



The Ultimate
Guide to Short-Term
Business Loans

Is this the year to grow your business with a short-term business loan?

A short-term business loan can be an appropriate solution for businesses in need of a quick cash injection, whether for refurbishments, new stock, cash flow or investment in new plans for growth. All businesses want to invest, grow and evolve, and accessing short-term business loans or another type of business finance can make this happen.

However, taking out a business loan for the first time can be a daunting prospect, with the numerous types of loans and financing options, jargon, legalities and terminology. In this guide, we aim to help you navigate the business finance minefield, with a specific focus on short-term business loans for UK companies.

Your Business Finance Terminology Guide

Types of business loans:

Unsecured Loans:

- Flexible loans.
- Used for a wide variety of requirements such as asset purchases, working capital, and business expansion.
- No assets required to apply through Smarter Business.

Asset Finance:

- Used to purchase or refinance an existing asset.
- A charge over the asset is held as security until the loan is repaid.

Secured Loans:

- Flexible loans.
- Used for a wide variety of requirements such as asset purchases, working capital, and business expansion.
- Lender will require security for the loan, such as a personal guarantee or other assets.

Small Business Loans:

- Allow small businesses to access short-term business loans quickly and simply.
- Used for a number of reasons e.g. renovations, purchases, expansions, equipment, cash flow.
- Available for most business types.

Top Tip!

Choose as short a loan period as you can, whilst still keeping your repayments affordable. This will reduce the amount of interest that you end up paying.

Repayment Periods / Term Length:

- > The length of time you have to pay back your business loan.
- > Loans are usually repaid in equal monthly installments over the repayment period.

Rates

Annual Percentage Rate (APR):

- > Shows the total cost of borrowing over 12 months.
- > APR includes all the standard costs involved in taking out a business loan.
- > Many short-term business loans don't have an APR as the repayments are based on a risk-adjusted flat rate.

Fixed Rates:

- > Interest rate doesn't change during a set period of the loan term.
- > You will know exactly what you're paying each month.

Fees

Early Repayment Fees:

You may be required to pay an early replacement fee if you decide to repay your loan before the full loan term is complete.

Arrangement Fees:

An admin fee covering the cost of setting up the loan.

What is a Short-Term Business Loan?

Short-term business finance is a credit facility designed to be repaid in one to two years. Due to the shorter loan terms, this type of financing is often more flexible and easier to attain, since the complications of conventional loans are stripped away.

A short-term business loan can be used for a number of reasons, including:

- > Purchasing new equipment
- > Stock purchases
- > Renovating your office space
- > Expanding your business
- > Replenish your inventory
- > As a necessary influx of capital when you need it

The truth about short-term loans:



Short-term business loans are only for emergencies.

Short-term finance means cash in a hurry, but it also means faster repayments, which many small businesses prefer.



Short-term, unsecured loans are quick and easy to arrange.

One of the major benefits of short-term insurance is that the application process is simplified and faster than that of a traditional business loan. The funds also arrive in your bank account sooner.



Short-term business loans are always more expensive.

Short-term loans are paid over a shorter period of time, so although the monthly repayments may seem higher than those of a traditional loan, the total cost to borrow is usually comparable to longer-term loans.

The short-term business loan formula

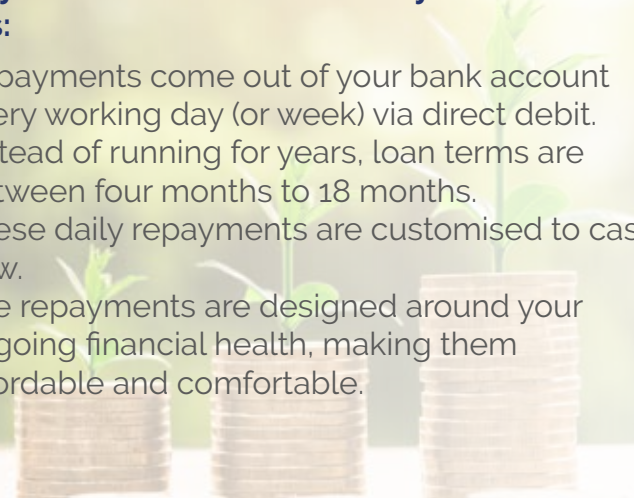


How are short-term business loans priced and paid?

Although most loans are priced using an annual percentage rate (APR) calculated over a fixed loan term, some short-term loans have no APR since repayments are based on a risk-adjusted flat rate. There are also no penalties for paying the loan ahead of time.

Repayments also work differently to traditional loans:

- Repayments come out of your bank account every working day (or week) via direct debit.
- Instead of running for years, loan terms are between four months to 18 months.
- These daily repayments are customised to cash flow.
- The repayments are designed around your ongoing financial health, making them affordable and comfortable.



4 Signs That You Need a Short-Term Business Loan

Savvy businesses don't overlook warning signs or gaps in the business. Sometimes, external finance through a short-term loan is needed to address these problems before they end up crippling the business.

Here are 4 signs that your business is in need of additional investment:

1 Slow processes are holding your business back

Does your company still rely on slow, manual processes? And even if you do have technology solutions in place, are they fit-for-purpose?

Warning signs that your business is outgrowing its ways of doing things include:

- You're slow at taking and fulfilling orders
- You are struggling with administration
- You are losing new business
- Your productivity is sluggish
- Your communication with your customers is poor

If your business is dealing with any of the issues above, you probably need to get a short-term business loan to invest in better technology systems.

2 Your outdated equipment is slowing productivity

If your computers are lagging, you are losing valuable minutes (and even hours) every day in wasted work time. Although you want to get the most out of your IT infrastructure, there comes a time when a machine simply has to be replaced. The same applies to other equipment that your business uses, such as heavy machinery, manufacturing equipment and vehicles.

Sophisticated new hardware and/or software can make all the difference in improved productivity and create long-term savings. In the short-term, external financing can help you with the capital for the initial investment.

3 That you outgrow your current premises

A good 'problem' to have is one of growing your business to a point that you outgrow your current premises. Moving to a larger site or enlarging your existing site is a simple solution - but it does involve a number of expenses for which you may not have budgeted.

4 You need more employees

Like outgrowing your premises, the need to employ more staff is normally a good sign for your business. Whether you need to employ a new skill set, or supplement your existing skill set, hiring more people is not always an easy decision to make.

More staff costs more money, and although you may see the benefits of a larger staff base in the long run, you may not have the initial capital to employ more people right away. A short-term business loan can help bridge the cost between bringing the new employee on board and the time it takes for them to pay their way.

Did you know?

Total annual employment costs for the average SME with six members of staff are £189,600 (including salaries, benefits, and non-wage costs).

A business with between 20 and 49 staff will spend an average of £25,100 per new employee.

5 Common Mistakes to Avoid When Applying For a Short-Term Business Loan

When applying for a business loan, you need to do adequate preparation to avoid making common mistakes that could lead your funding to be denied, or prevent you from getting the best finance terms.

1 Not knowing your credit score

Find out your credit score. Make sure that everything is accurate and that you don't have any outstanding debts.

2 Neglecting to plan how much you need

Before submitting a short-term business loan application, calculate the exact amount that you need. A lender should never encourage you to borrow more than you need to.

3 Waiting until it's too late

Of course, a short-term business loan can often save the day in an emergency situation, but they are also there to prevent such emergencies from happening in the first place. For example, if you use a loan to replace equipment before it becomes dysfunctional, you'll prevent the situation of not having the equipment you need.

4 Not exploring all the options

There's more to business finance than bank loans, so make sure that you explore different opportunities and compare alternative business funding. The benefits of using an alternate lender for your short-term business loan are that you often have a higher chance of approval and can get a more bespoke solution.

5 Thinking that you need assets to get funding

Although many creditors and banks require that you use your assets as security, this is not the case for all business finance providers. Unsecured loans are becoming more common, and the more flexible and agile providers of these loans won't need any assets in order to arrange the finance.

Alternative vs. Traditional Finance

These days, there is more to business finance than the traditional bank loan.

Short-term, unsecured loans from alternative providers are becoming more popular because they are generally:

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Simpler



Faster



More flexible

Here are some of the differences that can apply between alternative finance and traditional finance. Of course, these don't apply to all institutions, but do represent some of the general characteristics of alternative vs. traditional finance.

Alternative

- Free to use the funding you receive for any business expense.
- Pay your loan at any time without facing a penalty.
- Work with your unique business model and represent almost every industry.
- Fewer regulations.
- Will not specify how any funds borrowed should be spent.
- Access to innovative finance products such as Merchant Cash Advances.
- Faster and easier to arrange.
- Cash can arrive as soon as two days after the application.
- Quick to repay, freeing up payment obligations.
- No assets required as security.

Traditional Finance

- Funding used for specific purposes.
- Penalties for early loan repayment.
- Rigid and complicated, with a long list of terms and conditions.
- Hesitant to shun 'riskier' businesses, such as seasonal operations.
- Will often pass or fail a loan application based on how the money will be used.
- Limited scope of products.
- Tedious and time-consuming to apply, make decisions and transfer funds.
- It can take weeks or even months for cash to be paid.
- Longer payment terms.
- Assets are often required for security.

Would a Short-Term Business Loan Suit Your Organisation?

A short-term business loan is suited to companies who need a quick cash injection, with flexible terms, for any business use.

Qualifying criteria

- Approval for a small business loan is primarily based on the overall health of your business and your recent trading history.
- At least two years trading is a minimum requirement.
- Business should be able to provide some evidence of their recent performance, such as several months of bank statements.
- A positive daily bank balance.
- Ability to demonstrate that you are in a strong position to grow.

Tips to get business funding fast

- Be realistic with your calculations of how much you need.
- Also be clear on how much you can afford to repay (and therefore borrow).
- Look to alternative financing options before dashing straight to the bank.
- Make sure that you have a positive cash flow and a healthy daily bank balance.
- Do some background work to find out the relevant lending criteria.
- Get organised with all the necessary details and documents on hand to secure your loan.
- Pay your bills on time to improve your credit score.
- Be honest and transparent with your business finance provider.

How to Apply for a Short-Term Business Loan in 3 Simple Steps

We know that when you need capital, you need it fast. That's why we're here to help with short-term business loans designed exclusively for busy business owners.

1 Apply in seconds

Email us at info@smarterbusiness.co.uk or call 01444 220060 and we will get straight back to you with an instant, no-obligation quote.

2 Get Approved

Upon receiving your application, it will be reviewed by our funding advisors. We will then be in touch with a decision in principle, often within 24 hours.

3 Get Funded

Successful applicants can access funds from their business loan in as few as two business days.

Apply for a
no-obligation quote today!

www.smarterbusiness.co.uk/business-loans

Why apply for a short-term business loan with Smarter Business

Get fast business loans for any business use and flexible funding to suit your business:

- > Financing from £3,000 – £500,000
- > Terms from 4 to 18 months
- > Apply online with minimal paperwork
- > Initial decision in 24 hours
- > Fast funding in 2 – 5 days
- > High approval rates
- > Flexible repayment options
- > 20,000+ businesses funded

“The process is straightforward, efficient and requires a minimal amount of paperwork.”

7 reasons to join our 1000s of satisfied customers:

1. At Smarter Business, we exist to help your business save time and money.
2. There are no additional fees for using our service.
3. Through our tailored advice, it's our mission to match each of our customers with the best possible financing for their needs.
4. Get reliable customer support.
5. We are independently rated as 'Excellent' on TrustPilot.
6. We are ranked as a leading consultancy by Cornwall.
7. Our customers have rated us excellent on Trustpilot.

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