EN

Copernicus ACCESS TO FINANCE

Business Loans

PRIVATE FUNDING INSTRUMENTS **EQUITY**

Designed for SMEs

Initial idea · Business plan · Marketable product · Commercialisation · **Expansion**

What is it?

Business loans or debt financing is the act of borrowing capital for use within a business.

The most common sources of debt financing are: bank loans, credit unions, independent business loan providers and family & friends.

Debt financing requires no equity being given up by the business, as loans are given on the basis of assets and collateral. On the downside this entails that debt providers are risk averse and only lend to companies with a solid financial history and low risk future.

Loans normally work on fixed rate finance; whereby the company needs to make repayments on the principle with the addition of interest. These repayment rates as with the repayment amounts are set and are not normally subject to change without increments in interest.

How to use it?

A company seeking a loan prepares a business plan detailing its business strategy and financial plan amongst others.

An appointment with a financial institution needs to be made to present the business plan, personal documentation detailing potential assets and the financial needs.

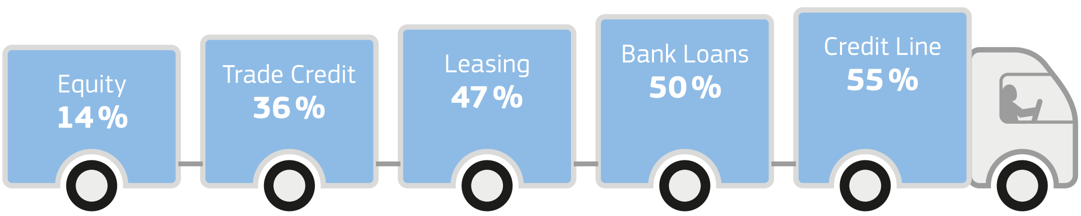
Most large banks have a section or person in a branch specialising in small businesses. They can also provide not only access to a loan but also some financial advisory on how to proceed going forward. While under loan with the bank, the company may schedule several progress meetings with the bank to discuss repayments and how the business is progressing.

The European Commission, through financial intermediaries, also offers small business loans, guarantees and equity funding with potentially lower interest rates and/or collateral requirements.

Many EU Member States have their own individual support systems set up for start-up and SME loans.

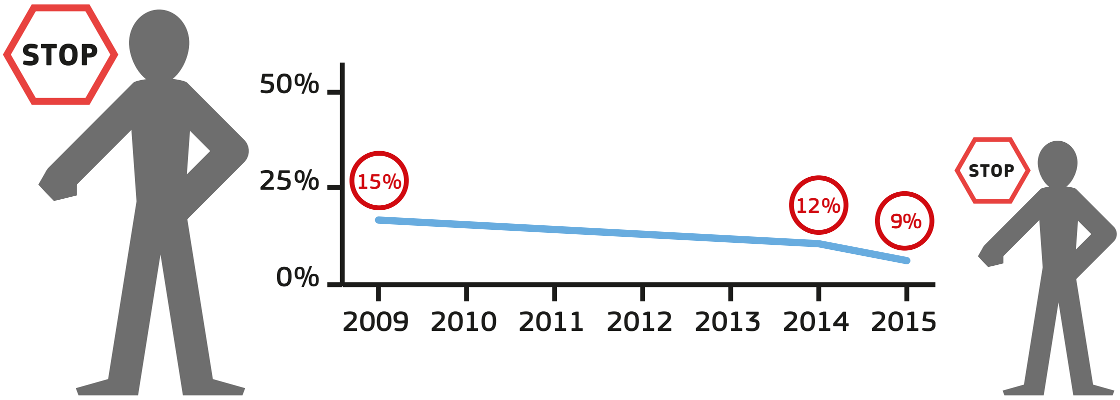
What are the sources of financing?

Bank loans and credit lines remain most relevant for SMEs.



Rejection rate

SMEs are reporting fewer loan requests being turned down.



Who can benefit?

- Mature SMEs with a solid financial history and financial plan.
- Occasionally young SMEs with signed contracts with customers and very solid financial plans.

Key benefits

- Capital injection without loss of equity.
- Enables expansion & growth and eases capital requirement.
- Set repayment amount, set repayment time and fixed rate of interest so the business can accurately forecast costs.
- Interests on the loan are tax deductible.

Useful links

- **European backed small business loans**: ec.europa.eu/contracts_grants/microfinance_en.htm
- **European small business council**: ec.europa.eu/small-business/finance/index_en.htm

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