

## Tips on finding funding during COVID-19, avoiding predatory lending

When seeking out sources of capital, it's important to know what to look for to avoid predatory lenders and financing terms. While there are many lenders seeking to serve struggling small businesses right now, not all types of small business financing are regulated by the federal government, and some bad actors may take advantage of this to prey on small businesses in desperate need of credit. Some actors are trying to scam small business owners by purporting to offer government relief programs. Additionally, other types of loan products that are not regulated like traditional loan products include online marketplace loans, payment vendor loans, merchant cash advances, and other types of short-term financing. It's also important to understand the role that loan brokers play in this process. A loan broker is not a lender—they serve as a third-party who “shops” your business to a lender for funding.

If your small business has been impacted by COVID-19 and you're in the process of seeking financing, below are some important tips and resources to help you navigate the lending process and avoid predatory lenders.

### If seeking capital through the U.S. Small Business Administration (SBA)

- All Economic Injury Disaster Loans (EIDLs) are distributed through the SBA; no other lender is allowed to make them. Avoid any lender purporting to offer you an SBA EIDL loan.
- SBA will not reach out to you for 7(a), PPP or EIDL loans or grants. If you are contacted by someone claiming to be from the SBA, suspect fraud.
- If you are contacted by someone promising to get approval of an SBA loan, but requires any payment up front or offers a high interest bridge loan in the interim, suspect fraud.
- Paycheck Protection Program loans will be offered through approved 7(a) lenders. SBA is expanding the number of approved lenders able to make PPP loans. If in doubt about a lender's eligibility, contact your local SBA district office.
- There should be no fees associated with applying for or closing a PPP or EIDL loan. Lenders will be paid their fees by the government.
- If you are in the process of applying for an SBA loan and receive email correspondence asking for personally identifying information, ensure that the referenced application number is consistent with the actual application number.

**More info:** <https://www.sba.gov/document/report--sba-programs-scams-fraud-alerts>

**If you have a small business story about financing, let Small Business Majority know!** Visit our survey here: <https://www.surveymonkey.com/r/5F2VKFG>

## When seeking other sources of capital

Before you apply for financing, it is important that you ask the right questions of any lender or broker. Below is a checklist to guide you during the loan process. For additional tips and guidance, visit our resource portal at [Venturize.org](http://Venturize.org).

### Checklist

- What is the annualized interest rate or APR? Take note if you don't get a straight answer. Knowing the annualized interest rate of your loan will allow you to compare it with your other options
- What are all the fees? Are they included in the interest rate quoted? What are the payment amounts and frequency?
- What is the full cost of the loan over its lifetime?
- If I prepay, must I pay back anything other than the principal I borrowed? If so, what is the prepayment cost? Some lenders may apply financing charges even if you pay off your loan early. Although it's a cost, they may explain this as a "prepayment discount."
- If I take a second loan with you in the future, will I be "double dipped"? That is, will I need to pay any financing charges on the existing principal of my previous loan?
- Will any short deadlines be imposed on me to accept my loan offer? You shouldn't be pressured
- into accepting a loan within an arbitrarily fast time frame.
- Will you report my loan repayment information to major credit bureaus so I can build my business credit? Will you report positive as well as negative information? If I am unable to repay, how will you try and collect on the loan?
- If working with a broker, ask:
  - What is the annualized interest rate or APR of each option you are presenting me?
  - What will you, the broker, be paid for each option, by me or by the lender? Do you make more money if I take certain loans?
  - Can I see an overall summary of what types of loans borrowers who work with you end up with? What's the average interest rate? How many take a bank loan, medium-term online loan, or merchant cash advance or short-term loan?

**We also encourage you to familiarize yourself with the Small Business Borrowers' Bill of Rights, which we helped develop as part of the Responsible Business Lending Coalition.**

These are fundamental financing rights that we believe all small businesses deserve—rights that, in most cases, are not yet protected by law. They are as follows:

- The Right to Transparent Pricing and Terms
- The Right to Non-Abusive Products
- The Right to Responsible Underwriting
- The Right to Fair Treatment from Brokers
- The Right to Inclusive Credit Access
- The Right to Fair Collection Practices

Learn more: <http://www.borrowersbillofrights.org/bill-of-rights.html>