



What Is Alternative Lending?

Alternative lending, or online lending, indicates a broad range of lending solutions that are available outside of the traditional banking realm, typically via the internet. Alternative lending is used by those who may not qualify for personal or business loans, or are seeking a more flexible borrowing experience.

How Alternative Lending Works

Broadly speaking, alternative lenders will grant loans or lines of credit based on the borrower's information. As opposed to traditional lenders, they can be less strict in their acceptance criteria. If accepted, the offered loan amount and interest rate will be based off of the applicant's needs, credit score, and past revenue. After the loan has been granted, the borrower will have to repay the amount, with interest, across regular and predictable intervals.

When Using an Online Lender Makes Sense

Using an online lender makes the most sense when a borrower is unable or unwilling to take out a loan from a standard bank. In the case of small business loans, beyond traditional services, online lenders are able to offer financial products that traditional lenders typically do not, including [merchant cash advances](#) and invoice financing.

Alternative Lenders vs. Traditional Banks: What's the Difference?

Between alternative lenders and traditional banks, the key difference is that of flexibility and interest rates. While [alternative lenders can offer looser terms](#) in regards to approval, repayment schedule, and lending speed, traditional banks operate differently.

Strict approval criteria, diligent repayment policies, and deliberative processing times make banks less attractive for those who are on an urgent timeline. Conversely, with greater flexibility comes greater risk to the lender. As such, alternative lenders usually charge greater interest rates than their traditional counterparts.

Alternative Loan Options

- **Term loans:** Term loans are variable interest rate loans with pre-arranged repayment periods, which, in the case of small businesses, usually range between 10 or 20 years.
- **Lines of credit:** For small businesses, lines of credit offer a greater degree of flexibility than a standard loan. With lines of credit, the borrower is granted a draw limit. Repayment and interest is only owed on the amount withdrawn, rather than the granted total.
- **Invoice financing:** Invoice factoring, or invoice financing, is a monetary process by which outstanding accounts receivable, or invoices, are bought by financial third parties, or factor companies, in exchange for cash advances.
- **Merchant cash advances:** A merchant cash advance, or credit card receivable funding, is a process used to fund small businesses where a business owner can receive a cash advance based on the speculated amount of future credit card sales. At the conclusion of each business day, a pre-determined percentage of the daily transaction amount is transferred to the lender, until such time as the advance is fully paid off.
- **Equipment loans:** Equipment loans, specifically for small businesses, are loans meant to assist in the purchase of business-dependent

equipment. As opposed to other loan types, which require outside collateral, equipment loans' resultant equipment acts as their own collateral.

Pros/Cons of Alternative Lending

Pros:

- Predictable payment structure
- Fitting for a variety of business-centric uses
- Easier qualification

Cons:

- Higher interest rates and APR
- Possible penalties for prepayment
- Less equity available for other initiatives

How to Find the Best Alternative Lender for You

In order to find the best alternative lender for a business' needs, carefully examine a lender's offer. In addition to the maximum loan amount, loan term, and lending speed, penalty fee and interest rates are critical. All told, excessive costs and fees can make the difference between a boom and bust for the business in question.

The best alternative lender, the possibility for predatory fees aside, will customize its offer based on specific business information. Credit scores, average revenues, length of time in operation -- these factors will ensure that an alternative lender not only provides favorable terms, but also predictability.

Since a small business loan limits the amount of available equity, predictability is essential to proper long-term planning. In the event that a potential borrower wishes compare options and terms, out [top ten lenders of small business loans](#) would be good place to get started.