

Case Study Freeing up the Home

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Our client had been in business for 10 years and had always operated an Overdraft facility to assist during those times when cash was scarce. The company’s bank had requested a mortgage over the owners’ house to secure the Overdraft.

As the business had been profitable for many years, and a sound history had been built with the bank, we were asked to investigate ways to free up the home from the banks security requirements for the Overdraft.

After reviewing the strength of the business, we suggested Debtor Finance as an alternative. This funding solution accesses cash from the strength of a business’ credit sales. Instead of waiting for debtors to pay under normal trading terms, the bank purchases a company’s invoices and makes available (generally) up to 80% of the face value of the invoices. Once the invoice is paid, the company receives the remaining 20%.

Our client was concerned that this was another means of “Factoring” – particularly remembering the traditional stigma of this finance. On the contrary, Debtor Finance (also called Invoice Discounting) is provided on a non-disclosed basis which means in the ordinary course of business, their clients (the debtors) are not aware that the Bank has purchased the debt. Therefore, unless you are in default under this finance arrangement, control of debtor collection remains with the client.

Following our negotiations with our client’s bank, this facility was approved and the bank released their mortgage over the owners’ home.

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Important

This is not advice. The reader should not act solely on the basis of the material contained in this article. Items herein are general comments only and do not constitute or convey advice per se. Also, changes in legislation may occur quickly. We therefore recommend that our formal advice be sought before acting in any of these areas. This article is issued as a helpful guide to the reader for their private information.