

# SAN DIEGO BUSINESS JOURNAL

## Merchant Advances Replacing SBA Loans

### **FINANCE:** Private Lenders Offer New Source for Capital

■ By MIKE ALLEN

With money for working capital scarce, small businesses lacking sterling credit but showing positive cash flow are using an alternative to traditional bank loans to fund operations.

Merchant cash advances, usually for less than \$50,000 and based on cash flow rather than credit history, are becoming popular as banks tighten underwriting standards that fewer businesses can meet, say two area private lenders.

"This is a type of lending that's perfectly suited for this economy," said Greg Wells, president of **Five Point Capital**, a San Diego equipment leasing firm that got into merchant cash advances a year ago.

Borrowers using cash advances are usually already maxed out on their credit cards, and aren't likely to qualify for a traditional commercial bank loan, yet are still good risks to repay the capital they need to survive, Wells says.

Yet they are still surviving in a crummy economy, and need capital to keep afloat, he adds.

Frances Garcia, owner of the **Banana Bungalow**, a youth hostel in Pacific Beach, says she obtained \$15,000 in April for improvements to her property, including the addition of three new bathrooms and a sun deck.

Garcia applied for a short-term loan from her bank, but the process bogged down, prompting her to seek out Five Point. "It was easy, a three step process, and you're done. That's what I like about it," she said.

The payments are taken out of her daily credit card sales, and the debt should be paid off within three months, she says.



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"Many of the merchants who we're working with may have qualified for an SBA (Small Business Administration) loan in the past, but those sorts of funds and lines of credit are no longer available," said Colin Fleming, marketing director of Global Swift Funding, which specializes in merchant cash advances.

SBA guaranteed loans have hit their lowest level in years, falling 42 percent in both the number of loans and dollar volume for the first half of the fiscal year.

#### **Customers Increasing**

As of the end of the first quarter, Global Swift had 210 customers compared with 165 for the first quarter of 2008. While loans can be above \$100,000, the average size is \$50,000. Interest rates vary, but range from 14 percent to 30 percent annualized, says Fleming, who declined to reveal dollar amounts for originations or revenue.

Founded in 2005 with two employees, Global Swift now has 20 workers at an office in Chula Vista and a few at its headquarters in Phoenix.

About 75 percent of Global Swift's customers are in the restaurant business, with borrowers generating a minimum of \$5,000 a month in credit card receipts, Fleming says.

"The number one source that's using this product today is restaurants, and nobody wants to lend to a restaurant," said Wells.

He says that for the eight months of last year when it began offering the cash

advances, Five Point did about \$7 million in loans. It reached that amount in the first four months of this year.

#### **Greater Risk**

Wells says the average loan his firm does is \$20,000, although it's made some loans as high as \$125,000. Interest rates range from 20 percent to 25 percent annualized, more than twice what a traditional bank may charge due to the higher risk of default.

"The fact is there's going to be losses in this portfolio," Wells said. "It's certainly more expensive than a bank, but it's a long way from Vinnie on the corner."

Many of Five Point's borrowers like the fact that the repayments are done automatically as sales are made. The average payment is 20 percent of a borrower's daily credit card receipts. "Essentially it's a forced payback system, and the beauty of it is that if things slow down, the payback period is extended," Wells said.

Both Five Point Capital and Global Swift Funding do business nationally, but the latter says it's focusing on San Diego and recently said it allocated \$5 million to area businesses.

Fleming says the lender is interested in maintaining a contact with its customers, and by doing so, repayments are generally improved. Global Swift has had some high renewal rates on its loans, and some fast-food franchisees have used the loans to expand from a single store to three or four locations.