

CREDIT TRENDS

Seeking Growth, Small-Business Owners Can Tap a Variety of Loan Options

BY JAMES FARRELL

What are the credit needs and opportunities for today's small-business owners? This article explores results from Pathward's new survey.

There's no doubt that the past few years have been tough on owners of small businesses. Between lockdowns, worker shortages, rising interest rates, supply chain disruptions and natural disasters, the task of predicting demand for products and services is more difficult than ever.

And while much of that uncertainty remains, small-business owners are eager to pursue growth. Indeed, that is one of the key findings from Pathward®, N.A.'s new "Small Business Credit Needs and Habits" survey that includes responses from owners and senior executives of 1,000 companies with between 10 and 200 employees across multiple industries.

The online survey, which was fielded in March and had a 95% confidence level, sought to identify the credit needs and credit habits of small-business owners.

One of the big takeaways from the research is that small businesses looking to grow often aren't aware of the array of available financing options. Furthermore, many business owners have misperceptions about those options.

A Desire to Grow Despite Tight Cash Flow

The results aren't really surprising to us. Our deep relationships with clients give us a window into their growth aspirations and their credit needs. Indeed, 70% of respondents said that their company is in growth mode. Another 28% said their company is holding a steady course, with just 2% reporting that their company is struggling.

While those findings reflect optimism, the day-to-day financial realities are less so. Slightly more than one-third of companies said that they had just enough cash on hand to remain operational during a period of six to 12 months in the last year.

Those cash constraints have real-world implications. (See Figure 1.) More than 80% of the companies reported tangible

impact from cash-flow challenges, including delayed expansion or an inability to capitalize on an opportunity. More than a quarter of business leaders took a pay cut and roughly the same amount delayed planned wage increases. The impact was even more stark in manufacturing, where 37% of companies reported missed or delayed payments and/or delayed an inventory purchase.

The desire for expansion and the ongoing cash-flow challenges mean that a growing number of companies will need to borrow funds. More than half of the small businesses that responded to our survey said they believe they will need financing in the next six to 12 months, with another 20% expecting to need it within the next two years. Expansion of operations is the main reason to tap financing, although companies also want to use the funding to buy equipment and machinery, increase staffing and invest in sales and marketing efforts.

Misperceptions Lead to Missed Opportunities

But many small businesses still aren't aware of the many financing types that are available to them, leading to the need for more education from service providers who can guide the companies, according to the survey results. It is certainly understandable that a deep analysis of financing options can take a back seat to day-to-day business operations – making sure workers are taken care of, suppliers are paid, and customers are happy.

As a result, businesses may be choosing financing options that aren't the best fit for their need or business. Traditional business lines of credit and SBA loans are the most popular types of financing among small-business owners, according to the survey. Personal loans represent 30% of the financing tapped by business owners and 20% have turned to friends or family for funding.

These businesses are missing a viable option – asset-based loans. In general, just 19% of companies have accessed this funding option, although the numbers are significantly higher for insurance and manufacturing. When asked what type of loan they would consider, equity financing and business lines of credit rank high. Those options may be perfectly fine in some situations, but the options are far more varied for these



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Figure 1

Which of these consequences, if any, has your company experienced as a result of cash-flow issues?

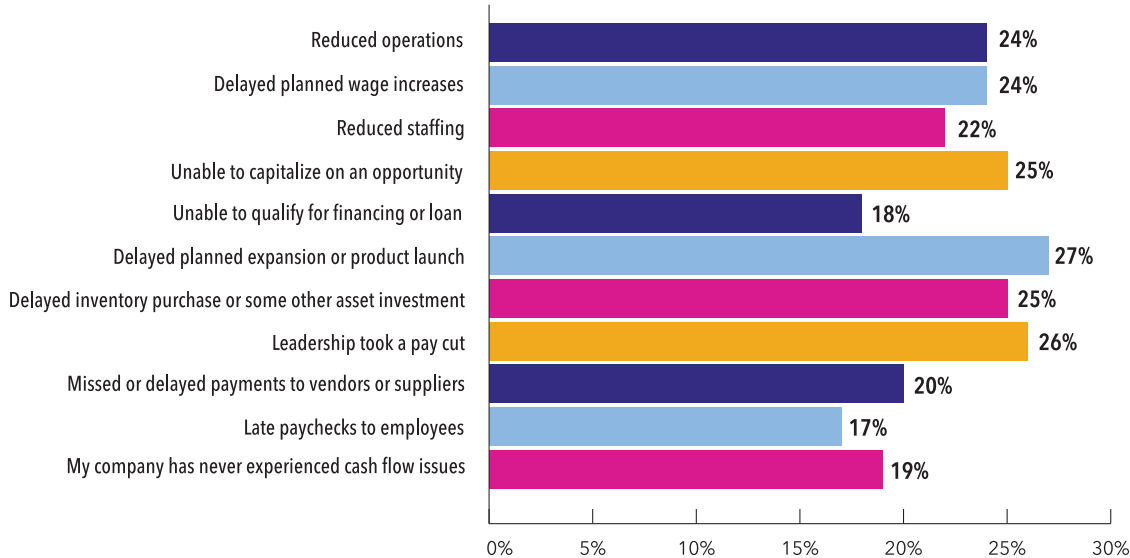
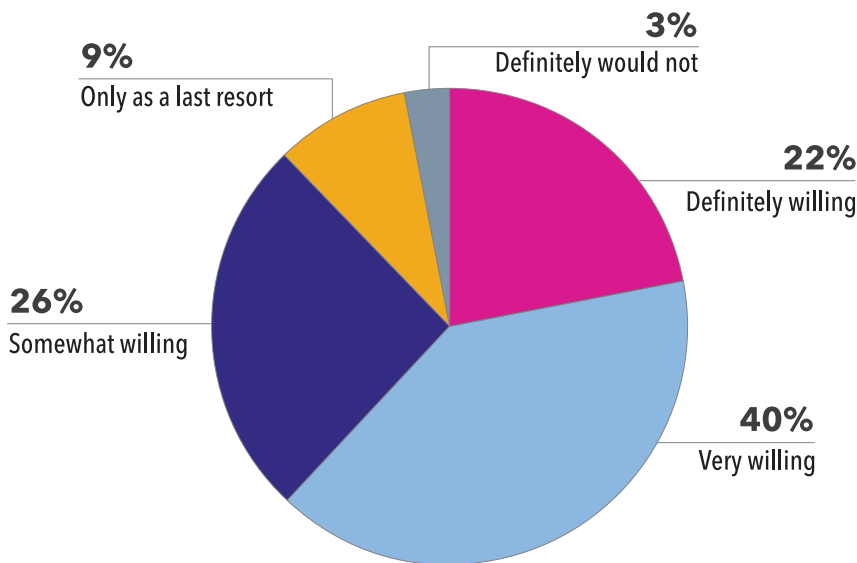


Figure 2

If you needed funding, how willing are you to consider an asset-based loan?



borrowers. Indeed, the survey showed that owners aren't fully aware of loan benefits and constraints.

The good news is that small businesses are enthusiastic about asset-based loans when presented with them as an option. Nearly two-thirds of survey respondents said they would definitely or be very willing to consider an asset-based loan. (See Figure 2.) As for the collateral that they would provide, more than half of respondents said they would put

up equipment. Intellectual property, including patents, also ranked high with some respondents.

Still, it is clear that there are many misperceptions about asset-based loans that are likely inhibiting their use. (See Figure 3.) For example, 29% of small businesses incorrectly believe that this type of loan ties up their assets, with just 39% understanding these loans can actually maximize the use of assets. Borrowers also often need to understand that asset-based lending doesn't mean they are selling their assets (one of the most common misperceptions), but they are borrowing against them. Other misperceptions include the belief that these loans are more expensive than conventional bank loans and that they are only available to established companies.

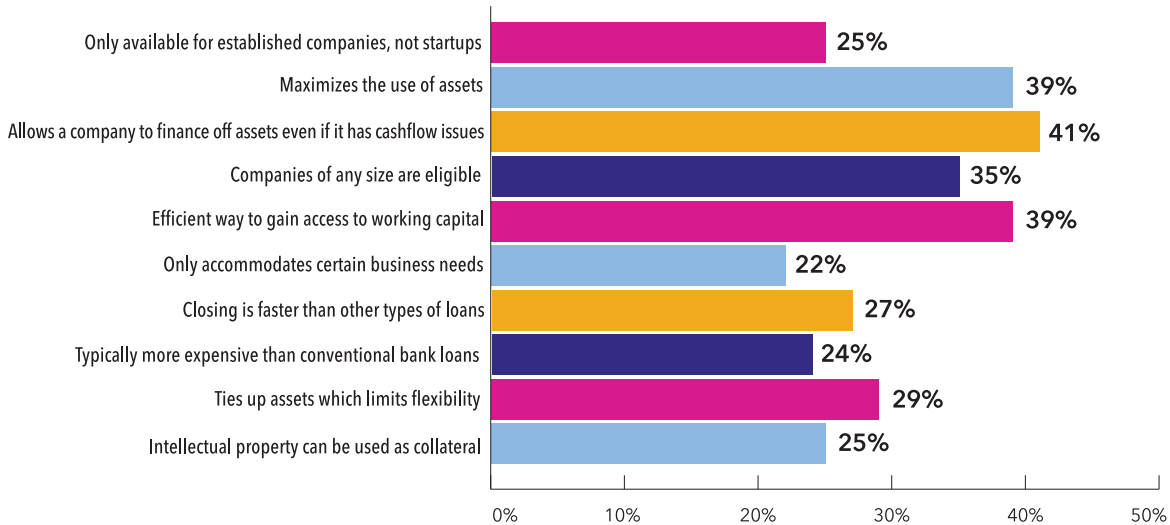
The survey results underscore the opportunity that lenders have to serve the small-business sector as they

pursue growth. Asset-based loans, in particular, can alleviate some of the concerns that business owners might have about financing deals that could put their equity at risk.

Ultimately, lenders must cast a wide net to provide education about the financing options that are available for small businesses. That means not only reaching out to the clients or prospects directly, but to the people who are

Figure 3

**Which of these are true about asset-based loans?
Select all that apply.**



influential with them, such as their lawyers and accountants. When asked in our survey what sources they would consider if they're looking for an asset-based loan, small businesses also favored online searches and word of mouth.

There's little doubt that small business owners will need financing in the coming year. The challenge for them is to consider all types of borrowing that may be available, including alternatives that they may not initially be at the top of their list. After all, those alternatives may be just what they need to reach their growth potential. Pathward® is proud of its "human touch" with clients and looks forward to partnering with them as they weigh these important decisions.

Here are the key takeaways for borrowers and lenders:

- Small businesses are eager to grow.
- Many small businesses have daily cash-flow pressures that impede their growth goals.
- Owners of small businesses are open to borrowing.
- Many borrowers aren't fully aware of the financing opportunities that are available to them.
- Lenders can deepen their relationships with borrowers by providing education and guidance about the benefits and limits of loan types. 📄

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