

# Ten Tips for Avoiding Hidden Loan Costs

Let's face it: getting approved for a business loan is exciting. But in your excitement, don't forget to read the fine print.

Many loans have hidden costs, including annual fees, bank charges, closing costs, commissions and balloon payments. So stay focused and clear-minded during the loan process. Here are some tips that can save you hundreds, if not thousands, over the life of your loan.

**1. Do your homework.** You probably spent substantial time researching the viability of your business concept; likewise, employ the same careful consideration when looking for a loan. Consult with the Better Business Bureau to check for complaints against a particular lender, and ask colleagues or contact the Small Business Administration for referrals to reputable lenders.

**2. Ask lots of questions.** Borrowing money for your business is a serious decision. Ask as many questions as you need to feel comfortable with the loan terms and conditions. Make sure you understand your annual percentage rate, the amount of your monthly payments and how long you will pay them.

**3. Have a lawyer or other expert review your loan documents.** This is especially important if you are inexperienced in the loan process. If a lender attempts to talk you out of having someone look over the documents, proceed with extreme caution.

**4. Take your time.** Don't rush into a loan agreement with the first lender who approves you. Shop around and compare interest rates and costs, just as you would with any other important shopping decision.

**5. Read every word in the loan agreement before you sign.** During the loan process, consider every piece of paper you sign as a binding contract. Never sign anything that you have not read in its entirety and do not, under any circumstances, sign a blank document or a document with empty lines that could be filled in later.

**6. Avoid loans with balloon payments.** While they may seem reasonable now, loans with balloon payments may come back to haunt you later. Balloon payments may be acceptable in very limited circumstances, but they are usually bad news for small businesses.

**7. Always choose a loan with positive amortization.** If you choose a non-amortizing loan, you will find your loan balance getting bigger each month instead of smaller.

8. **Beware of high prepayment penalties.** If all goes according to plan, your business will soon be flourishing, and you may have the funds to pay down your loan more quickly. But if your loan agreement contains a prepayment penalty clause, you may end up paying significantly more than the original loan amount. Some lenders will include prepayment penalties to prevent you from refinancing a high-interest loan.

9. **Know your complete financial picture and credit score.** Before you fill out a loan application, gather your personal financial statements and credit reports from the major credit reporting agencies. Once you have a solid understanding of your credit risk, you stand a better chance of getting the best interest rate and not becoming prey to abusive lenders who may try to steer you toward a higher-cost loan.

10. **Refinance with care.** Before you refinance to a lower interest rate, find out exactly what fees and other charges will be assessed. Some unscrupulous lenders offer deceptively low initial rates and hit you with big fees after you sign the loan agreement.

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