New Orleans CityBusiness

Bankers advise reading fine print on alternative loans

By: Lance Traweek, Reporter July 13, 2015 0

New or small businesses turn to alternative lending for fast, no-hassle sources of funding, but bankers are urging them to read the fine print first.

Courtesy Thinkstock

The trend toward alternative sources of bank loans started mainly because of government regulations of banks and banks themselves pulling inward during the recent national recession to ensure loan quality. Some call these funding sources "shadow banking," or alternative lenders, and many are not regulated in the same way that banks are.

Alternative lending remains small when compared with traditional banking, accounting for an estimated $9 billion in loan volume last year, according to AmericanBanker.com. Alternative lenders such as CAN Capital, IOU Central and Kabbage are shelling out fast cash to businesses in need. For example, OnDeck has loaned $2 billion to more than 700 industries since it opened in 2007.

Borrowing from traditional banks is not always possible, especially for new, startup companies or businesses under a bit of stress.

"Alternative lenders may be a reasonable resource, but beware," said Kyle Waters, owner and manager of Metairie-based Loan Evaluation Services. "Rates are higher to compensate for added risk."

He added that the terms may not match the company's needs.

"The funding for these loans is from private sources who are looking for equity-type returns on their investments, which are obviously a lot higher than returns on bank loans that are mostly funded by insured depositors," said Ron Samford Jr., president and CEO of Metairie Bank.

Terms may include a faster payback requirement of a loan to acquire longer-term equipment, or in some cases, longer sales cycle inventory and collection of receivables.

“Borrowers need to understand what they are getting into and the effects it will have on their business,” Waters said. “A short-term fix may turn into a longer-term problem if the loan doesn’t make sense.”

Guy Williams, president and CEO of Gulf Coast Bank & Trust, said before getting an alternative loan, be sure it’s justified and not just quick cash.

“Make sure you’re not paying your entire profit back,” Williams said.

Borrowers aren’t the only ones who can be adversely affected by alternative lenders.

“It’s not helpful to community banks, and therefore to local economies that they serve, that ‘shadow’ banks, for the most part, get to play by different rules and regulations than the rest of us,” Samford said. “While these ‘shadow’ banks may in some instances serve a useful function, providing credit to entrepreneurs and startups that don’t yet have an established track record of performance, users should always focus on developing a personal relationship with a local bank lender.”

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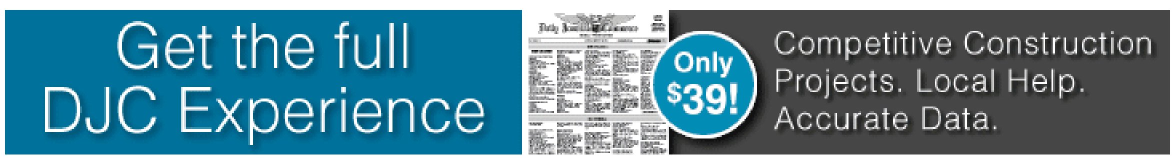

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