

Should you provide Consumer or Commercial Financing  
to Your Customers?



**DIRECT**CAPITAL®

## Financing Matters

If your business sells medium-to-large ticket items, customers will likely be unable to afford to buy your products outright with cash alone. Being able to guide your customers to appropriate financing options will help your customers to get the equipment and supplies their businesses require in a more affordable way while letting you avoid missing those opportunities.

As a vendor, it's critical to know what financing options are available to your customer base and which options are best suited for the purchase to ensure a satisfactory buying experience and repeat business.



### Inside this ebook you'll find

- How funding your sales with consumer financing could impact your business and your customer's reputation
- The financing option that carries the least amount of personal risk
- How to guide your customer to select the right kind of financing
- What to look for in a finance partner

## The Allure of Consumer Financing

If your customers are small businesses, it's likely they will be tempted to use consumer financing options for their purchase. These usually come in the form of a personal credit card, a home equity line of credit (HELOC), a personal loan from a bank, or a manufacturer's retail finance program.

### The appeal usually stems from two key reasons

They're easy to find. Nearly everyone, from a school teacher to a CEO, has had a personal financing need at some point in their lives. So it's no wonder that almost everyone knows at least one place to turn for consumer financing – whether it's a provider that they've used previously or one of the many consumer financing providers on radio, TV, or billboards.

They're quick to get. With so many consumer financing options out there, there's bound to be a lender that will approve just about any need and any applicant. Many approvals can happen in as little as just a few minutes.





## The Dark Side of Consumer Financing

### More Debt

Using consumer financing will impact your customer's personal credit – every time another line of credit is opened, more debt accumulates in their credit history. More debt usually means a lower credit score, which drastically limits the options for future loans and reduces the likelihood of approvals.

### Risking Personal Collateral

If your customers opt to use a home equity line of credit, their home is put up as collateral. This means, if the loan is not paid on time according to the loan agreement then there is a very real chance that the bank could take possession of the home.

### Limited Uses

Consumer financing is really only appropriate for purchases of items that will be used for personal use- things like ATV trailers and snow mobiles intended for recreational use. Not to mention, typical consumer financing credit limits are usually around \$10,000, or some times as low as \$7,000. This won't leave lot of options for those larger purchases.

If the financing is through a traditional bank, it's likely that there will be numerous restrictions and regulations in the fine print.



## The Less Risky Approach

Commercial financing might seem to be a little bit of a dark horse in the financing game, due to the saturation of consumer financing in the industry. But, commercial financing might be just the solution your customers need to purchase your products—without putting their home and personal credit at risk.

The trick to commercial financing is ensuring that it's used in the right instances. For one, it can only be used to purchase equipment or other products that will be put into use by a business for a related business purpose. Second, the purchaser must be a legitimate business. This fact will likely require verification by the Secretary of State Office. For a corporation or LLC, this is easily taken care of by lenders like Direct Capital. If your customer is a sole proprietor, verification is quickly accomplished by the customer providing their oldest Schedule C or F forms as proof of business activity.

Unlike consumer financing, commercial financing does not add a trade line or any additional debt to the owner's personal credit. So, there is no need to worry about a lowered credit score and subsequent decline when they come back to buy more equipment.



## Two Types of Approvals

The documents required for approval generally depend on the amount of money the applicant is seeking and the applicant's personal and business credit. We can usually boil down the application process to two different types of approvals.

### Application Only

No business financials or tax returns are required, but the size of the transaction is usually limited to between \$2,000 and \$150,000

### Commercial

This type of approval is based on a full review of business financials and tax returns, this type of approval may have lower rates as compared to application only approvals, but are available on transactions \$75,000 or greater.

Regardless of the type of approval, most lenders will consider each application based on the applicant's time in business, the owner's personal credit, and their business credit.



## Guiding the Customer

Many customers will likely be tempted to use consumer financing for all major purchases, simply because it's what they're most familiar with. Though in the end the decision is obviously up to them, it's crucial to help guide the customer to the best financing option to ensure an overall pleasant buying experience and (hopefully) repeat business.

The key here is to ask the right questions to determine the reason they're purchasing the product. If there's a clear business need - the purchase will make the customer money - then commercial financing will likely be the best bet since it will allow the purchaser to diversify their debt and protect his/her personal credit. Even better, preserving personal credit lines can mean more approvals in the long term and more sales for you.



## What to Look For in a Finance Partner

If you've decided to implement a financing program to help your customers purchase your products, the next step is to select a financing partner and get the program rolling. A finance partner will handle all of the complicated terms and paperwork for you and hopefully make it a seamless process for your customer. A team-selling approach whereby you sell the equipment and then hand the transaction off to your finance partner to structure payments directly with the customer can be a great time savings for you. Best of all, with this type of approach you'll waste none of your precious time collecting on accounts – your finance partner will do it for you.



Whatever finance partner you select will likely be dealing directly with your customers, so the number one thing to consider is the level of customer service they can provide. From end to end, you strive to have the very best experience – financing should be no different.

Fast turnaround, out of this world customer service, and regular communication with your sales reps should be standard with the financial partner you're working with. You'll also want to look for a partner with flexible terms and options to meet your customers' needs. Some finance partners will have programs for start-ups and businesses with compromised credit.

It's important that you know you can trust your finance partner. Be sure to ask questions about the amount of time in business and be sure to check out their Better Business Bureau rating. If they don't have an A+ rating like Direct Capital, then you may want to look elsewhere. Also, take a look at some of the other companies they've done business with. If you see a good amount of names you recognize and other companies similar to yours, then there's a great chance you'll be in good hands.



## Other Resources

For more information about business financing and leasing in particular, check out Direct Capital's eBook section at:  
<http://www.directcapital.com/BusinessFinancing/Knowledge-Center>

### You may find the following eBooks useful

- What Every Vendor Should Know about Financing
- Equipment Leasing 101
- 8 Things to Know About Equipment Purchasing



## ABOUT

As a leading direct lender, Direct Capital is well capitalized and positioned to serve the growing needs of businesses across a wide range of industries. Our goal is to build a finance program to support you over time as you open, acquire, remodel and upgrade equipment & technology for your business.

### Here's a few more benefits of working with our team

- Direct lender with over \$250M in capital available to lend nationwide
- Dedicated finance managers to support the specific needs of your business
- In-house underwriting/operations teams to expedite approval and processing
- Online application and documentation capabilities to streamline the entire process
- Broad programs available for various project types converging equipment and operating costs
- Strong project management skills including coordinating order processing, delivery, and payment across multiple vendors and contractors to ensure your project is completed efficiently

Learn more at <http://www.directcapital.com>