# Short-term funding

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| **Debt Product** | **Overdraft** | **Line of Credit** | **Credit Card** |
| **Purpose** | Overdraft facilities are generally used to finance the day-to-day fluctuating cash needs of a business. | A line of credit is usually used to access funds for working capital requirements such as stock purchases. | Credit cards should be used only to fund short-term working capital requirements and small purchases such as meals or taxis. |
| **Description** | A facility that allows the customer to operate a bank account with a pre-agreed limit which can be drawn down.  Overdraft accounts will usually only be provided to a business that has been successfully trading for a few years. | A line of credit can provide access to funds by allowing the borrower to draw on an account balance up to an approved limit. As long as the balance does not exceed the approved limit, funds can be drawn at any time.  These loans are usually secured by a registered mortgage over a property and personal guarantees. | Credit cards are usually offered with “interest-free days” and are generally easier to obtain due to the high fee structure and interest rates charged.  You will save your business money if you pay off your balance in full each month and avoid cash advances. |
| **Repayment / Interest** | Overdraft facilities do not have a specific maturity date. The product is “at call” or on demand, which means that the bank has the right to cancel the facility at any time.  Interest is usually paid on a monthly basis. The rate of interest is determined in accordance with a risk margin that the bank will determine. The customer will only pay interest on the amount of the facility drawn down. | Repayments are usually required to at least cover the interest and fees on the loan.  Interest is usually paid on a monthly basis. As this type of loan is usually secured against property, interest rates tend to be lower than for overdrafts. However, if you fail to make your payments, you can put your property at risk. | Credit cards usually have an expiry date, which indicates that, unless the facility is renewed, all outstanding amounts will be due by this date.  Interest is generally either charged from the date of purchase of items or from the date your monthly statement is issued.  For cash advances, interest is usually charged from the date of the withdrawal. |
| **Fees**  **Generally include:** | * Application fee * Line or facility fees * Account-keeping fees | * Application fee * Line or facility fees * Account-keeping fees | * Annual account fees * Fees to use rewards programs * Fees for late payments * Payment dishonour fees * Fees for exceeding your credit limit |
| **Debt Product** | **Cashflow Lending** | **Invoice / Debtor Finance** | **Trade Finance** |
| **Purpose** | This product is generally used for funding fluctuations in working capital such as seasonal stock purchases. | This product can provide core working capital finance, as well as meet short-term fluctuating needs. | To fund the purchase of goods from domestic or international suppliers. In some instances, the financier can provide credit insurance against the risks involved in international trade, such as price or currency fluctuations, or political risk. |
| **Description** | A lending facility for small businesses that generate solid cashflow, but do not own significant fixed assets to provide as security.  The loan is secured by working capital assets of the business, such as stock and debtors. The cashflow projections need to reflect the ability of the business to meet finance costs. Regular reports are required by the lender.  These loan facilities allow you to draw down on funds as required. | The funding is secured by the value of the amount owed by the business’s customers (debtors). Finance can be available for up to approximately 85% of the book value of debtors.  *One debtor financing options involves the lender rather than you collecting the debts owed by your customers. You need to decide whether you are comfortable with a third party collecting debts off your customers and the message that this may send to your customers.* | This finance is provided in various formats, such as provision of letter of credit, documentary collection or bank guarantees between the buyer and the seller. |
| **Repayment / Interest** | The loan is similar to that of an overdraft facility in that it is approved for a specific term, with a regular review requirement.  Interest is charged monthly on the daily balance outstanding. | The debtor ledger value provides an upper limit of funds available. Interest is payable monthly on the funds drawn down, or alternatively, the lender will take a percentage of the amount collected. | Interest is charged on the amount provided for each trade transaction and the timing of repayment will depend on the type of trade finance product used. |
| **Fees**  **Generally include:** | * Establishment fee * Service/ administration fee | * Establishment fee * Line fee * Administration /service fee | * Establishment fee * Line fee * Administration /service fee |

# Long-term funding

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| **Debt Product** | **Fully drawn advance** | **Mortgage Equity Loan** | **Interest Only Loan** |
| **Purpose** | This product is suitable for financing permanent or longer-term funding requirements for property, plant and equipment, or for the purchase of a business. | A long-term form of finance suitable for purchase of capital assets such as land and building. | Generally used for medium-term funding requirements, it is suitable where a development period is required to establish a new area of business, where cashflow is tight at the beginning. |
| **Description** | This product is a long-term loan that requires principal and interest repayments over the term of the loan which is generally between three and ten years. | A long-term loan where residential property is used as the primary source of security. In general, lenders may lend up to 80% of the value of the residential property. | An Interest Only Loan involves the lending of a fixed amount for a specific period, where only interest payments are required to be met during the term of the loan. The principal is due on maturity of the loan. The loan is generally secured by property or business assets. |
| **Repayment / Interest** | A fully drawn advance/term loan is provided for a fixed period. The loan is reduced by monthly repayments, which include both interest and principal components.  The interest rate can be fixed, variable or a combination of the two. There may be penalties for early repayment if the rate is fixed. | The term of the loan is fixed. Repayments will involve both principal and interest.  Interest can be based on fixed or variable rates or a combination.  *The interest rate is generally higher than the interest rate charged for a home mortgage.* | The loans are generally for a period of 1 to 3 years. The principal is due on maturity. The loan may be rolled over into a principal and interest type product at the end of the term.  Interest is generally paid on a monthly basis, based on the full amount of the loan. |
| **Fees**  **Generally include:** | * Application fee * Monthly account fees | * Establishment fee * Administration/ service fees | * Establishment fee * Administration/ service fees |

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| **Debt Product** | **Vehicle / Equipment Finance** | **Leases and Hire** |
| **Purpose** | This funding product is used for financing assets such as motor vehicles and plant and equipment. | Used for financing assets such as motor vehicles, plant and equipment and technology. |
| **Description** | Under this finance, the equipment/asset provides the security for the loan while the asset will be owned by the borrower and they would expect to be able to claim the full amount of the GST as a capital acquisition on purchase of the capital item (if GST is applicable). | Leases differ from loans (including hire purchase agreements) in that the leased item is still owned by the lender.  There are two types of leases – finance and operating. At the end of a finance lease, the business has the opportunity to purchase the asset from the lender at its residual value, whereas under an operating lease, the ownership of the asset at the end of the lease remains with the lender.  Hire purchase finance is similar to a finance lease, except that ownership passes to the hirer at the outset of the transaction.  Each of the above products also has different tax and GST implications and you should talk to your accountant as to what is best for your business. |
| **Repayment / Interest** | The type of finance is generally over a three to five year period. The repayments are usually on a monthly basis and include components of interest and principal over the term of the product. At the end of a finance period, there is may be a capital residual to be paid which is higher than the regular repayments and is referred to as a “balloon repayment”. | Leases and hire purchase finance are generally for a period of three to five years. The repayments are usually on a monthly basis, and include components of interest and principal over the term of the product. At the end of a finance lease and hire purchase contract, there is usually a capital residual to be paid. This is known as the “balloon” payment and can be large, but is disclosed at the time the lease or hire purchase is entered into. GST is charged on repayment or hire purchases and leases. |
| **Fees**  **Generally include:** | Document fees | Document fees |