

## **Business Refinancing - Raising Money in the Credit Crunch**

The credit crunch throughout 2008 and 2009 has put severe restrictions on the amount of money banks are willing to lend to their business clients. This situation is having huge implications for the development of businesses in the UK. In terms of day to day operations, there can be very few companies who have not been asked by their bank to reduce their overdraft facilities. In many cases, such facilities have been simply reduced or cancelled without warning. Businesses who are trying to secure finance to support growth and development are constantly held back as banking institutions are not prepared to lend without cast iron guarantees of repayment. This situation is quite simply strangling opportunities for business growth in the UK and hampering economic recovery.

Given this scenario, one would be forgiven for thinking that the outlook for businesses who are trying to raise finance is particularly bleak. However, there are some perhaps less well known avenues for raising business finance which company directors and business owners should be aware about. These are collectively known as business refinancing. The main types of business refinancing are described below.

### **1. Asset Refinancing**

Asset refinancing is simply the process of borrowing against the value of any fixed assets which are owned by the business. For example, if the business has any plant or machinery which it owns outright (no finance or charge currently outstanding), money can be lent to the business against the value of these assets. The amount of the loan available will depend on the value of the asset as determined by a recognised independent valuer. The amount of the loan will vary but will normally be up to a maximum of 70% of the asset depending upon the underlying credit strength of the business.

Assets that are already on finance can also be refinanced as long as the existing finance company is paid off as part of the process.

### **2. Invoice Financing**

Invoice financing is the process of raising money based on a company's outstanding invoices. Invoice financing could allow a company to draw down up to 90% of the invoice value immediately on the issue of a valid invoice. The company still has the responsibility for ensuring invoices are paid and paid on time. However, the company does not have to wait for invoices to be paid before the relevant cash is available to it.

### **3. Trade Finance**

If a business brings in a large new order but cash is tight, it might lack the funds to fulfil it. Trade Finance can enable a business to receive up to 80% of the confirmed order value up front to pay the suppliers required to fulfil the order. The finance company will normally pay suppliers directly. Then once the order is fulfilled and accepted by the customer, the finance company will invoice the customer directly. Once the customer has paid the finance company, adhering to the typical payment terms, they will release any profits back to the business, minus their fees.

Business refinance options are not only useful for companies which are on a reasonable financial footing. Where a company is facing financial difficulty it may be considering a business rescue solution such as Phoenixing (<http://coopermatthews.com/phoenixing.html>), or an Administration Order (<http://coopermatthews.com/administration-order.html>). Often these solutions can be doomed to fail if the correct finance package is not available to support them. Business refinancing solutions can be considered to support these business rescue initiatives.

Clearly, business refinancing will not be simply made available without the usual personal guarantees of repayment normally for the company's directors. However, this situation is quite simply no different to the requirements of the high street banks when considering the lending of overdraft or business loan facilities. In effect, business refinancing can be a very sensible and reasonable alternative to more traditional ways of raising business finance. As such, I believe that business owners should be aware of and actively pursuing these options when considering how to raise finance both today and into the foreseeable future.

***Derek Cooper – July 2009***

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Cooper Matthews specialise in Business Recovery Services offering straight forward insolvency advice for businesses with financial problems. They have significant experience in working with small to medium sized businesses.

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