



Traditional vs. Alternative Lenders:

What to Expect in the Lending Process



Table of Contents

Introduction	01
Applying for a Loan	02
Working with Your Lender	07
How Alternative Lending Works	09
Take Full Advantage of Alternative Lending with QuickBridge	09



Introduction

Alternative lending has emerged as a mainstream financing option for small businesses. According to a study by the 12 U.S. Federal Reserve Banks, approximately **24 percent** of small business loan applications were processed by online lenders in 2017. This marks a 3 percent uptick from the prior year and happens at a point when more businesses self-identifying as credit risks are seeking funding.

The rise of alternative lending comes at a time when small businesses have long needed more financing options. More than a decade after the start of the last recession, traditional banks are still conservative in their lending practices. As a result, small businesses have been forced to deal with a blend of time-consuming application processes and high rejection rates. Alternative lenders filled a gap in the market, and they did it by using modern technology in purpose-built online lending platforms.

These platforms enable alternative lenders to process applications in less than 24 hours and typically provide funding just as quickly. The loan application process is simple, and loans are often accessible to small business owners with less-than-stellar credit. Alternative lenders have disrupted the small business loan marketplace by providing easier access to working capital. In practice, alternative lending is a completely new way of approaching the lending process to change the customer experience.

With **alternative lending**, small business owners can secure a loan that matches their unique needs. However, the process of working with alternative lenders is a bit different than interacting with banks. Here's a look at the key differences.

Applying for a Loan

Preparing for the Loan Application Process

Applying for a loan with a traditional bank requires a great deal of preparation. Traditional banks can be difficult to deal with when it comes to providing loan documents and collateral requirements. To have a realistic chance of getting approved, you'll need to strengthen your financial portfolio and accounting systems to ensure you're ready for the scrutiny that will come with a bank loan application.

You'll need to:

- Perform thorough self-audits and create reports on earnings and expenses.
- Collect financial documents and organize them for easy analysis by banks.
- Analyze your current credit situation and deal with any errors and debt payments to improve your score.
- Collect fiscal resources and assets to provide collateral for loans.



These are just a few of the key tasks you'll need to complete when preparing to apply for a typical bank loan. The goal is to show that you're completely on top of your fiscal situation and capable of paying back a large loan over a long period of time. It can take months, and possibly longer, just to strengthen your financial situation so you can feel prepared to apply for a loan from a bank.

Alternative lenders typically don't require as much background detail. But that doesn't mean they don't care about your business' health. They simply use different data sources to assess your risk situation. As a result, you don't have to do as much background work to initiate the loan process. Alternative lenders work with smaller loans, often for less than \$100,000, and usually paid back in less than a year. Because of this, they don't need to know your full financial back story to determine if working with you will be worthwhile.

Preparing for a loan application with an alternative lender is more about understanding the loan products on offer from the lender. In fact, a study from the Reserve Bank of Cleveland found that small business owners prefer to work with lenders whose websites **feature detailed product information**. The challenge comes in the fact that the study indicated many small business borrowers find product samples confusing. Look for alternative lenders that offer transparency and clear, concise information on their websites so you can get the details you need without being overwhelmed trying to make sense of various loan options.



Filing an Application

When working with banks, actually filing the application is a complex process. All those financial details we just discussed, as well as bank and credit reports, need to be brought to the bank. You may need to meet a bank employee in person or speak on the phone, often multiple times. The process can take weeks and sometimes even months for a decision on a larger loan.

Alternative lenders stand out in large part due to their fully online, easy-to-complete application

process. There's less paperwork because they gather data automatically. There's less waiting because much of the application analysis is automated. You can complete an application and get a decision in less than a day. This is helpful as it simplifies the funding process for you and allows you to easily shop around to find the right deal. In many ways, filling out a loan application from an alternative lender is like completing an online survey. You provide some basic information, answer a few questions, and quickly get results.



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Getting Qualified

Obtaining a small business loan from a traditional bank can be challenging. While data about rejection rates is difficult to come by because loan products are so varied, it's generally well known that traditional lenders frequently decline small business loan applications. One of the reasons that **banks reject borrowers** is because the relative cost of processing an application and originating the loan is high compared to the amount of revenue the loan can generate for the bank. They also have tight lending restrictions when it comes to approving small business loans for certain industries. Throw in risk, and the stars really have to align for a small business to receive a loan from a bank.

Alternative lenders take a completely different approach to qualifying individuals for a loan. Alternative lenders can often provide loans to business owners that have relatively poor credit or filed for bankruptcy. A big bank will typically decline a loan due to these credit-related issues. To a great extent, this is made possible because alternative lenders focus on using bank statements and cash flow analysis to qualify applicants. This means that if you have poor credit, for example, but a strong cash flow, the alternative lender will likely recognize your fit for a loan.



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Working with Your Lender

Typical Loan Options, Consulting Services, and Funding Usage

Banks tend to offer large-scale, rigid loans geared toward small businesses. These can include financing for major equipment purchases, commercial mortgages, and similar types of funding. In the majority of cases, bank loans come with strict terms. The funds are designated for a specific purpose and must be used exclusively to that end. In many cases, the lender will want to have some say in how the loan is used. This can be advantageous, as the lender's heavy investment and involvement in the loan can minimize risk for you, but it can also be limiting. You can generally expect high-touch, relational consulting interactions from a bank.

When working with an alternative lender, you're more likely to have access to a wider variety

of loan types. Options include working capital, bad credit loans, merchant cash advances, and tax repayment loans. Equipment financing and specialized industry-focused loans are often available as well. Despite your many choices, some of these loan types, such as working capital offerings, come with a few strings attached. You can often use the funds for a variety of purposes, even changing plans if your needs shift. However, alternative lenders typically provide minimal consulting and assistance through the application process. It's a much more transactional interaction. QuickBridge is working to change the way alternative lenders approach consumer communications by blending relational banking strategies with alternative lending services.



Obtaining and Repaying Loans

Like the bank loan application process, receiving funds from a bank can take a long time. You'll often be left waiting weeks for the money to go through processing and make its way into your account. Alternative lenders work to expedite the funding process. At QuickBridge, we often get clients their cash within 24 hours of loan approval. Alternative lenders are generally the **best financing option** if you're in need of immediate capital.

Repayment processes are also simpler with alternative lenders. Banks offer complex interest rates and terms for repayment that often extend over years. Many alternative lenders simply add a service fee on top of the total cost of the loan to simplify repayment, with payments spread over a year or less.



How Alternative Lending Works

A Different Method of Financing

Alternative lending is built around data. Lenders have access to a variety of databases that gather consumer information on a variety of topics, often from unstructured sources such as social media. These alternative data sources are used alongside traditional data types to analyze risk associated with a loan. All the data collection can be automated with minimal user input on the application. From there, the analytics system can identify if a

loan application should be approved, declined, or analyzed more closely. By automating the initial data analysis process, alternative lenders can process applications quickly. By using a variety of data sources, they can perform risk assessments that go deeper than credit scores. Throw in a focus on small-scale, short-term loans, and you're left with a much simpler, more straightforward financing process.

All of this adds up to create more flexible and efficient borrowing opportunities for small businesses—even if they have previously been denied.

Take Full Advantage of Alternative Lending with QuickBridge

Banks aren't necessarily a bad option. They're great if you need a large, complex loan and are concerned about risk. But if you're looking for funding to spur rapid growth, take advantage of an immediate opportunity, or deal with a minor crisis, alternative lenders are a more natural fit. At QuickBridge, we provide pinpoint funding for your business needs and a straightforward application process with minimal paperwork. We pride ourselves on exceptional customer service and honesty. We strive to take the relational banking approach and bring it to alternative lending, helping you get as much value from your loan as possible. Contact us today to get started.

