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When in need of financing, many small business owners would prefer to apply for loans from traditional lenders such as banks or credit unions. However, getting loan approvals from banks [can be challenging](#), particularly for small companies. They are often not considered due to their lack of financial history or low credit scores.

If you need to access capital as soon as possible, your best option is to borrow from alternative lenders. But you have to remember that not all lenders have the same credentials, and not many of them are legitimate.

[Before you decide to sign a contract with a lender, make sure you pay attention to these 4 red flags. Click To Tweet](#)

1. Not doing a thorough credit check

Compared with banks, alternative lenders won't always do credit checks on you, depending on the type of financing you're applying for. Short-term loans like payday loans or a business line of credit usually don't require credit checks, which means that even when you have bad credit, you may get approved.

However, this doesn't discount lenders from looking at your credit report. As a standard, lenders will check your credit report to know your creditworthiness. It tells whether you're paying your bills and debts on time or if you've been missing out on your payments.

Your credit report is a record of your credit history, including any loans you have taken out and how well you have been able to repay them. A good credit score means that you are a low-risk borrower, and lenders will be more likely to give you the money you need. On the other hand, a bad credit score can be a red flag for lenders and may mean that you won't be approved for a loan.

However, if lenders push through with your application even before reviewing your credit report, something must be fishy. It demonstrates that lenders prioritize lending money to

borrowers even without certainty that the borrower can repay it.

2. The lender won't disclose the amortization schedule

When applying for a loan, you want to know if you can repay it. A loan's terms and amortization schedule break down how interest accrues, how much you will be paying for interest, and whether there are any services fees or extra charges that come with the loan.

Credible lenders would suffice this document to borrowers even before signing any agreements. The lender should also explain what your loan will cost you over time and describe why your monthly payments are as such. The lender should also disclose how much you will be charged if you cannot pay on time.

If the lender ignores this document request, it's always best to find a new lender. As a borrower, you want to know exactly how much you will be paying every month so you can prepare for it.

3. Pushes you to borrow more than you need

Some lenders will urge you to borrow more money than you originally requested. While it's tempting to get more money, you have to stick to the purpose of getting the loan in the first place.

Loans are still a type of debt, and you want to make sure that you're not burdening your business too much with the monthly amortization. If the lender is pushing you to borrow more money than you need, it's a clear sign to end the engagement. For lenders, larger deals mean larger commissions—and this wouldn't work to your advantage.

On top of that, some lenders would even rush you into signing the paperwork even without reading it. Most often than not, these types of lenders have the lending agreement in their favor and not yours.

So again, if you encounter a lender who pressures you into doing things you're not comfortable with, it's best to find a better creditor.

4. Closing fees are unreasonably high

Closing fees are generally paid at closing, which is when the loan is funded and you receive the money. Some lenders may require that you pay some or all of the closing costs upfront, while others may roll them into the loan itself. Either way, it's important to know what you're being charged so there are no surprises down the road.

Closing fees can vary depending on the type of loan you're taking out and the lender you're working with. The thing is, some lenders would charge significantly high closing fees.

For example, SBA loans typically have lower closing costs than traditional bank loans because the government backs them. However, closing fees on SBA loans can still range from a few hundred to a few thousand dollars. If you're not aware of the costs, you might end up paying more than you should.

Keep in mind that closing fees are just one part of the overall picture when you're taking out a loan. Be sure also to compare interest rates, repayment terms, and any other fees associated with the loan before making a decision. With some research and negotiation, you can get the best deal possible on your business loan.

Final Thoughts

If you see any of these red flags, move on to another lender. You should never work with a lender who is not transparent or trustworthy. Be sure to do your research so that you can find the best possible lender for your needs. With so many options out there, there's no need to settle for anything less than the best.



About the Author: Matthew Gillman is a business financing expert with more than a decade of experience in commercial lending. He is the founder and CEO of [SMB Compass](#), a specialty finance company providing education and financing options for business owners.