

HOW TO CHOOSE THE RIGHT MICROFINANCE LOAN FOR YOUR BUSINESS: 6 KEY FACTORS TO CONSIDER

Eligibility and Credit Assessment

Your qualifications and credit history may determine which microlenders you are able to pursue. Be honest about your financial situation.

Collateral

Collateral could be business or personal assets. Some microlenders may use co-signers or compulsory saving as a collateral substitute.

Repayment

Some microlenders may set a monthly schedule for a set amount, a schedule based on business cash flow, or fluctuating payment schedules. Know the pros and cons.

Interest Rates

Traditional banks use APR, microlenders may use factor rate, daily rate, or monthly rate. It's best to calculate and compare loans based on an annualized interest rate.

Fees

Understand all fees. The most common fees include origination fees, late payment fees, prepayment fees/penalties, administrative fees, and risk assessment fees.

Loan Default and Loan Collection

Entrepreneurs need to understand what actions the lender would take in the event the borrower can no longer afford the loan, what's known as "defaulting on the loan."