# From The Editor…

## THE HIGH COST OF NON-TRADITIONAL FINANCING

Borrowing money for your business can be a good thing and it can also be your worst nightmare.

When a business borrows money to grow the business, acquire a new facility, buy a competitor, or expand to another city, consideration should be given to matching the terms of the financing with what the money is going to be used for. As an example, it would not be a good financial decision to try to pay for a new building in a year, nor would it be a good decision to finance a new phone system for twenty years. In addition, if you have excess cash, it is usually not a good idea to pay-off a loan ahead of time. Always remember: “Cash is King”. When you have cash, getting a new loan is easy. When you don’t have any cash, it is much harder to get a loan.


Bank and credit union loans and equipment lease financing by manufacturers are examples of traditional financing arrangements. These lenders typically structure borrowings with monthly payments of principal and interest; the interest rates are usually in line with what the current market interest rates are at the time the borrowing is originated. In addition, these lenders generally do not want to take back any collateral securing their loans unless there is simply no other alternative to protect their money lent. Thus, these lenders will usually work with borrowers to restructure their loans, so payments can be made based on the borrower’s financial situation.

Non-traditional financing is done by individuals and companies that are seeking a quick repayment of their money lent and a much higher interest rate than any current market rate of interest. Many of these non-traditional lenders are borrowing the money themselves that they lend to customers, so for them to pay interest on the money they borrow plus make an allocation for loan losses and get a return on their investment, it’s easy to see that these non-traditional lenders have to charge a much higher rate of interest.

Further, when I mentioned these non-traditional lenders are seeking a quick repayment, I meant just that: Many of these non-traditional lenders structure their repayment terms over one year or less. And, the repayment is even more in their favor in that they will require that the payment be taken out of the business’s checking account automatically daily. I have seen situations where this daily charge to a business’s checking account was over $1,000 a day. On a twenty-two-business-day month that is $22,000 plus from the business’s monthly cash flow. You can image what that does to the cash flow vs. a traditional, say, $2,500 a month payment.

In addition, some, not all, of these non-traditional lenders have no problem foreclosing on a business, taking the business over and fire selling the assets to recoup the amount of money that they lent. Many are also more than happy to refinance the debt with no rebate of unearned interest. They simply add the unearned interest to the amount being refinanced, so in effect, you are paying interest on interest.

I certainly can understand why and how businesses get caught up in these non-traditional borrowing situations, but I hope what has been detailed in this article will make any business owner seek the guidance of a business advisor, consultant or mentor before signing on the bottom line.

If you have a question about what you should do about financing for your business, contact a **Silver Fox Advisor** today. Remember, having experience on your side always helps. We encourage you to visit our Website at www.silverfox.org or www.silverfoxadvisors.com to select a **Silver Fox Advisor** and also to learn more about the **Silver Fox Advisors**, as well as our great programs and community outreach endeavors. ♦

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