

Beat the Teacher

Highlight any errors you find in the following article

Bank finance

Banks are an important source of finance for many businesses, including those at the start-up or small business stage.

The two main types of business finance provided by banks are:

- Bank loans, and
- Bank overdrafts

A bank loan is a medium or long-term source of finance. The loan provides a fixed sum of money which the business has to **use for a specific, agreed purpose** [*not necessarily – bank loan can be for general purposes*]. The rate of interest on a bank loan will **always be fixed** [*no – rate may be variable or fixed; most bank loans these days are variable*] so that the business can plan cash flows with more certainty. The bank may also require the business to provide some security against the loan.

Bank loans are **only available to incorporated businesses** [*no – sole traders, partnerships etc can also get bank loans*] due to the security of limited liability that a company provides.

By contrast, a bank overdraft should mainly be used as a source of short-term finance. The overdraft consists of a “facility” whereby the business can spend more than the cash it has in its bank account, up to an agreed limit. A bank overdraft has several advantages as a source of finance:

- The rate of interest is **generally lower** than a bank loan [*no – overdraft interest is usually much more than a loan*]
- Interest is only paid on the amount overdrawn
- The bank overdraft **doesn't have to be repaid** if the bank requires it [*oh yes it does – bank overdraft repayable at any time*]
- It is a flexible way of managing seasonal or temporary cash flow problems