

## Overview

This standard is for entrepreneurs who need to monitor borrowing for their business. Most businesses need finance from external sources at some stage in their development. For your business to be successful, you will need to establish good working relationships with lenders 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. Monitor borrowing involves keeping in contact with funders or lenders, checking the costs and benefits to your business of finance provided on a regular basis and meeting the requirements of lenders.

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.

## Performance criteria

### *You must be able to:*

1. identify the amount that your business needs to borrow
2. identify the options for borrowing the money for your business
3. analyse options and select the most suitable lender
4. provide information to the lender(s) to help them understand your borrowing needs
5. agree the terms of borrowing the money with the lender(s)
6. identify the risks related to borrowing money
7. make the best use of the skills and experience of your lenders
8. keep in regular contact with lenders to make sure you understand what they want you to do
9. monitor the risks, costs and benefits of the finance provided on a regular basis
10. assess other financial options to make sure the original ones are still the most appropriate
11. rearrange borrowing with alternative lenders, if required
12. set up systems to forecast and monitor the effect of the finance on business plans
13. check that the business can meet the costs, borrowing charges and repayment schedule of the lender(s)
14. assess how the finance meets the needs of the business and identify any potential problems
15. meet the requirements of lenders by taking suitable action and asking for help when you need it

## Knowledge and understanding

### *You need to know and understand:*

#### Relationships with lenders

1. how to keep in contact with your lender and how often
2. the information that lenders require, such as the up to date business plan, cash flow forecasts, variances against profit forecasts, information about debtors, creditors, stocks and borrowing position)
3. the choices in managing lending, such as faster or lower repayment schedules, changing to different types of finance or to another funder
4. the aims of borrowing the finances, such as fixed capital and working capital, business expansion
5. the value of the business in terms of asset worthiness and the limit of funding by the owner
6. what paperwork should be used for recording financial agreements
7. the requirements of lenders and how they can be met
8. the ways to find out what skills and experience your lender has and how to use them
9. the impact on personal relationships when money is borrowed from family or friends
10. the ways to maintain personal relationships with friends and family after borrowing money from them

#### Borrowing money

11. the alternative finance options, such as 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

12. how borrowing should be monitored in terms of the costs and benefits
13. the types of costs, such as 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 risks
14. the types of benefits, such as availability of funds, cash flow, investment and their effect on the business
15. the likely risks of borrowing money to a business
16. how to monitor the risks , such as inability to repay the loan and other debts, possible loss of control or ownership of the business, breakdown in family or friendships
17. how often to report on the progress of your business towards repaying money to lenders

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