

Best Construction Business Funding Options

Funding is a common plight among startup businesses. It is especially true for the construction labor workforce. Before anybody decides to [start a construction company](#), it is imperative that they either have enough capital or have some idea where to get the funding they need. If you don't, then this article is just what you need. Each of the options written about in-depth below are valid and worth taking a chance on. Take a close look at each one and see which of them is best suited to your business' specific needs.

Small Business Association Loans

This option is often abbreviated to SBA loans and is the first option explored by many. Those who are not familiar will be glad to know that these loans operate similarly to commercial loans. What differs between them is that the government guarantees SBA loans. Another difference would be the interest rates. SBA loan interest rates tend to be higher due to the government backing involved. It is worth noting that two variants of this exist: the 7(a) and the CDC/504. Here are some facts about them:

- The purpose of the 7(a) is mainly concerned with operational expenses.
- For the CDC/504, the primary purpose concerns land purchasing.
- Other uses for the 7(a) include the purchasing of equipment and supplies, working capital supplementation, and the refinancing of pre-existing debt.
- Those uses all fit into any construction business owner's forecasted final account.
- The CDC/504 is also used for property improvement and long-term machinery purchasing.

A natural period of 90 days is needed for the approval of either SBA loan type. The use of an annual schedule would be wise. Be sure that you can meet the specific requirements and qualifications. For example, your yearly income and net worth need to be within the qualifying range. Proof of good character is also often required. To get a full idea of the qualifications, you may check the SBA website should this option interest you.

Commercial Loans

The next funding option is a commercial loan. This nets you a single sum in an instant. You can make the repayment over a period as minimal as a year, or as much as twenty-five years. Use these to help fund any business' working capital in addition to fixed assets. If you are considering this, then here are two types to look into:

Term loans

- These are paid through monthly installments, which typically includes both interest and principal. Those within the construction industry find it appealing for the fixed and straightforward manner in which the payments are made.

Balloon loans

- These are where smaller payments are made with a substantial final payoff. Considering how high income only comes once a construction project finishes, this makes an incredible amount of sense. However, due to the risks involved on the part of the banks, this is hardly the most accessible loan to acquire.

The time needed to secure approval for a commercial loan is shorter compared to its SBA counterpart. This is because banks don't need government signoffs. What they do need is knowledge of how the investment will be spent and how you plan to use it to grow your business. Another critical difference between SBA and commercial loans is the higher interest rates and closing costs for the former.

Line of Credit

This option operates a lot like a credit card where construction business owners draw from a maximum amount that's been provided for. The one getting this loan is only allowed to take what is needed, when it is needed. Then it must be paid back before the line of credit can allow for more borrowing of funds. Below are some notable facts about this funding option.

- Lines of credit are expected to have lower interest rates compared to credit cards and term loans. It is also expected for closing costs to be much lower.
- There is a fixed amount of time allowed for those who choose this. An example can be made in the scenario where, for ten years, your construction company is allowed to borrow as much as \$100,000. Once the ten-year period is over, your company is no longer permitted to borrow. They then provide another ten years to pay off your debt.

- Lines of credit can be incredibly useful when it comes to your business' operating expenses. In case you are having trouble purchasing construction supplies or with your company's payroll, then this is what you can turn to.
- To be able to secure a line of credit as a means of funding for your construction company, it is important that you first obtain healthy cash flow. Doing so will increase your chances, and the best part is that there won't be any demand for payment on your part until you start drawing from the line.

Alternate Lending

This next funding option is known as alternative lending. It allows the acquisition of a loan from financial institutions that are not necessarily affiliated with any bank whatsoever. You can expect the sum of the loans to be much smaller compared to what you get from bank loans. Also, these are meant for shorter terms, which ranges from a single month at the very least, to five years the most. Below are some facts about alternative lending.

- One of the most excellent examples is venture capital. The reason venture capitalists do this, for the most part, is for ownership stake or equity in the companies.
- A downside to this is the high uncertainty rate involved with startups. Volatile investments like this have a high failure rate, but the reward should the venture succeed is often considered to be worth it.
- Venture capitalists commonly fund industries like biotechnology, IT, and other high technology industries. Construction companies are also included, but not as often as companies in the industries mentioned above.

Peer-to-Peer Lending

Often shortened to just P2P lending, this provides terrific opportunities for businesses to get funding in a faster and less restricted manner. It also allows private citizens the chance to invest in small yet practical levels. Peer-to-peer loans can be acquired in almost the same way as loans from a bank. What makes it different is that the overall process is not necessarily as restrictive.

Exceptions made for those companies whose goals are deemed 'worthwhile endeavors.' It should be noted that there are P2P lenders that place applications through something called a vetting process. When an application passes, it is then displayed for investors to notice. If a particular investor is impressed with you and your company, then you may just get the loan you need. Because of that, it can be essential to present a compelling story as a means of drawing people in.

You may talk about how your construction services are going to benefit the community or what your construction projects aim to do for the public in general. To those of you who are reminded of crowdfunding, you may now be wondering what the difference is between the two. The difference between this and crowdfunding is the fact that there is still a need to pay back the loan with the appropriate amount of interest. Although fourteen days is the overall amount of time needed to get enough investors to contribute, it must be said that there are other lenders with a committee capable of approving loans outright without too much waiting time. They can even pull from several investors at once to fund it, which can be quite helpful if you need the loan as soon as possible.

Revenue-Based Financing

Unlike most other entries in this article, revenue-based financing has nothing to do with loans at all. Instead, this is a specific agreement involving the selling of a portion of your future revenue. On average, this is capable of providing for a funding amount that ranges between \$5,000 to \$250,000, which is comparable to a third of a company's yearly revenue.

Concerning repayment, it ranges between just one year to three years the most. It is taken in the form of a percentage from your company revenue with each passing month. Instead of paying with interest, you get to repay the amount with a portion of the one you borrowed. This percentage is going to range from as small as seven percent to as significant as forty percent. If this kind of funding option is more of your style, then you will need to take note of the following.

- It is going to be necessary for you to reveal just how much income your construction company generates on a specific period, be it every month, bi-monthly, quarterly, bi-annual, or annual basis. For those who have not yet begun with their operations, such as startups that are still on the rise, then it may be necessary to come up with projected income instead.
- You will also need to specify and articulately explain how the funds acquired through this manner are going to be used. Perhaps it is for the general funding of the company, or maybe you can cite more specific issues to solve, such as the purchasing of equipment and project finance.
- Be sure to take note that the financiers who usually get involved with revenue-based funding generally prefer to lend money towards those firms or businesses with more growth-oriented goals. Be sure that you can thoroughly explain how your construction company and its real estate development can be of use to your clients beyond just the simple direction of creating buildings. Talk

about what kind of clients you plan on entertaining and whether their buildings will be geared towards growth or not.

Equipment Loans

This funding option is available from lenders found online. Loan amounts are known to reach \$2 million, and rates tend to start at six percent. Equipment loans allow you to finance as much as 100 percent of your construction business' equipment. It does not matter whether the equipment you choose to purchase is brand new or used. All sorts of business types are allowed to avail of this funding option, including restaurants, auto companies, and more.

Merchant Cash Advance

This is a financing option where lump-sum payments are provided in exchange for a specific percentage of your company's future revenue. Merchant cash advances have shorter terms of payment, along with smaller payment amounts, compared to business installment loans. In addition to being easy to qualify for and fast, this option is friendly to those with lower credit. That is because credit scores rank lower in importance compared to sales projections.

Conclusion

As you can see, there are several valid funding options available to you and your construction company. Make sure that you take everything into careful consideration before making your final decision. Even after you do so, remember that it is worth the effort to constantly review your business plan if what you chose will no longer work for you at a later date. Revise your financial strategies as needed, and remember that it may even be worth looking into the use of a [financial plan](#) template if you remain unsure of how to proceed despite the information provided above. It is through the acquisition of both the right kind of knowledge and the skill of adaptability that pushes you through your company's challenges, one problem at a time.