Raising finance from non-bank sources checklist

Are you thinking about raising finance for your business without applying for a bank loan or using an overdraft facility?

The aim of this checklist is to help you make sure you have thought about all the issues related to non-bank finance options, so that you can decide on the best route for you.

Your funding needs

- ☐ Have you defined what the money will be used for? (For example, equipment, vehicles, employing people, marketing, working capital or buying stock.)
- ☐ Have you calculated how much money you will need - including, where applicable, installation costs and a reasonable contingency?
- ☐ Have you determined that bank borrowing is unsuitable or unavailable for your funding needs?
- ☐ Is non-bank loan finance available or do you need to seek risk capital - or a mixture of the two?
- ☐ Have you thought about using a broker to find suitable finance for your business? If so, do you understand their fees and charges?

Considerations if borrowing

- ☐ Have you considered non-bank borrowing options? (For example, borrowing from friends and family, leasing of equipment, commercial mortgage for property, hire purchase for equipment, factoring or invoice discounting for working capital, special purpose loan funds - generally these are sponsored by government.)
- ☐ Have you calculated the period over which you can afford to repay the loan? If so, is this repayment period available? (A longer borrowing period will reduce the monthly repayments but increase the cost of borrowing overall because you will pay back more money in interest.)
- ☐ If you're borrowing to finance property or other assets, have you checked what loan-to-value percentage is available? (For example, if a lender is prepared to loan up to 85 per cent of the value of the property or asset, you will need a deposit of at least 15 per cent when buying that property or asset.)
- ☐ Is additional security a condition of borrowing? If so, are you able to provide this?
- ☐ Will you approach more than one provider to determine the best deal? (This could include, for example, interest rate charges and whether they are fixed or variable.)

- ☐ Have you identified who you will approach and prepared your business plan and financial forecasts accordingly? (This includes detail about the loan coming into the business and subsequent repayments.)
- ☐ Have you found out about any fees, additional charges, insurance, terms and conditions, and made sure that these are fair, reasonable and competitive?
- ☐ Are you aware of the risks involved? (For example, if you cannot make repayments you could lose any assets you have provided as security to the lender. This includes personal assets such as your home.)

Considerations if using risk capital

- ☐ Have you considered the various sources of risk capital? (These include your own money and investment from friends and family, a business associate, a business angel or a venture capital company. If you are considering sourcing funding from an outside investor you must generally be prepared to give up a share in the ownership of your business.)
- ☐ Have you identified the most appropriate sources of risk capital? (For example, this could vary according to the amount of money that you need and the growth potential of your business.)
- ☐ Have you checked your target investors' background and track record?
- ☐ Have you checked your target investors' suitability for - and experience in - your business area and their contacts in your market place? (For example, many business angels can bring a wealth of knowledge, expertise and industry contacts in addition to finance for your business.)
- ☐ Have you considered how much of the business - what share of the business - you are prepared to sell in exchange for the investment needed?
- ☐ Do your business plan and financial forecast provide a potential investor with a profitable exit strategy?
- ☐ Can you clearly articulate your own investment into the business? (Most investors will expect you to invest your own money - for example, not taking a salary for the first year - to demonstrate your commitment to the business.)
- ☐ Are you sure you are asking for enough investment to meet your needs? (Secondary investment is very expensive, so make sure your requested budget covers all of your identified needs.)