21 Types of Commercial Finance for you to Consider

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Commercial finance encompasses a wide range of products tailored to meet the financial needs of businesses.

Here is a list of some everyday commercial finance products:

1. **Business Loans:** Traditional loans provided by banks or other financial institutions to businesses for almost any purpose.
2. **Commercial Mortgages:** These are loans secured against commercial properties. Traditionally used for purchasing or refinancing properties for business purposes with long-term repayment profiles.
3. **Bridging Finance:** Short-term financing used until a business secures permanent financing or removes an existing obligation. Often used for property purchases with repayments rolled up and interest only until property is sold or refinanced.
4. **Development Finance:** These are financing for purchasing, renovating, or developing commercial properties such as office buildings, retail centres, or industrial facilities. Funding is repaid from either the sale of the property or refinanced into a commercial mortgage
5. **Invoice Financing:** Businesses assign their outstanding invoices to a third party at a discount in exchange for immediate cash. Invoice Financing allows businesses to improve cash flow by accelerating funding.
6. **Single Invoice Finance:** Invoice discounts against single invoices without the need to assign the whole debtor book.
7. **Asset Financing/Leasing:** Loans or leases specifically tailored for purchasing vehicles, equipment or machinery. The asset itself serves as security for the loan with repayment aligned to the life of the asset purchased.

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Trade Finance: Financing solutions designed to facilitate international trade transactions, including letters of credit, trade credit insurance, and export financing. The trade finance supplier acquires the stock on your behalf (often from overseas suppliers) and is repaid on the sale of the stock.

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Asset-Based Lending (ABL): Financing is secured by a company's balance sheet assets, such as trade debtors, stock, equipment, and property. The amount of credit extended is based on the combined value of these assets.

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Cash Flow Loans: Providers of these loans are more interested in the underlying EBITDA (Earnings before Interest, tax, depreciation, and amortisation) of a business rather than the view taken by the ABLs (Asset-Based Lenders). Typically used for businesses that have a low asset composition on the Balance Sheet. Cash Flow loans are between 2 – 3 x EBITDA depending on various circumstances. These types of loans are often used in acquisitions and management buyouts, but in such cases, the calculation is extended to CFADS (Cash Flow available for debt service) by adjusting EBITDA to accommodate working capital movements and asset additions.

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Sale and Leaseback: Selling owned assets, such as property or equipment, and then leasing them back from the buyer, providing immediate cash while retaining the use of the assets.

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Lines of Credit: A revolving credit facility that allows businesses to borrow funds up to a predetermined limit. Interest is charged only on the amount borrowed.

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Merchant Cash Advance (MCA): A lump sum cash advance provided to businesses in exchange for a percentage of future credit card sales. Repayment is typically made through a fixed rate of daily credit card sales.

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Supplier Financing: A lender will allocate a credit line and utilise this by paying suppliers and extending credit period for up to 180 days.

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15 **Franchise Financing:** Loans or financing options specifically tailored for franchisees to start or expand their businesses.

16 **Mezzanine Financing:** This is a hybrid financing that combines debt and equity. It typically involves providing a loan that can be converted into equity if certain conditions are met.

17 **Venture Debt:** Debt financing is provided to startups and high-growth companies to support their growth initiatives, often alongside equity financing rounds.

18 **SAAS Funding:** Funding lines provided to companies that offer Software As A Service. Ideal for businesses that have recurring monthly revenue streams from licensing software or apps. Funding is provided as a percentage of the value of the future income stream.

19 **Joint Venture Financing:** Financing arrangements between two or more parties to undertake a specific business project or venture together.

20 **Project Finance:** This is financing for large-scale infrastructure or development projects, where the project's cash flows and assets secure the financing.

21 **Export Credit Insurance:** Insurance policies that protect exporters against the risk of non-payment by foreign buyers, allowing them to offer competitive payment terms.

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