



RADIUM

— SPRING —

BUSINESS DEVELOPMENT,

STRATEGIC PARTNERSHIPS,

& ACQUISITIONS

Business Loan



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Business Loans Overview

Why Conventional Business Loans?

A **Conventional Business Loan** is a type of loan offered by banks, credit unions, or other financial institutions to small and large businesses for various purposes, such as expansion, purchasing equipment, real estate, or covering operational expenses. Unlike SBA loans or other government-backed financing options, conventional loans are not guaranteed by any government entity, meaning they come with more stringent requirements and typically favor businesses with strong financial histories, collateral, and credit scores. Below is an overview of the primary types of conventional business loans and how they can benefit businesses.

1. Term Loans

A **term loan** is the most common type of conventional business loan, where a business borrows a lump sum and repays it over a fixed term, usually with a set interest rate. Term loans can be short-term (under 1 year), medium-term (1-5 years), or long-term (5+ years). These loans are often used to finance large capital expenditures like purchasing machinery, expanding facilities, or refinancing existing debt.

For example, a manufacturing company may take out a 10-year term loan to fund the purchase of new production equipment. The company then repays the loan in monthly installments, including interest.

Benefit: Term loans provide businesses with a predictable repayment schedule and are ideal for funding specific projects or large purchases. Long-term loans allow businesses to spread out payments over time, reducing the financial burden on cash flow.

2. Business Lines of Credit

A **business line of credit** is a revolving credit facility that allows businesses to draw on a pre-approved credit limit as needed, similar to a credit card. Interest is only charged on the amount withdrawn, and once the borrowed amount is repaid, the funds are available to use again. Lines of credit are often used to cover short-term working capital needs, such as managing cash flow, purchasing inventory, or covering payroll during slow periods.

For instance, a retail business might use a line of credit to purchase additional inventory for the holiday season and then repay the borrowed amount once the season ends and sales increase.

Benefit: Business lines of credit offer flexibility by allowing businesses to access funds on an as-needed basis. They are ideal for managing short-term cash flow fluctuations or financing working capital.

3. Equipment Loans

Equipment loans are used specifically to purchase equipment, vehicles, or machinery for business operations. These loans are typically secured by the equipment being purchased, meaning the equipment itself serves as collateral for the loan. This lowers the lender's risk and often results in lower interest rates compared to unsecured loans.

For example, a construction company might take out an equipment loan to purchase new bulldozers. The loan is secured by the equipment, and the company repays the loan over several years.

Benefit: Equipment loans allow businesses to finance the purchase of expensive equipment without needing to pay the full cost upfront. Because the equipment serves as collateral, these loans are generally easier to obtain and have favorable terms.

4. Commercial Real Estate Loans

A **commercial real estate loan** is used to finance the purchase or development of commercial properties such as office buildings, warehouses, or retail spaces. These loans typically come with long repayment terms, often 10 to 25 years, and can have fixed or variable interest rates. Real estate loans are secured by the property itself, and they may also be used for refinancing existing commercial real estate debt.

For example, a small business may use a commercial real estate loan to purchase a new office building. The loan is repaid over 20 years, and the property serves as collateral.

Benefit: Commercial real estate loans enable businesses to purchase property, develop new facilities, or expand their physical footprint with manageable long-term financing options. The loan terms and interest rates are often favorable due to the secured nature of the loan.

5. Working Capital Loans

Working capital loans are short-term loans used to cover day-to-day operational expenses such as payroll, rent, and utilities. These loans are designed to help businesses manage short-term cash flow challenges and are often repaid within a year. Unlike lines of credit, working capital loans are a one-time disbursement, and repayment begins immediately.

For instance, a business that experiences seasonal fluctuations in revenue may use a working capital loan to cover operational expenses during a slow period and repay the loan once business picks up.

Benefit: Working capital loans provide quick access to funds to cover essential business expenses, helping companies stay operational during cash flow shortfalls or seasonal downturns.

6. Merchant Cash Advances

A **merchant cash advance (MCA)** is a type of financing where a lender advances a lump sum of capital to a business in exchange for a percentage of future credit card sales or daily revenue. MCAs are typically used by businesses that rely heavily on credit card transactions, such as restaurants or retail stores. Repayment is automatic and deducted from the business's daily sales.

For example, a restaurant may take out an MCA to cover the costs of renovations and repay the advance as a percentage of its daily credit card sales.

Benefit: Merchant cash advances provide businesses with immediate capital, and the flexible repayment structure allows businesses to repay the loan based on their sales volume, making it easier to manage during slow periods.

7. Invoice Financing

Invoice financing, also known as **accounts receivable financing**, allows businesses to borrow against their unpaid invoices. Lenders provide immediate cash based on a percentage of the value of the invoices, and the business repays the loan once the invoices are paid by customers. This type of financing is ideal for businesses with long payment cycles that need to access cash before invoices are due.

For instance, a manufacturing company with a 90-day invoice payment cycle might use invoice financing to cover expenses while waiting for customers to pay their invoices.

Benefit: Invoice financing helps businesses manage cash flow by providing immediate access to funds tied up in unpaid invoices. This can be a lifesaver for businesses with slow-paying customers.

8. Balloon Loans

A **balloon loan** is a type of loan where the borrower makes small payments over a set period, and a large, "balloon" payment is due at the end of the term. These loans are often used for commercial real estate or business expansion projects, where the business expects a significant revenue increase or liquidity event in the future.

For example, a growing company might take out a balloon loan to finance an expansion, with the expectation that they will be able to refinance or sell part of the business to cover the large final payment.

Benefit: Balloon loans offer lower monthly payments, making them more affordable in the short term. However, the large payment at the end of the term requires careful planning to avoid financial difficulties.

Conclusion

Conventional business loans offer a wide variety of financing options that cater to different business needs, from covering operational expenses to purchasing equipment or real estate. While these loans require strong financial credentials and may come with more stringent terms than government-backed loans, they offer businesses flexibility, control, and the opportunity to access capital tailored to their specific goals. By understanding the different types of conventional business loans available, companies can choose the financing option that best suits their financial situation, growth plans, and risk tolerance.