Finance

Managing Your Loan

Business Foundations

Topics covered:

- What to consider:
  - Before applying for a loan
  - When the loan is approved
  - While the loan is in place

Once you decide to get a loan, there are three distinct phases with different things you need to think about along the way.

Phase One: Before Applying for a Loan

Before you apply for the loan, you'll need to consider:

How much to borrow:

A good principle is to borrow the least amount, and as close to when your business will generate income from the loan, as possible. Remember, you can build your business over time. You don't necessarily need everything on day one. Be creative about what you can achieve without buying expensive assets.

Loan Term:

When you're thinking about the loan term – how long you'll have the loan for - look closely at your expected cashflow and pay the loan off as quickly as possible. This will reduce any stress if everything does not go to plan. When you consider your loan repayments, be conservative and make sure you take different seasons into account. Take a look back over your business plan and make sure that it fits with the bigger picture of your business. Also consider the risks to the business and what your Plan B might look like if something goes wrong.

Where to get the loan:

Think carefully about who you might borrow from and avoid payday lenders. They can charge a really high interest rate and hit you with penalty fees if you miss a payment for a reason that's beyond your control.

Example

Imagine you are setting up a café and you decide you need a loan to pay for the initial supply of coffee beans. You would want to borrow the least amount possible to get enough beans to start making revenue, but not so much that you're holding a large amount of stock that might go off. You will also want to receive the loan as close as possible to when you will start selling the coffees, so you can use the revenue to make the loan repayments. Remember you can always get another loan once you've paid the first one off. Once you have established your cashflow, you might be able to manage the business without a loan.

Watch the full video:
www.manyrivers.org.au

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Phase Two: When the Loan is Approved

You need to make sure you spend the loan money on its intended purpose. Don't be tempted to use it for something else or for someone else… like a family members' birthday!

Stay motivated and beware of the 'week six blues' – it's a classic trap where new business owners can start to lose their initial excitement of running a business.

Manage your cashflow well, and prioritise repaying the loan over drawing money out of the business, even if that means not paying yourself. Remember, paying yourself comes out of the profits of the business, not the revenue. That means that you need to make your loan repayments before you pay yourself!

Start keeping good records for your business so you know where your money's coming from and where it is going. With good record keeping you can make sure your loan repayments match when your revenue comes in. If you know that you're going to be paid fortnightly, schedule your loan repayments fortnightly. If you set up automatic repayments, make sure the money will be in your account when the payment is due.

If the loan is for inventory or stock, remember that you'll need to pay off the loan before the stock is used up, otherwise you'll have loan repayments due and nothing to generate revenue.

Don't forget - if you're doing well and can pay the loan off faster, go for it!

Phase Three: While the Loan is in Place

Stay focused on the business! The best way to repay your loan is for your business to be operating well. If you are generating the right level of revenue, the loan will look after itself.

Stay connected with your Many Rivers business coach so you can keep fine-tuning your business as it develops. This is even more important if something starts to go wrong. If something goes wrong, talk to your business coach straight away. Don't pretend that it is not happening. You really don't want to risk a breakdown in trust with your loan provider, which can limit their ability to offer you support.

In summary:

1. Borrow the least amount, and as close to when your business will generate income from the loan, as possible
2. The best way to repay your loan is for your business to be operating well. Focus on generating revenue in your business and the loan will repay itself! Stay on top of your repayments.
3. If something does go wrong in your business, talk to your business coach straight away. Your coach can help you put plans in place to get your business and loan back on track.

Many Rivers has a team of business coaches that can help you establish strong processes to manage a loan for your business, so get in touch with us and ask for help.