Commercial Finance Guide

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TRADE FINANCE

A finance product offered by Spark.

What is Trade Finance?

Trade Finance services make trading safer by involving a reliable third party, usually a financial institution, to reduce the risk between buyers and sellers.

These services also help manage cashflow better. Sellers get their money faster, and buyers can extend their credit terms, making trade smoother for everyone involved. Overall, Trade Finance plays a crucial role in making global trade more secure and efficient.

Types of Trade Finance:

- Purchase Order Finance facilitates the fulfilment of specific customer orders by providing funding during the period between receiving a purchase order and receiving payment. It helps businesses acquire the necessary inventory or goods to meet customer demand.
- Letters of Credit (LCs) are commonly used in international trade. In this arrangement, a financial institution, representing the importer, issues a letter of credit to the exporter. This letter guarantees payment upon meeting specified terms and conditions, ensuring secure transactions for both parties.
- Supply Chain Finance focuses on optimising cashflow throughout the supply chain. It offers early payment options to suppliers based on approved invoices or receivables, ensuring timely payments and improving working capital for suppliers.

Other Trade Finance products include pre and post shipment financing, inventory financing, and structured Trade Finance. For more information on these options or to find the best fit for your business, please reach out to our experts.

Most common industries:

- Wholesalers
- International Traders
- Exporters & Importers
- Retailers
- E-commerce
- Manufacturers
- Construction

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Benefits of Trade Finance:

1. Risk Mitigation: Trade Finance offers financial guarantees, boosting security for both buyers and sellers. This assurance significantly reduces the risk of non-payment, fostering trust and confidence in international trade relationships.
2. Working Capital Optimisation: Trade Finance strategically provides funds at different stages of the trade cycle. This approach empowers businesses to effectively manage cashflow, fulfil orders, and readily seize growth opportunities.
3. Operational Efficiency: The streamlining of trade processes minimises administrative burdens, allowing businesses to concentrate on core operations and thereby enhance overall productivity.

Key Eligibility Criteria:

- Min £200k turnover
- LTD — The business is a limited company
- Ideally one of the parties is UK based

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INVOICE FINANCE

A finance product offered by Spark.

What is Invoice Finance?

Invoice Finance works by unlocking funds tied up in invoices for goods or services sold on credit terms.

The key advantage is that you no longer need to wait for your customers to make payments before accessing the cash. This immediate access to funds offers valuable working capital that can be utilised for timely payments eliminating the need to delay crucial financial transactions until your clients settle their invoices.

Most common industries:

- 💬 Consultants
- 🏭 Manufacturers
- 🚢 Exporters & Importers
- Service Providers
- 💻 Marketing Agencies
- Subcontractors
- 🦺 Construction

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Types of Invoice Finance:

There are various types of Invoice Finance, known by different namesThese encompass invoice factoring, invoice discounting, debt factoringaccounts receivable factoring, CHOCC's (client handles own collections)selective invoice discounting, and spot factoring. Despite the varied terminology, the underlying principle remains consistent. The outcome is the immediate release of cash into the business creating increased access to working capital.

Here is an example of how Invoice Financing operates:

1. You issue an invoice to your customer, allowing 30 days credit.Your
2. Invoice Finance provider promptly disburses up to 90% of their voice value.
3. After 30 days, your customer settles the invoice in full.
4. The Invoice Finance provider then transfers the remaining amount to you, deducting their fees and interest.

It is not uncommon for credit terms to extend up to 120 days. Invoice Finance proves instrumental in furnishing the necessary funds to bridge this gap efficiently.

Benefits of Invoice Finance:

1. Invoice Finance offers businesses enhanced cashflow, minimised risk of bad debts, and augmented working capital.

2. By selling outstanding invoices to a finance provider, businesses in the UK can access a portion of the invoice amount upfront, freeing up resources to focus on other areas of their operations.

3. Outsourcing credit control and debt collection to a finance provider can help reduce the risk of bad debts and provide a valuable source of funding and financial management support for businesses.

Key Eligibility Criteria:

- Min £100k turnover
- LTD — The business is a limited company
- Minimum 14-day payment terms

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UNSECURED BUSINESS LOANS

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What is a Unsecured Business Loan?

An Unsecured Business Loan doesn't necessitate collateral or assets as security. Approval is based on the borrower's creditworthiness, financial strength, and factors like credit history, business performance, and cashflow.

These loans provide flexibility and accessible funds, especially beneficial for businesses without substantial assets for security. (Note: Unsecured Business Loans often require a personal guarantee).

Most common industries:

- Scaling SMEs
- Retailers
- Consultants
- Service Providers
- Marketing Agencies
- Healthcare
- Construction

How do UBLs work?:

Unsecured business loans offer businesses the flexibility to secure upfront capital without requiring collateral against the loan. Lenders commonly seek a personal guarantee, where the borrower commits to using personal funds to repay the loan if the business encounters challenges in meeting its repayment obligations. Occasionally, this commitment extends to include the borrower's spouse, emphasising a shared responsibility for the loan's repayment.

To gain insight into the financial well-being of the business, lenders will analyse the company's financials. This enables lenders to evaluate the borrower's capacity to effectively manage loan repayments.

The assessment process, encompassing credit checks, personal guarantees, and review of financial documents, is a customary practice aimed at ensuring responsible lending. By maintaining transparency and providing the necessary documentation, borrowers can streamline the application process, increasing the likelihood of securing the funds they need for their business requirements.

Benefits of Unsecured Loans:

1. Unsecured Business Loans do not require collateral or assets to secure the loan, making them accessible to businesses that may not have valuable assets to offer as security. They do however often require a personal guarantee.
2. Unsecured loans typically feature a streamlined application process and faster approval times in comparison to secured loans, enabling businesses to swiftly access funds.
3. Successful repayment of unsecured loans can contribute to building or enhancing a business's credit history. This positive credit track record may open doors to better credit opportunities in the future, such as lower interest rates or higher loan amounts.

Key Eligibility Criteria:

- Min £100k turnover
- LTD — The business is a limited company
- 6 months trading history (ideal)

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SECURED BUSINESS LOANS

A finance product offered by Spark.

What is a Secured Business Loan?

A Secured Business Loan is a type of financing where a borrower provides collateral, such as property, to the lender as security for the loan.

Businesses may choose this option to secure larger financing for substantial investments or expansions, benefit from lower interest rates, use valuable assets as collateral, or address a less favorable credit history.

Types of Secured Business Loans:

Here are some common types of Secured Business Loans:

1. Fixed Term Loan:
    - Provides a lump sum repaid over a fixed period with interest.
    - Loan terms based on the borrower's creditworthiness and business performance.
2. Interest Only Loan:
    - Payments cover only the interest for a specified period, typically a few years.
    - After the interest-only period, payments include both principal and interest.
3. Secured Line of Credit:
    - Offers a revolving credit facility secured by collateral like property or assets.

It's possible for a business to use personal assets as collateral, often done when the business is relatively new. However, this approach carries personal risk and should be approached with caution.

Most common industries:

- 🏘 Real Estate Developers
- 🚐 Commercial Vehicles
- ⚙️ Manufacturers
- 🚢 Shipping and Logistics
- 🍝 Franchises
- 🏨 Hospitality
- 🦺 Construction

Benefits of Secured Loans:

1. Secured loans often offer longer repayment terms at lower interest rates, resulting in lower monthly payments. Successfully repaying a loan can build their credit history, which can lead to better credit opportunities in the future
2. Secured loans are generally more attainable, even for businesses with limited credit history or lower credit scores, owing to the collateral acting as a security measure for the lender.
3. Secured loans typically grant businesses access to higher loan amounts in comparison to unsecured loans, leveraging collateral to offer added security for the lender.

Key Eligibility Criteria:

Min £100k turnover	Homeowner	80% LTV (Loan to Value) up to 80%

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MERCHANT CASH ADVANCE

A finance product offered by Spark.

What is a Merchant Cash Advance (MCA)?

A Merchant Cash Advance (MCA) is a financial arrangement where a business receives a lump sum payment in exchange for a percentage of its future credit card sales. It's a form of financing often used by small businesses with fluctuating revenue streams.

MCAs are commonly utilised by small businesses, particularly those with inconsistent cash flow.

How a MCA works:

A Merchant Cash Advance (MCA) is a swift financing solution for businesses. Here's a concise breakdown:

1. Application and Approval:
    - Apply with basic criteria, providing credit card processing and bank statements. Approval is based on credit card sales history and business performance.
2. Offer and Funding:
    - Receive an offer detailing the advance amount, factor rate, and terms. Funding is quick, often within days, directly deposited into the business account.
3. Repayment:
    - Repay through a fixed percentage of daily credit card sales. Flexible structure adjusts with business revenue, making it adaptable to fluctuations.
4. Completion and Renewal:
    - Complete repayment when the total agreed-upon amount is reached.
    - Renew for additional funding based on business performance.

Most common industries:

- 🛒 Retailers
- 🍝 Restaurants
- ☕ Coffee Shops
- 🏨 Hotels
- 🍻 Pubs
- 🦷 Dental and Healthcare
- 🎶 Events

Benefits of a MCA:

1. Businesses can access much-needed capital quickly, often within a few days of approval. This agility allows businesses to seize immediate opportunities, address urgent needs, or navigate unforeseen challenges without delays.
2. MCAs offer a repayment structure based on a fixed percentage of daily credit card sales. This adaptability aligns the repayment process with the natural ebb and flow of the business's cash flow.
3. Unlike traditional loans that heavily rely on credit scores, MCAs consider the business's card sales history and overall performance. This makes MCAs more accessible to businesses with diverse credit profiles.

Key Eligibility Criteria:

- Accept card payments for 4+ months
- 10 — Minimum 10 card transactions a month
- Minimum £10,000 average card takings per month

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ASSET FINANCE

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What is Asset Finance?

Asset Finance involves obtaining funding for the purchase of a specific asset, or sometimes a pool of assets. The cost of the asset is spread over a pre-determined period.

The cost is spread over a set period, and the borrower only owns the asset after completing all payments. The lender has ownership security, and the borrower usually puts down a deposit to cover some risk.

Types of Asset Finance:

Various financing options enable businesses to acquire assets like equipment, machinery, vehicles, or property. Here are some options:

- Hire Purchase (HP): The lender buys the asset for the business, and they repay in installments over a fixed term.
- Finance Lease: The lender purchases the asset and leases it to the business. Regular lease rentals are paid, and at the lease end, the business may buy, extend, or return the asset.
- Operating Lease: Similar to a finance lease, it allows using an asset for a specific period. At the lease end, the asset is returned, and the business can opt for a new lease.
- Asset Refinancing: Using an owned asset as collateral to secure a loan.
- Sale and Leaseback: The business sells an owned asset to a finance provider and immediately leases it back.

Most common industries:

- Shipping and Logistics
- Real Estate Developers
- Commercial Vehicles
- Manufacturers
- Farmers and Agriculture
- IT Consultancies
- Construction

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Benefits of Asset Finance:

1. Asset Finance enables businesses to acquire assets without the need for a significant upfront payment. This approach helps preserve cashflow for daily operations.
2. Asset Finance offers businesses the chance to obtain superior-quality equipment that might have been financially out of reach. Additionally, it provides options to upgrade to newer technology at the end of the term.
3. Depending on the specific circumstances and the chosen type of Asset Finance, there can be tax benefits, such as deductions on lease or rental payments.

Key Eligibility Criteria:

- 6 months trading history
- LTD — The business is a limited company
- The asset is for business purposes

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PROPERTY FINANCE

A finance product offered by Spark.

What is Specialist Property Finance?

Specialist Property Finance entails securing debt, typically backed by commercial or residential freehold properties. There are diverse Property Finance options designed to cater unique or complex needs. This type of finance is usually necessary when a conventional mortgage is not suitable.

Similar to residential property loans, lenders conduct surveys on the underlying assets.

Most common industries:

- Real Estate Developers
- Hotel Chains
- Retail Complexes
- Manufacturers
- Warehousing
- Medical Facilities
- Construction

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Types of Property Finance:

Businesses have a diverse array of Property Finance options, offering tailored solutions to meet specific needs. Here are a few examples:

- Bridging Loans: Securing short-term funding against real estate on first, second, or third charges. Interest is usually “rolled up” and paid as a lump sum at the end rather than monthly.
- Development Finance: Used to fund large-scale conversions and new build projects. Lending can reach up to 70% of the Gross Development Value (GDV), with interest typically “rolled up”.
- Commercial Mortgages: Long-term funding secured against commercial properties such as offices, retail spaces, and care homes.
- Portfolio BTL (Buy-to-Let): Designed for portfolio landlords, this finance option allows them to consolidate and leverage their properties more extensively than through traditional bank loans.
- Secured Loans: Secured against a property, often with lower interest rates, it is a favourable option for businesses unable to obtain unsecured debt options.
- Mezzanine Finance: Second charge lending that supplements a development loan, providing developers with additional funds and reducing their required equity contribution

Benefits of Property Finance:

1 Enables the purchase and refinance of properties not typically eligible for mainstream mortgages. Likewise, for many businesses unable to obtain unsecured lending, property finance can provide time to transition to it in the future.

2 As property values rise, businesses have the opportunity to accumulate equity, opening avenues to potentially sell or leverage their properties for further growth opportunities.

3 Interest is rolled up in some options, removing the need for monthly payments, which helps preserve cash flow

Key Eligibility Criteria:

70%
LTGDV (Loan to Gross Development Value) Up to 70%

Individuals, trading business, SPVs (Special Purpose Vehicles), and offshore entities

75%
LTV (Loan to Value) Up to 75%

SIMPLE PROCESS

01	**Initial Consultation**	Connect with one of our experienced experts to kickstart the process. During this conversation, we'll gather essential information from you to initiate discussions with potential lenders.
02	**Our team get to work**	Our team get to work on identifying the most suitable lender from our extensive panel, comprising over 100 lenders. Our goal is to secure an offer that aligns with your preferences.
03	**We'll present an offer**	The decision is entirely yours – continue with the chosen offer, and we'll seamlessly transition to the next stage. If the presented options don't meet your expectations, no worries! There are no obligations, and we'll explore alternatives until we find the right fit for you.
04	**Funds are placed**	Funds are placed, and your relationship manager will promptly reach out to confirm the successful receipt of funds!

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