



Unleashing cash flow

The rise of asset refinance



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Over the past few years, we have seen businesses face huge economic uncertainty and pressures to adapt to rapidly changing market conditions, making the future difficult to predict.

In addition to the disruption caused by Covid-19, quantitative tightening has affected interest rates and increased borrowing costs, resulting in banks cautiously tightening their lending requirements and limiting loan availability.

There are businesses thriving in these uncertain times that need additional finance to aid expansion, but there are also many who are constantly treading water, or worse, drowning, that need funding to help see them through to calmer waters.

Unsecured business loans are a popular way of putting cash back into businesses quickly, with their speed easing cash flow pressures. When the need is short term, and the business can afford the repayments, they can be a good option.

However, when the issue is more long term, SMEs firstly need to raise cash quickly but secondly face the challenge of money going out of the business quicker than it is coming in. A swift cash injection may only solve the first part of the problem. When that money has been spent, there is still the same issue of the debt not being serviceable – further compounded by the short-term nature of unsecured loans.

Asset refinance is an increasingly popular option to solve both these challenges. Sale and HP Back is a form of asset refinance that can be used against most types of hard assets, where cash can be freed up from assets already owned within the business. This can be done against unencumbered assets, or assets that are currently on finance

with other lenders, providing the assets are moveable, identifiable, and saleable.

Depending on how far into the term it is, the debt against the assets on finance can be consolidated into a single loan over a longer term, with the repayments calculated in line with the income of the business, making serviceability demonstrable.

This is particularly useful in sectors where the business is asset-rich but cash-poor, such as construction, manufacturing, and engineering.

Asset refinance allows businesses to create working capital, aid cash flow and consolidate existing debts, whilst helping raise deposits for new purchases to drive growth. A good example of this is when we were recently asked to fund a £1 million facility to refinance a company's business assets. Consolidating all of the HP debt into a single payment over a longer term saved the business over £500,000 per annum and supported its expansion.

This demonstrated how it's vital for SMEs to work with a broker and lender that has the expertise in structuring complex refinance facilities to meet its specific needs. Whilst cash remains king, finding the right finance solution has never been so critical. ●



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