

How to get funding for your small business

A comprehensive guide to business funding

Applying for business funding can be a complex task, so we want to help make things as simple as possible with this easy-to-follow guide.

We'll walk you through what business funding is, why your business might benefit from a cash injection, the different types of funding you can apply for and how to secure your funding.



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Business funding explained

Why might your business need finance?

There are a variety of reasons why a business might opt to apply for funding, including:

- ✓ Buying new equipment
- ✓ Hiring new employees
- ✓ Moving to new premises
- ✓ Buying another business
- ✓ Consolidating debt
- ✓ Marketing
- ✓ Boosting cashflow
- ✓ Purchasing inventory
- ✓ Market expansion
- ✓ Managing day-to-day running costs



Types of funding.

There are many types of funding that can provide cash for your business.

Traditional business loans typically fall into one of two categories: **secured loans and unsecured loans.**

Secured loans

Secured loans require you to provide assets as a form of security. This offers the organisation you've borrowed money from a fallback option if you can't afford to repay what you've borrowed. Property is an asset commonly used as security, although other assets like stocks and shares can be used. Lenders may also consider third-party security, such as a personal guarantee, instead of or to support other security.

Unsecured loans

Unsecured loans offer your business the option to borrow funds without providing any assets for security. As a result, unsecured loans are often popular with startup companies that don't yet have many assets.

As unsecured loans do not require you to provide assets as security, the amount you can borrow tends to be lower and the interest rates can be less favourable. Often, you'll need to provide a personal guarantee to pay back the loan personally if the business is unable to meet the commitment.





Further financing options.

While any loan you opt for will fall into either the secured or unsecured category, there are many types of financing options available, these can be on short, medium or long repayment terms.

Short term

- 1 **Invoice finance**
 - Invoice discounting
 - Invoice factoring
 - Selective invoice finance (SIF)
- 2 **Trade finance**
- 3 **Merchant cash advance**
- 4 **Working capital**

Medium term

- 5 **Asset finance**
- 6 **Medium term business loans**

Long term

- 7 **Pension led funding**
- 8 **Long term business loans**
- 9 **Commercial mortgages**

Short term options

① Invoice finance

When choosing invoice finance, you can opt for either a short or longer-term funding option to release cash from your outstanding invoices. Essentially, with invoice finance you'll be able to use your outstanding invoices as security for your loan.

There are three types of invoice finance:



Invoice discounting

A type of invoice finance where the funder is advancing cash for unpaid invoices, but the debt collection is conducted by the business itself. Generally, the lender will advance between 70% and 85% of the invoice value to the business and release the remaining amount (minus a small fee) once they get paid by the client.

Invoice factoring

A package of services including credit control that usually requires you to 'sell' the whole of your debtor book for a predefined period (typically between 12 or 24 months). With this type of invoice finance, lenders might advance as much as 95% of the invoice value before being paid by your client.

Selective invoice finance (SIF)

This type of invoice finance allows you to pick and choose which invoices you want to fund. So fees are only applied to the invoices you choose to fund, which can make this a more cost-effective option than invoice factoring or invoice discounting.

2 Trade finance

Trade finance offers financial solutions for companies involved in importing or exporting goods. It helps businesses obtain the funds needed to buy inventory for large orders through instruments like Letters of Credit, Bonds, Guarantees, or Export Factoring. Firms with a strong trading history should find it relatively easy to secure this type of finance.

3 Merchant cash advance

A Merchant Cash Advance (MCA) offers short-term funding for businesses accepting debit and credit card payments. Ideal for businesses lacking assets or a solid trading history, an MCA leverages future income for immediate cash. It functions by providing a lump sum, repayable through customer card receipts and may also be referred to as a Business Cash Advance.

4 Working capital

Working capital finance supports daily operations or cashflow challenges rather than long-term investments. This type of funding can be secured or unsecured. Secured loans require assets as collateral, while unsecured loans focus on your business profile, turnover, history, and credit rating.

Medium and longer term options

5 Asset finance

Asset finance is a loan that helps you fund the value of assets such as vehicles, buildings, or equipment when you can't pay for them outright.

This type of finance will support these large purchases by spreading the costs over time and splitting them into smaller, more manageable sums. Fees and interest are also typically charged in addition to the cost of the purchase.

6 Medium term business loan

A business loan is a sum of money provided by a company (such as a bank) to help fund the development of your business.

The lender provides funds to a business and the capital sum provided is paid back over an agreed repayment period generally along with any interest costs. Interest costs can be calculated on a variable or fixed rate term basis.

7 Pension led funding

Purchasing trading premises or a commercial investment property via a pension fund can be a tax efficient borrowing method. SIPP and SSAS loans are structured finance solutions that allow you to buy commercial property through a pension scheme.

To apply for this borrowing, you'll need to have set up either a self-invested personal pension (SIPP) or a small, self-administered scheme (SSAS).

Seek assistance from a professional provider or authorised financial adviser to ensure suitability and understand their impact on your pension plan and investment structures.

8 Long term business loans

A long term business loan is similar to a medium term loan, however the money is borrowed over a longer period and the amount you can borrow is typically higher. The lender provides funds to the business and the capital sum provided is paid back over an agreed repayment period generally along with any interest costs. Interest costs can be calculated on a variable or fixed rate basis.

9 Commercial mortgages

This method of borrowing works in a similar way to residential mortgages and is a method to borrow money secured against a commercial property.

With a loan secured against property, interest rates are generally lower, but you will generally need to provide a larger deposit to put towards a commercial property purchase (typically 30%).





Choosing the right funding

Choosing the right type of funding for your business can be a difficult task. Depending on the size and stage of your business, you could benefit from having different types of funding in place. If uncertain, you can seek guidance from people such as business support advisors, your accountant or your business finance broker.

Your needs

It seems self-explanatory but one of the first things to decide is what you need the funds for, and how much you need to borrow.

This will be the starting point for deciding what will be the best finance option for your business.

Creating and regularly updating your business plan and cashflow projections

Whether you're starting a business or are already established, creating and regularly updating your business plan is key to your success. In simple terms, it can help you think about what you're doing, what you want to achieve and how you get there.

Your business plan and cashflow forecast will help you to highlight any external financing you might need and can also be an indicator of the right type of finance for your business. You'll also want to make sure you include the cost of finance in your forecasts (interest and capital repayments) to show a lender that the finance request is affordable based on your projections ahead.

The key to creating a great business plan to support your financing application is to understand why you need the finance and what it is going to be used for. For example, has your forecast indicated a shortfall over the next 3 months due to seasonality – could a flexible facility like an overdraft be the right choice here? Or are you looking to buy a new piece of machinery to increase your output to match increased sales? Could asset finance be the right option here?



Eligibility

With any type of loan, there are certain stipulations and eligibility criteria that you will need to meet before being approved. The type of criteria and requirements laid out for each loan will typically depend on the type of loan, the amount you're applying for and which lender you choose.

Factors might include:

- Your credit score and repayment history
- Trading history
- Your business turnover and profitability
- Business assets and liabilities

Tip:

Business owners can check their credit score online. Some of the best-known sites are Experian, CreditSafe or Equifax.

What lenders are looking for:

When lenders are considering your application, they'll also think about you as a business owner and what you're planning to use the money for. To get into the mind of a lender, think CAMPAR:

- Character
- Ability
- Means
- Purpose
- Amount
- Repayment

Your application checklist

	Startups	Trading for 2+ years
<p>Amount and what you need the funding for</p> <p>Be clear on how you plan to use the funding and carefully consider the amount you need to achieve your goal.</p>	<p>✓ Do you need funds to turn an idea into a product or to promote your offering?</p>	<p>✓ Focus on the primary use of the funding. Could you split the funding in stages?</p>
<p>Trading history and financial performance</p> <p>You'll need the business' filed accounts and most recent management accounts. Or you might be able to connect your accounting software to a lender's platform.</p>	<p>⊕ Don't worry if you haven't started trading, simply provide what you can.</p>	<p>✓ 2 years of filed accounts & management accounts gives you the most choice,</p>
<p>Bank statements</p> <p>You'll need your most recent business bank statements to hand. Or you can authorise the use of Open Banking to fetch them from your bank.</p>	<p>⊕ No bank account? There will still be providers that can work for you.</p>	<p>✓ You'll need 3 months worth of statements, more if your trading is seasonal.</p>
<p>Funding security and guarantees</p> <p>Decide what security you can offer and which assets you can use for this purpose. Personal Guarantees (PGs) are very common in the market.</p>	<p>✗ Many startups don't have tangible assets, so you may need to consider unsecured products.</p>	<p>✓ Providing a PG, machinery or property increases your choice of lenders.</p>
<p>Business plans & other supporting information</p> <p>A brief business plan can help lenders get confidence in your business. Feel free to add more information in support of your project.</p>	<p>✓ Be sure to include financial metrics in this document, not just product features.</p>	<p>✓ What you provide here needs to support the primary funding purpose.</p>
<p>Financial forecast</p> <p>Be sure to include loan repayments in your forecasts. Lenders need to see that you can meet repayments under different trading conditions.</p>	<p>✓ This is essential for companies with less than 2 years trading history.</p>	<p>✓ This is less relevant if you have 2+ years trading history for lenders to see.</p>

FAQs

How long does the application process take?

Unfortunately, there's no single answer to this as many factors determine how long the process will take. It can depend on the type of finance you are applying for, the lender's policies and procedures, and whether it's secured or unsecured. If you apply for a business loan from a bank you already use, this might speed things up. Another way to make the process as smooth and quick as possible is to make sure you have all your supporting documents to hand.

Is it possible to be accepted for business financing if I have poor credit?

Having poor credit doesn't make it impossible to be accepted for business financing. However, it might significantly reduce your options as credit checks are standard for all types of funding.

How long does it take to get a business loan once you've been accepted?

Again, the answer to this will depend on the lender you choose, the amount you need to borrow and the type of funding you opt for.

Some lenders will process your application within minutes and provide funds on the same day, whereas others may take a few days to get back to you. Secured loans can take several weeks or months to arrange as valuers and lawyers complete their administration to get the facility in place. Please also remember that you will need to budget for these professional costs.

FAQs

Can business funding loans be paid off early?

Yes, in most cases you can pay your loan off early. There are a few benefits to doing this, including reducing your interest repayments and removing the debt from your balance sheet (meaning you're more likely to be accepted for future funding).

However, some lenders might make you pay a penalty when you choose to pay off your loan early. Make sure you check the terms and conditions within your finance agreement for details.

If my application is approved, do I have to proceed with the loan?

For the most part, your loan application should be 'no obligation', meaning just because you've been accepted it, doesn't mean you have to proceed. However, this might not be the case for all lenders, and it's worth checking beforehand.

What happens if I struggle to repay my loan?

Any financing you have arranged will need to be repaid in line with the terms and conditions of your agreement. So, it's important to make sure you can afford any proposed repayments. If you struggle with your finance payments, it's best to let your finance provider know. Lenders will appreciate you getting in touch before you start missing repayments. However, if you've already missed a payment, getting in contact could mean fewer charges and, importantly, less stress.

Your lender can also offer advice about how to deal with the payments. Potential options could be:

- Restructuring your debt to make it more affordable
- A short repayment holiday
- Reduced payments.

Independent organisations such as Citizens Advice can also be approached for free debt advice.



Where to find funding options

There are lots of different options to finance your business:

- ✓ Personal investment
- ✓ Family and friends
- ✓ Business loans
- ✓ Startup loans
- ✓ Peer-to-peer lenders
- ✓ Business grants
- ✓ Equity investment
- ✓ Crowdfunding

The types of lender options available can range from a high street bank to a variety of alternative finance providers.

Contact us

To discuss what the right type of finance option could be for your business needs, you can speak to one of our business advisors.

To arrange an appointment:

Call:

0203 137 5098

Email:

hello@stubbenedge.com 

You can apply for funding at

betterbusinessfinance.co.uk 