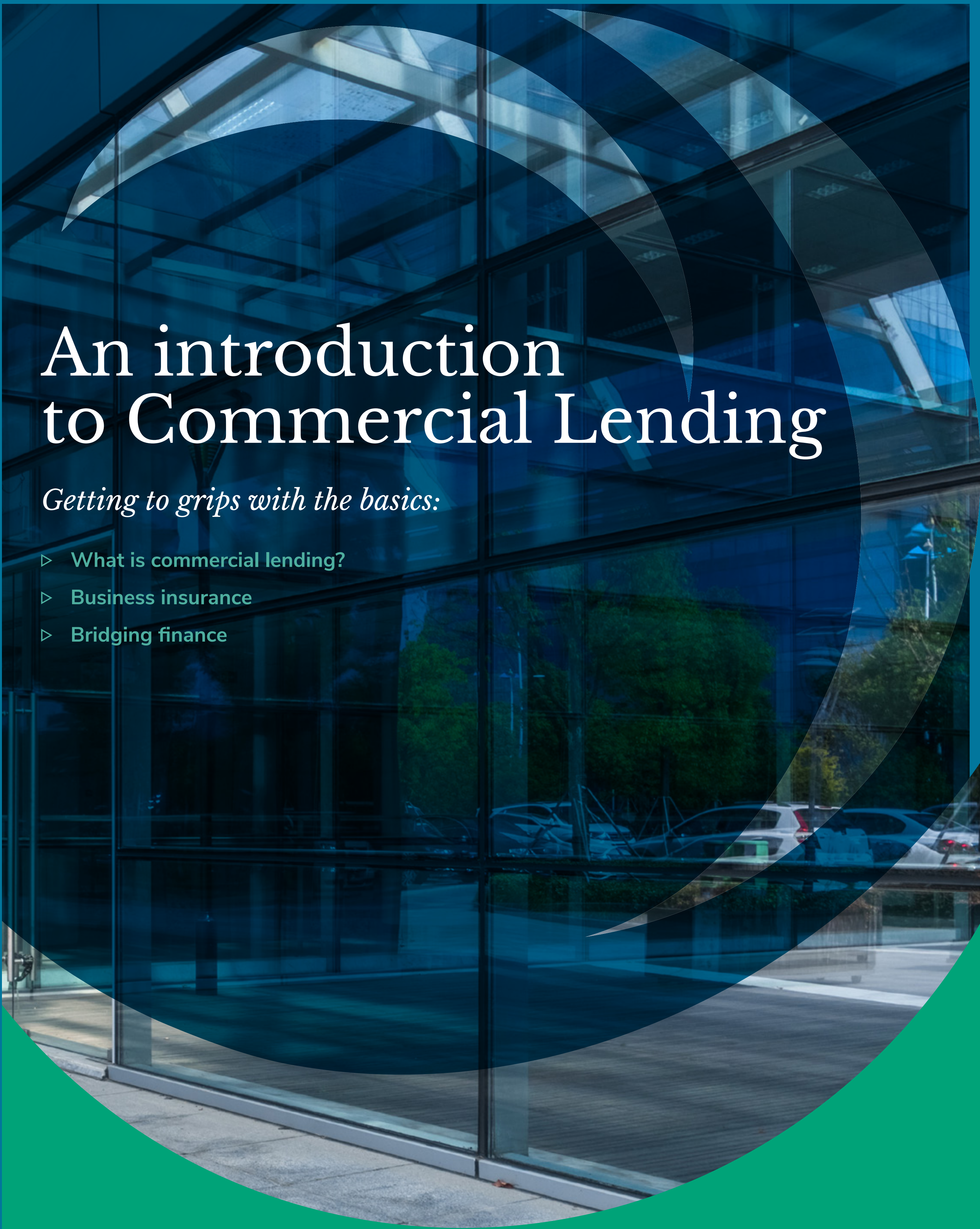

An introduction to Commercial Lending

Getting to grips with the basics:

- What is commercial lending?
- Business insurance
- Bridging finance

Life
Financial Solutions

An introduction to Commercial Lending

Even the most successful of businesses may sometimes require a cash injection, whether in the short term to purchase new equipment, hire staff or pay vital expenses, or a longer-term arrangement, for instance to secure a new premises. One way of obtaining the money required is via a commercial loan – i.e. a loan advanced to a business by a financial institution or other lender, rather than to a consumer.

Whatever your objectives for your business, this guide to commercial lending aims to offer an overview of the various types of commercial loans available to organisations, and the different situations for which they might be appropriate. If you are seeking loan finance for a business, church or charity, we hope that this guide gives you a greater understanding of the available options.

Arranging the right finance

With any property loan, it is important to compare a wide range of mortgage options from as many lenders as possible. With commercial lending, this is even more vital.

Commercial mortgages are not the same as residential mortgages where software gives access to every lender. Commercial lending requires expertise from specialist advisers who have a proven track record, as well as long-established relationships with banks and specialist providers to make sure you get the right funding options. When reviewing the available options, consideration should be given to the merits and disadvantages of capital and interest versus interest-only loans for your specific requirements.

Trading business finance

There are many advantages to buying commercial property for your business to operate in:

- Business stability and improving your balance sheet
  – your business asset can potentially increase in value so it's a worthwhile long-term investment
- Commercial mortgages
  – allow your business to borrow a larger sum. Rates are normally more favourable than unsecured loans
- Tax advantages
  – owning and operating your business space can result in favourable tax rates and other cost deductions
- Full influence
  – being the owner of the property means you'll have full control over decisions like renovation.

Looking for an owner occupier mortgage is not the simplest task, so it's important to work with a firm that has a proven track record and the right expertise. We work with limited companies, landlords, developers and SMEs and can arrange financing for different commercial property types including semi-commercial and mixed-use, retail units, modern industrial units, serviced offices and places of worship and education.

Commercial investment finance

If you are looking at buying an office, retail, or any commercial unit to secure a rent via a long lease, you will need commercial finance for this. Lenders will assess the rental income, the covenant, the tenant, who is borrowing the finance amongst other things.

Bridging finance

Bridging loans do what they say on the tin; they provide businesses with the money they need to 'bridge the gap' while they are waiting for another source of funding. Some common reasons why a business might use bridging finance include:

- Purchasing a new premises while waiting for an existing property to sell
- Paying for stock which the business will then sell on to customers
- Developing an unhabitable property (where the business is unable to secure normal mortgage finance)
- Purchasing at Auction, when you need to move quickly within time constraints, sometimes you need to complete in a matter of days.

There are four types of bridging loan – closed (which must be repaid within a set timeframe), open (which has no fixed

repayment date), first charge (the lender receives its money before any other lenders if the borrower defaults) and second charge (the lender only receives its money after all liabilities to the first charge lender have been fulfilled). Open and second charge loans are likely to attract higher interest due to the comparative risk for the lender.

Equitable Charge

In addition to a Legal Charge on a property, there is also the option of an Equitable Charge. This is different as it does not take effect in law and it gives the lender a beneficial interest in the property rather than a legal interest. If the borrower becomes bankrupt or the borrowing entity becomes insolvent, those with a Legal Charge or secured creditors will take priority above an unsecured lender with an Equitable Charge.

Development Finance

Property development finance is a type of funding used to finance the construction, conversion or refurbishment of buildings. The loan is usually set up as a short-term loan to fund the project only during the build.

Funds are usually released in stages, with the initial release usually used to purchase the site. The remainder of the development finance funds are then released in stages and at each stage the lender will check progress against the timescales tated in the application process.

On top of the usual interest rate charged, development finance loans tend to come with a number of additional fees due to their complexity. These include legal fees and fees for a quantity surveyor.

Once the project is finalised, the loan is usually repaid through the sale of the property, or by refinancing through a mortgage.

We're here to help

Our advisers are on hand to assist businesses in accessing the finance they need

As commercial finance will be secured against property, assets or other collateral these are at risk if you default on a lender's requirements. The Financial Conduct Authority does not regulate most forms of Commercial Lending. The information contained in this guide is based on our understanding of current allowances and rates at 01.11.23, which could be subject to change.

Business insurance

There are a wide range of risks against which businesses need to protect themselves, which is where insurance comes in. While employers' liability is the only type of insurance that is mandatory under UK law for any business that employs staff, business insurance policies often include other key types of cover, such as:

- **Public liability**
  – covers a business for compensation payments and/or legal costs if a member of the public (for example a customer, supplier or passerby) makes a claim because they've been injured, or their property has been damaged because of the business
- **Professional indemnity**
  – covers a business or individual for the costs incurred if a client claims you made a mistake or were negligent during your work for them, causing them financial or reputational damage
- **Buildings and contents insurance**
  – covers a business for damage to its premises, equipment, stock or any other contents.

Business insurance is often flexible and can be altered to add other types of cover your business may need, including cyber insurance, business interruption cover and even terrorism insurance.

Cross option agreements

A cross option agreement protects a business by ensuring its shareholders can buy back the shares of a shareholder who has passed away or become critically ill. This prevents situations such as, for example, the deceased shareholder's family refusing to sell the shares or wanting involvement in the business that the surviving shareholders aren't happy with.

Cross option agreements can be tailored to suit a shareholders' unique circumstances. For example, shareholders can take out insurance on each other's lives to ensure they have the funds to purchase the shares when called upon to do so.

Investment bonds

With a bond wrapper, company stakeholders may be able to derive benefits via an accessible multi asset investment, providing an element of protection from short term volatility, which can provide income to the company or lump sum withdrawals. Corporation Tax applies on any growth.

Property investment

Includes, for example, investment in buy-to-let properties held within a limited company (beneficial because rental profits are not taxed according to personal Income Tax rates; instead, Corporation Tax applies and certain expenses are deductible) or commercial units, which can be let by a company to derive a profit.

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