credit.

A small business line of credit should be a priority because it could play a critical role in a small business's success. Unlike other small business loans, you don't need to reapply each time you want to use the money available to you. And as the Small Business Administration (SBA) points out, small businesses need access to cash to survive and thrive.

Online lenders also make it easy to apply and renew a small business line of credit. Most lenders online don't require financial statements or tax returns like traditional lenders might. While a small business owner might receive lower credit limits from many lenders for not providing tax returns or financial statements, the best business line of credit for their short-term financing needs may not require those documents.

MAX FUNDING AMOUNT
$1k - $1 Million

FUNDING TERM
Up to 36 Months

INTEREST/FACTOR RATES
Starting at 1% per month
(Interest Only available.)

SPEED
1-3 Business Days

CREDIT SCORE
575 +

TIME IN BUSINESS
1 Year +

REPAYMENT TERM
Weekly, Monthly

Example of how a Business Line of Credit works:

Once you borrow funds from your small business line of credit, you will have to pay interest and have a minimum payment like a business credit card. Depending on the lender, your first payment could be due the following week or at the end of the month. If you repay what you borrowed on time, your business line of credit replenishes. For example, let's say your monthly payment is $200, and your interest is $10. If you paid back $200, your credit line would go back up by $190. Your interest charges depend on how quickly you pay off your total balance.

In some cases, you may have to pay a small fee (a.k.a. a draw fee) whenever you draw from your business line of credit. Typical draw fees range from 1.6% to 2.5%.

PROS

- Only pay on what you draw
- Draw funds immediately
- Use for a variety of purposes
- Unsecured lines available
- Less than prefect credit scored accepted

CONS

- Limited credit line amount It might require collateral*
- Higher interest rates with bad personal credit
- Unsecured lines of credit come with higher rates
- Might require personal guarantee*

What is Equipment Financing?

The business equipment financing option is very similar to term business loans, the only difference being it's specifically for purchasing equipment. Because equipment financing is so advantageous, small business owners can purchase what they need with a low or no down payment, easy repayment terms, and save money with competitive rates.

Equipment loan alternative lenders and most equipment financing lenders, in general, will use the asset being purchased as collateral, so they're protected; thus, the rate is lower and could increase the loan amount they're willing to give. All of these points can help cash flow when you need to purchase equipment for your business.

How much can you borrow with business equipment loans?

Typically, the small business can get up to 100% of the loan amount needed to purchase equipment and equipment leasing. In some cases, a down payment and minimum credit score may be required for equipment financing. Since the asset is used as collateral, you'll save money with equipment financing because the interest rate would be lower than other equipment finance options like unsecured business credit lines, invoice factoring, merchant cash advances, or other types of small business loans.

MAX FUNDING AMOUNT
Up to $10M per piece

FUNDING TERM
1 – 10 Years

LEASE RATES
Starting at 3.5% (SBA) – Normal Equipment Finance 7-15% AVG

SPEED
1-2 Business Days

CREDIT SCORE
475 +

TIME IN BUSINESS
6 Months +

REPAYMENT TERM
Monthly

Example of how Equipment Financing works:

Let's say you're a baker. To increase your baking productivity by 3x, you need an industrial oven, which costs $75,000.

You can get a five-year term with as low as 3.5% APR interest (SBA) by applying for an equipment loan. But, again, because you're using the oven as collateral, you'll save money by getting a lower rate and potentially higher loan amount than you would with other funding products. Also, you most likely won't need a personal guarantee with equipment finance.

After making your regular equipment financing loan payments for five years, the balance is paid off, and you own the equipment outright. Equipment financing is the best way to acquire expensive machinery for your business needs.

PROS

- Get access to funds quickly
- The approval process is easy
- Less than perfect credit score accepted
- The asset is used as collateral
- Borrow up to 100% of market value

CONS

- It might be obsolete before the loan is repaid
- Possible prepayment penalty
- Depreciation may prevent from deducting full costs on tax returns each year

What is a Merchant Cash Advance?

A Merchant Cash Advance (MCA) is sometimes referred to as a "Business Cash Advance," "Credit Card Factoring," or a "Credit Card Processing Loan." A business owner will receive a lump sum paid back via a fixed percentage (Holdback Rate) of future sales. Payments are automatically deducted each day, and the size of each one fluctuates with your sales volume.

A merchant cash advance is not as challenging to qualify for as other small business loan options. Small business owners with little collateral, business credit history, or low Fico credit scores may benefit from this option. The amount of business financing you qualify for from merchant cash advance companies depends on the amount of future receivables or the sales you're projected to make over the upcoming repayment term.

With this kind of business financing arrangement, you agree to receive a lump sum payment of capital in exchange for your future sales at a discount. The capital is distributed almost immediately from the merchant cash advance provider instead of waiting weeks/months to get the full amount from your future sales. This is known as an "advance" on your future sales/receivables.

MAX FUNDING AMOUNT
$5k - $1M

FUNDING TERM
3 - 24 Months

FACTOR RATES
Starting at 1-6% Monthly

SPEED
1-2 Business Days

CREDIT SCORE
475 +

TIME IN BUSINESS
6 Months +

REPAYMENT TERM
Daily, Weekly, Bi-Weekly

Example of how a Merchant Cash Advance works:

For example, let's say you borrow $50,000 with a factor rate of 1.4. This means you'd owe $70,000 in total. MCA providers deduct a 10% holdback rate of your daily gross sales via ACH. In the first month, you generate $100,000 in revenue. Based on your percentage, you'd pay approximately $455 per business day (In this case 22 business days) to pay back $10,000 for the month. In the second month, your sales drop to $70,000. Since the holdback percentage never changes, your daily payment would drop to approximately $318.

Like other short-term business financing products, a merchant cash advance is designed to be paid in full as soon as possible. However, the total cost of funds decreases when your outflows are more spread out due to slow sales.

PROS

- Get access to capital quickly
- The approval process is easy
- Less than perfect credit accepted
- Use for a variety of purposes

CONS

- Higher rates & fees than with traditional loans
- May have to change merchant services provider
- A shorter repayment term may reduce working cash flow

What is Accounts Receivable Factoring?

Accounts Receivable Factoring is sometimes called “Invoice Factoring.” It refers to the process of when a business sells unpaid invoices to an accounts receivable factoring company or a “Factor” for a discounted rate. It is now the job of the factoring company to collect the payment from your customer. Once the factoring company collects from the client, they pay the small business owner the remainder of the invoice amount, minus factoring fees.

Invoice factoring loans are a solution meant for small business owners who experience a long lapse between when a service is rendered and when the invoice is paid. This type of financial transaction allows the business owner to receive payment on their accounts receivables sooner than they normally would have.

MAX FUNDING AMOUNT
$10k - $10M

FUNDING TERM
Up to 24 Months

FACTOR RATES
Starting at 1% p/mo

SPEED
1 - 2 Weeks

CREDIT SCORE
500 +

TIME IN BUSINESS
1 Year +

REPAYMENT TERM
Daily, Weekly, Monthly

Example of how Invoice Receivable Factoring works:

When you sell your accounts receivables to a third-party factoring company, the discounted purchase price gets calculated using what's known as a factor rate. Here's an example. Let's say you sold $20,000 of outstanding receivables. And let's say the factor rate is 3%. The purchase price of your receivables would then be $20,000 less minus the factor rate. So you'd receive 97% of $20,000. This means the factor would buy your receivables for $19,400.

However, this does not mean you would receive $19,400 immediately. Instead, you're more likely to receive an upfront advance. For our example, let's use 85% of the purchase price. So you would receive $16,490 now.

And then, once the factor collects on your receivables, you'd receive the remaining 15% (that works out to $2,910) of the purchase price of your receivables. If it takes longer than 1 month to collect on your invoices, you may be charged an additional 3% per month until the invoices are paid.

PROS

- Get paid on your invoices and receivables in advance
- Invoices and receivables are treated as collateral
- Credit is based on business that is invoiced
- Use for a variety of business purposes

CONS

- Higher rates & fees than with traditional loans
- Fees are based on how long your customers take to pay your invoice

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