

Avoiding Predatory Lending

Red flags & safer alternatives



CDFI overview

- Community Development Financial Institutions, certified by US Treasury
 - Nonprofit Lenders with Missions
 - Lending to businesses which may be unbankable or not quite ready for bank financing
- More 'hands on' involvement and financial counseling

Continuum of Business Lenders

Category of Lender

Characteristics

Crowdfunding 'Friends and Family'

- ▶ *Very few restrictions and 'strings' attached*
- ▶ *No collateral or pledges required*
- ▶ *No interest or low interest*
- ▶ *It may take time to raise all the money needed from several sources*
- ▶ *Personal integrity and reputation at stake*

Continuum of Business Lenders

Category of Lender

Commercial Banks

Characteristics

- ▶ *Offer Depository Products and services*
- ▶ *Competitive interest rates usually floating based on prime*
- ▶ *SBA guarantees available*
- ▶ *Generally require collateral or strong personal guarantors with high credit scores*
- ▶ *If you fit their 'matrix' loans could be approved quickly
If credit request is complex, it could take lengthy approval process*
- ▶ *Any service issues may require remote telephone or online*

Continuum of Business Lenders

Category of Lender

CDFI

Characteristics

- ▶ *Mission-based lending*
- ▶ *Competitive interest rates at or slightly above bank rates*
- ▶ *Collateral generally required*
- ▶ *Personal guarantees required, but credit score requirements not as high as banks*
- ▶ *SBA guarantees available*
- ▶ *Technical assistance and more 'hands-on' involvement*
- ▶ *Local approvals, generally faster than banks*
- ▶ *Personalized counseling and service*

Continuum of Business Lenders

Category of Lender

Online 'Fintech'

Characteristics

- ▶ *Easy to apply, online*
- ▶ *Fast response time and funding*
- ▶ *Personal guarantees required, with high credit scores*
- ▶ *HIGH interest rates, could be 3 X bank or CDFI rates or more*
- ▶ *Cycle of repayment may leave borrower in debt for very long time*
- ▶ *No Technical assistance and very little servicing help*

Problematic loans and merchant cash advances lure you in with red flags.



No posted fees or interest rates



Approval in hours or days



Offered as an advance on future sales



Daily or weekly repayment, often drawn directly from your sales



Aggressive online marketing or cold calling

Merchant Cash Advance example

- ▶ Sample Square Loan Terms

Loan Amount	\$26,000.00
Origination Fee	\$3,640.00
Loan Balance	\$29,640.00
Existing Obligation Amount	\$3,923.93
Repayment Rate	19.75%
Loan Funds Available	\$22,076.07

- ▶ Loan Amount vs Loan Funds Available
- ▶ Origination Fee = Loan Fee and cost of financing including “interest”
- ▶ Repayment Rate = % to be debited from your gross payment card processing amount DAILY

Predatory loan example

- ▶ Restaurant bringing in over \$650k annually but not making money due to these loans.
 - ▶ Immigrant owned woman of color
- ▶ They had loans totaling almost \$43k
- ▶ Daily payments between \$226 and \$399
- ▶ We refinanced these loans and the monthly cash flow savings was about \$17,000 a month

- ▶ We had a strong business and got in early to save them

- ▶ There were unenforceable clauses in the contract including abdicating the right to sue the company or participate in a class action lawsuit

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