



MODULE 6 – ACCESSING CAPITAL

ACCESSING FINANCE TYPES AND PURPOSE OF FUNDING – SECURED LOANS, UNSECURED LOANS AND OVERDRAFTS

Starting out can see a lot of upfront costs. Business loan or an overdraft can help support when getting set-up and help to take some of the immediate financial pressure off.

There are a handful of different approaches to accessing finance when starting out.

Secured loans:

A secured business loan allows the borrower to use an asset, or the total value of multiple assets, as security against the amount borrowed. The lender uses asset/s as a form of guarantee of repayment. This arrangement often allows more favorable repayment terms.

Advantages:

- ★ Lenders are more likely to consider letting the borrower access to larger amounts of money because of the reduced risk to the lender.
- ★ Lenders are likely to offer longer repayment terms, with lower interest rates in comparison to unsecured loans.

Example: Drawing Income from a Company

Securing loan with commercial property, machinery or vehicle/s.

Unsecured loans:

An unsecured business loan doesn't require physical assets (such as property, vehicles or inventory) as security. Instead, the lender will often look at the strength and cash flow of the business as security.

Advantages:

- ★ There is no leveraging of any assets to secure funds.

Example: Drawing Income from a Company

Unsecured loans are often viewed as less risk, as you won't need to worry about your assets being seized (such as property, vehicles or inventory) should you fail to make repayments.

Overdrafts

An overdraft is an agreement that allows business owners to keep making payments, such as staff wages or day-to-day expenses, in the case there is no money in the business bank account.

The borrower only pays interest on the funds upon which are drawn.





Advantages:

✦ Allowing access to funds fast, to bridge short-term cash flow gaps, pay urgent bills, or cover unexpected expenses. Compared to other forms of business finance, getting a business overdraft is relatively hassle-free.

Example: Drawing Income from a Company

A client has not paid on time. It was planned that their payment would be used to pay employees weekly wages. To avoid late payment, utilise the overdraft amount to ensure on-time payments to all employees.

Working Out How Much to Borrow

Understanding how much to borrow is an important part of seeking a loan and should be balanced by specific needs and what is management for repayments.

Paying Back the Loan

Depending on the loan, you will have a set amount of time allocated to paying back the loan. It is important to understand the terms and conditions specified in your loan agreement to ensure timely repayments. The repayment period may range from a few months to several years, and the structure of payments can vary. Some loans may require monthly installments, while others might allow for quarterly or even annual payments.

To manage your repayment schedule effectively, consider setting up automatic payments to avoid missing any due dates, which could result in penalties or a negative impact on your credit score. Another way is, maintaining a detailed financial plan that includes your loan payments can help you stay on track and ensure that your business bank remains financially healthy.

If your business experiences unexpected financial difficulties, reach out to your lender, many lenders are willing to work with borrowers to adjust repayment terms or provide temporary relief options, such as deferment or interest-only payments, to help you navigate challenging times.

Paying back your business loan on time not only fulfills your obligation but also builds your credibility and trustworthiness with financial institutions, which can be beneficial for future financing needs as your business grows.

Understanding Personal Liability

Even with a business structure that offers a certain level of protection around personal liability, you can end up being responsible for the debts of your business. Which means it's important to fully understand the terms and conditions of the loan agreement.



Securing Funding

Once your business plan is in place, the next step is to secure funding. This can come from various sources such as personal savings, loans, grants, or investors. Each option has its own set of advantages and risks, so it's important to evaluate which is best suited for your needs.

Managing Cash Flow

Effective cash flow management is vital for the sustainability of your business. It involves planning for both expected and unexpected expenses, ensuring that you have enough liquidity to meet your obligations. Regularly reviewing your financial statements and maintaining a budget can help you stay on track.

Scaling and Growth

As your business begins to grow, you may need to consider scaling your operations. This could involve hiring additional staff, expanding your product line, or entering new markets. Growth should be managed carefully to ensure that it aligns with your overall business objectives and does not compromise the quality of your offerings.

To do this, you may need to consider acquiring funds for growth and business expansion.

NOTES SECTION

