
Overview

Most businesses need finance from outside sources at some stage in their development. For the success of your business you will need to establish good working relationships with those who lend you money and keep an eye on the impact of any borrowing on your business. This applies even if you have borrowed money from less formal sources such as family or friends

You might do this if you are:

1. reviewing and updating the financial plan for your business or a social enterprise
2. assessing the impact of any changes in the financial markets on your business or a social enterprise
3. responsible for managing the finance of the business or social enterprise

Monitor borrowing involves:

1. keeping in contact with funders
2. checking the costs and benefits to your business of finance provided on a regular basis
3. meeting the requirements of lenders

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Performance criteria

You must be able to:

- P1 identify and agree the aims of your relationship with each lender
- P2 make the best use of the skills and experience of your lender
- P3 keep in regular contact with lenders and make sure you understand what they want you to do
- P4 regularly monitor the costs and benefits of the finance provided
- P5 assess other financial options to make sure the original ones are still the most appropriate
- P6 set up systems to forecast and monitor the effect of the finance on business plans
- P7 regularly check that the business can meet the costs, borrowing charges and repayment schedule of the lender
- P8 assess how effectively the finance meets the needs of the business and identify any potential problems
- P9 meet the requirements of lenders by taking suitable action and asking for help when you need it

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Knowledge and understanding

You need to know and understand:

Relationships with lenders

- K1 how to keep in contact with your lender and how often
- K2 the different kinds of information that lenders need. This could include:
 - K2.1 an up to date business plan (for example including cash flow forecasts, variances against profit forecasts, information about debtors, creditors, stocks and borrowing position);
 - K2.2 what the finances are needed for (for example fixed capital and working capital, business expansion)
 - K2.3 the value of the business (asset worthiness) and the limit of funding by the owner
 - K2.4 information about business progress (for example daily, weekly or monthly)
 - K2.5 reporting where actual figures do not match those that were forecast(variances)
- K3 what paperwork should be used for recording financial agreements
- K4 the requirements of lenders and how they can be met
- K5 ways to find out what skills and experience your lender has and how to use them
- K6 the impact on personal relationships when money is borrowed from family or friends and ways to maintain them (for example being clear about terms, clearly stating what will happen when the business becomes successful, having an independent person to act as arbiter, structuring the business to dictate when and how the lender can be involved)

Borrowing money

- K7 other types of finance available (for example secured loans, overdrafts, sale or lease back of assets, employee share ownership plans, insurance policies, use of pension funds, loan guarantee schemes, external funding for equity capital or debt financing and venture capital from business `angels', grants, loans from friends or family).
- K8 how finance should be monitored. This should include:
 - K8.1 the costs of the finance (for example interest charges, administration charges, fees, commission, equity and capital gain, insurance, penalties for early termination, penalties for failure to meet interest and principal repayments, security requirements and risk); and
 - K8.2 the benefits (for example availability of funds, cash flow, investment and their effect on the business)
- K9 the likely risks to a business, owner or manager of borrowing money and how to monitor them (for example risks that the business cannot repay)

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the loan and other debts, possible loss of control or ownership of the business, breakdown in relationships if money is borrowed from family or friends)

- K10 what choices are available to you in managing lending (for example faster or lower repayment schedules, changing to different types of finance or to another funder)

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Additional Information

Links to other NOS

1. MN2 Set and monitor financial targets.
2. MN3 Keep financial records.
3. MN7 Get finance from formal or informal sources.

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