USING OTHER PEOPLE’S MONEY.

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Many small businesses complain that they are unable to get funds required for investment, and when they get funding, the cost in terms of interest and charges is too high. Taken to the logical conclusion, it can be inferred that there is a belief of a right of easy access to cheap funds, and that this right should not be subject to restriction.

The reality of the situation is that if you do not have sufficient funds of your own to invest, you will have to use Other People's Money (OPM). Invariably, OPM whether provided by friend, family or institution, comes with strings. The first and most frequent is that it must be paid back. The second is normally that rent (interest) must be paid for using it. In the case of family and friend providers, even if the first two strings are more flexible there may be the intangible or emotional strings.

Understanding where the money that is being provided has come from enables the borrower to understand the kinds of strings and conditions that it comes with.

OPM provided by banks is itself OPM the bank has obtained from depositors and shareholders. In most cases, banks work with more demanding strings and conditions from depositors than they request from their borrowers. Most depositors expect full and immediate repayment of their deposits whenever they want it, without notice and regardless of the relationship with the bank. Depositors are also not tolerant of any errors in the recording of transactions or calculation of interest.

Friends and family provide OPM from their savings, and depending on what the savings are for, and if and when they plan to use it, the strings attached will be stronger or weaker. Getting OPM from them normally involves the same procedures as banks even though it may not appear so. The person who is lending the money would have made an in depth assessment of the borrower during their relationship on which they would base the amount of trust they are prepared to give. When borrowing relationships with friends and family go bad there can be much more confusion generated than with a banking relationship, and this confusion may not be restricted to the courts.

Successfully getting OPM from a bank requires a good understanding about how banks operate.

First of all, regardless of the tone of their advertisements, banks are not created to help people, but to make money for their shareholders. Like any other business, they provide services for which they charge customers to cover their costs and make a profit.

Secondly, the banks do not own the money that they have in their vaults. The money belongs to other people who come and take it back from time to time. The bank has to keep this in mind when it is lending it out, and accordingly will only lend it to people who they are convinced will pay it back at an agreed time and in agreed amounts. Banks do a pretty good job at this when it is considered that though it is not unusual for borrowers not to repay loans as originally agreed, the banks always repay their depositors on demand.

Third, banks employ ordinary people who have the same limitations that we all have. Lending staff in particular have to appreciate issues relating to a wide range of business activities in which they have no first hand experience. Understandably, they may not appreciate issues that are not clearly explained and documented. Faced with these situations there is frequently opportunity for the delays and misunderstandings that can frustrate customer relationships.

Understanding the points set out above is not beyond the ability of the owner of a small business. If banking facilities are important to the survival of the business, the entrepreneur must be able to do what it takes to make a positive impression on the banker chosen for support.

The first priority is to develop a relationship of trust with your banker. This requires that you be completely honest and open in your dealings, and that you meet your commitments. If things will not happen as agreed you should give your banker early notice, along with advising what will be done to bring matters back on course. Your personal credibility is the most important element of your relationship with your banker, and must be sustained at all costs if the relationship is to be productive.

The second element is to always supply supporting information for any request made. The justification that is made does not have to be long and complicated. It should be simple, clear, and based on facts as much as possible. It must be understood that there is no obligation for a banker to agree that the business venture is a good opportunity that would not involve loss. Remember that the banker does not understand your business as well as you do and should not be expected to guess things that you know but have not communicated. Even if you already have a good relationship with the banker, providing this information increases your credibility, and encourages them to be more willing to provide support when faced with requests involving higher risk and uncertainty. If you have difficulty in supplying this information on your own, you should seek help from the Business Development Company or any other similar agency.

The third element is to understand that the banker you are dealing with has to justify his actions to people who have an even more limited knowledge of you and your business. Even with the best wishes he will be constrained by policies and guidelines which may affect his ability to provide the support that you need. Patience with delays that are beyond the control of your banker will strengthen the relationship and motivate your banker to go the extra mile to get what you want.

With care and attention, it is possible to build a relationship with your banker that will support the profitability of your enterprise in the future. Once the money is received, the conditions under which it has been given must be scrupulously followed whatever the source, otherwise problems will soon arise. If problems are expected they should be communicated to the lender early along with the plans to deal with them.

All of the above is just as relevant to borrowing money from friends and family as from banks. There in no obligation that people who have money not being used, must lend it to people who need it. The only persons who are able to get OPM easily for a risky business either have money of their own, or have a good track record of success in risky ventures. Very few people lend money without knowing if and when it will be repaid, and borrowers should always be able to put themselves honestly in the shoes of the lenders if they wish to be able to have access to what is not their own..