

Where to Look for Loans

Long-term loans

Long term loans are more likely to be provided by insurance companies, pension funds, building societies, 3I's (Investors and Industry) and the institutions which provide industrial property mortgages, many of whom are connected with insurance companies. These lenders look forward to high returns on the funds. Contractual term loans are formalized by a specific agreement to cover a specific purpose, period and repayment programmer, which might match the cash flow of a project.

Medium-term loans

Medium term loans are much more home ground for the banks. Every bank has some form of development lone scheme providing five or seven year money. Most have a start-up loan scheme by which they will lend money to new businesses, and hope to recover their money and make a profit from those that a successful. The cost of schemes, if they involve quality options or royalties, may be difficult to quantify, although in general the banks will want to charge the equivalent of between 3 and 5 percent above base rates of the money lent. The cost of more conventional medium-term finance may be slightly less, and the bank will generally look for security in the form of fixed or floating charge over the companies' assets. A commitment fee is usually charged and the browser is required to pay any costs.

Short-term loans

Factoring provides sales accounting collecting services and sometimes an element of protection against bad debts; sometimes 80% of the debts are recovered. There is a range of other discounting services, which may not involve managing the sales accounting. They tend to be a little expensive but can the business of time and trouble. The cheapest form of borrowing is often by the simple overdraft. 'Blue Chip' companies have frequently enjoyed overdrafts at a margin of 1 percent above the bank's base rate. Smaller companies usually bear a margin of 2 to 3 percent, with new companies being charged up to four percent. A bank manager may offer loans at a fixed rate of interest; therefore it is fortunate if interest rates increase, however the opposite may happen. Many bank managers will have nursed along a new small businesses on nothing more than an overdraft supported by personal guarantee. The disadvantage is that the bank can withdraw the overdraft at any time without giving a reason.

Government Schemes

The government schemes are based around in two areas: development and undeveloped areas. In development areas Regional Selective Assistance (RSA) and Regional Enterprise Grants (REGs) for investment and innovation projects are available. In intermediate areas (IAs) RSA and REGs for innovative projects are available; REGs for investment projects are available in limited number of IAs. Assistance is available to manufacturing and some service industries. RSA is based in the capital costs of a project and the jobs created or safeguarded by it. Grants are not automatic, they are negotiated between the company and the operating department (Department of Trade and Industry).

Grants given are the minimum amount necessary for the project to go ahead. AREG for investment projects is a flat rate grant equal to 15% of fixed project costs, which is a maximum of £15,000 available to companies with fewer than 25 employees. The government also offers the Loan Guarantee Scheme, which is a form of selective assistance whereby the government guarantees loans to encourage banks and other financial institutions to lend to small firms that lack security to track record. For new businesses, or start-ups, the guarantee is 70% on loans of between £5,000 and £200,000. The borrower has to pay the government a premium of 1.5% on the variable interest rate loans and 0.5% on fixed interest rate loans.

CHOSEN METHODS TO RAISE CAPITAL

The methods that I have chosen to raise capital is through Medium-term loans and Short-term loans since they are the most suitable to raise loans for a business. I am prepared to pay a 3-5% interest charge under a fixed interest rate, since the interest rates may increase. If they decrease, it would only however roughly cancel out the advantage gained by a previous increase. By sticking to fixed interest I would only have to pay 0.5% premium if I seek help from the Loan Guarantee Scheme offered by the government.

Since my business is a service, I will seek help from the intermediate areas of the government scheme (e.g. RSA) and then negotiate with the Department of Trade and industry. As a new business, the guarantee set by the government is 70% on loans and spans from £5,000 to £200,000.

I will not rely on overdrafts since they are unreliable because the bank can withdraw them any time they wanted with no reason. Overdrafts are also a disadvantage as it means to put my home and possessions at risk and they make it harder to switch to another bank if I am dissatisfied.