

## **Borrowing Tips**

With the economy seeming to be slowly improving, businesses will be thinking about financing the expected expansion of trade. Borrowing cost often dominates the thinking, but it isn't all about the cost of the loan. In order to negotiate the right deal, here are some tips on other things to think about:

### **Borrowing Generally**

- Make sure your lending proposition stands up on a cash flow as well as a profitability basis, and be able to defend your sales forecasts;
- Overdraft or loan? With an overdraft, you pay interest only on the amount you borrow plus an annual renewal fee – if the bank agrees to renew your overdraft. With a loan, you pay interest on the whole sum from day one, but normally at a lower rate, and the loan cannot normally be recalled. Many loans have, in effect, penalties built in for early repayment. It is common advice for 'hard core' borrowing and borrowing to finance assets to be by way of a loan and for overdrafts to be used for short-term borrowing;
- Don't forget to read the small print. It may one day be important to understand fully the legalities. Don't just sign the loan agreement and hope for the best – take advice first;
- If you are borrowing to finance increased sales, factoring or invoice discounting may be for you. These agreements are complicated and often impose significant extra accounting costs, but can be a good way of reducing risk;
- If you are self-employed, the lender's 'long stop' is you and your assets. Take advice on how to minimise your risk before you borrow;
- If you are worried about being able to stay within your overdraft limits, it is often worth borrowing on loan to make sure you do: penalty charges and interest rates on unagreed overdrafts can make them a very expensive way to borrow;
- You may be tempted to use your credit cards for finance. This can be very risky as if you incur interest charges on a credit card, these will be much higher than for normal commercial lending – and you won't get tax relief on the borrowing;
- Never borrow from an individual (particularly friends or family) unless you have a proper legal agreement in place (or want to risk a falling-out); and
- Remember that the greater your exposure in respect of any loan, the less 'spare credit' you will be regarded as having for other borrowing.

### **Company Borrowing**

If you are borrowing for a company, the following should also be considered:

- Whether you are prepared to give a debenture for the loan. A debenture will give the bank security over all the company's assets. This improves the bank's security but makes missing loan repayments dangerous, as the bank will have the right to appoint an administrator. Giving a debenture may reduce the cost of the borrowing, however;

- You may be asked to give a personal guarantee. Take advice before agreeing. Again, your assets are on the line; and
- If you borrow money personally and put it in your company, tax relief on the interest might not be available. This can make a cheap loan quite expensive after tax.

Borrowing sensibly isn't just a matter of signing an agreement, taking the cash and making repayments. Negotiating loan finance successfully is easier if you are advised by experienced professionals who fully understand the legal implications of the documents you will be asked to sign.

*For more information contact PCB Solicitors on 01743 248148  
or visit our website – [www.pcblaw.co.uk](http://www.pcblaw.co.uk)*

**PCB**

SOLICITORS