CreativeBusinessFinance
www.creativefinance.co.uk

INTERFACE

☏ +44 (0) 870 420 8317 🖷 +44 (0) 870 990 1586 **e** finance@creativefinance.co.uk

# Client Briefing 7

# Funding stock and trading

## Introduction

Funding stock and purchases has always been difficult as lenders have found it difficult to take effective security on which they can rely, and to value any such security as:

- the level of stock will move up and down markedly in many businesses so knowing how much is likely to be physically there when the lender needs to rely on it is difficult;
- if the stock is valuable, easily moveable and easily sellable, this is a particular problem. But if it is not valuable, difficult to move and/or sell how much value is it as security?
- in addition to tracking the quantity of stock, tracking its value is also difficult as book values of stock are likely to be wildly different from its actual realisable value:
    - despite being on the books, much of the raw materials stock may turn out to be covered by reservation of title clauses and so may not actually belong to the borrower until paid for in full;
    - there is generally no market for any uncompleted work in progress after a businesses failure;
    - without a company to supply after sales service and warranty support, will the finished goods stock actually be saleable?
- In the event of an insolvency there is a risk that Inland Revenue or HM Customs & Excise may have distrained over stock for unpaid taxes or the landlord may have dome so for unpaid rent.

As a result true ‘stock financing’ is rare.

## Options available

There are some mechanisms for funding against stock available through Creative Business Finance Ltd, which are:

- stand alone stock finance;
- machinery dealer finance
- stock finance as part of an invoice discounting facility;
- funding against confirmed orders;
- trade finance; and
- personal funding (eg through Fleximortgage).

## Stand alone stock finance

Having explained all the difficulties involved in lending against stock, it may come as a surprise to find that there are a very few lenders who are willing to undertake such stand alone finance. One such lender will however only advance initial facilities in the order of £30k, with some larger sums being available once a trading relationship is established, while other lenders will only undertake one or two such deals per year.

## Machinery dealer finance

For experienced dealers in machinery who can demonstrate a successful track record in spotting and converting opportunities at a good margin there are revolving trade finance facilities of up to £2.5m in the first instance available to fund the buying in of assets to sell on. These can provide up to 100% of the asset cost together with duty and VAT.

### Stock finance as part of an invoice discounting facility

Many of the invoice discounting firms will now advance funds against stock as part of their facility. In practice the advance is made by way of an overpayment against the debtor book (which may take the percentage advance up from a nominal 85% to say a nominal 100%) which is still regarded as the core of their security.

To advance against stock, the lender will need to undertake a detailed audit of the stock in the way they will do with debtors and will require you to run a detailed live or stock system to provide regular reports on quantity, value and movement of stock, as well as Crown and rent payments and they may wish to enter into an access and priority agreement with the landlord.

### Trade finance

Trade finance houses provide cash to finance transactions that you have set up and a typical example might involve say the funding the importation of a container of goods from overseas for resale here.

The funding available ranges from:

- the funder purchasing the goods themselves, arranging and financing transport and customs clearance, only reselling the goods to you immediately before you sell them on; to
- the funder guaranteeing payment to the supplier but not actually having to remit funds.

The funder's principal requirement when lending in such situations is the ability to clearly see the route through to the recovery of its funds. They will typically therefore look to:

- fund finished goods (although some will occasionally finance the purchasing of components for assembly prior to sale); and
- see that a significant majority of the goods (sufficient to repay the borrowing) have been pre-sold.

Advance and rates will be tailored to the specifics of the deal involved and type of financial support required. Some lenders will insist on factoring your debtors as part of such an arrangement.

### Personal funding (eg through Fleximortgage)

As an alternative to seeking stock finance from institutions, some business owners with significant personal equity in domestic property are using Fleximortgages to become their own stock financiers.

This involves borrowing money at domestic mortgage rates using a Fleximortgage which allows for easy drawdown/repayment without penalties (up to certain limits). Using these funds, the owner can then purchase the stock personally for their business, giving them the options to:

- only feed it is as required (at a margin to cover their financing costs), thereby retaining ownership and control of the stock in their own hands; or
- place the stock into the business but take a charge over the business's assets by way of security and again to charge a fee to the business for provision of this facility.

Borrowing against domestic property on a first charge is now a regulated activity and borrowers must obtain appropriate regulated advice (please note that Creative Business Finance Ltd does **not** advise on domestic mortgages).

## For free initial advice on funding stock or raising trade finance please call Creative Business Finance Ltd on 0870 420 8317