

What If?

Lending Brochures

The overdraft is not cleared by the expiry date?

An overdraft facility can be renewed on an annual basis providing that the business reapplies for the facility prior to the expiry date and can prove that the request is made for valid reasons.

If there is an overdraft balance outstanding on the date that the overdraft facility expires, and the business has not requested that the facility be renewed, the business will be expected to make immediate repayment of that balance plus applicable interest.

If it fails to do so Bank of St. Helena will treat this as a default and will follow its usual procedures for dealing with borrowers that are in arrears with loan repayments, which could include taking court action and the seizing of assets. If a business believes it may not be able to completely clear its overdraft by the expiry date it is advised to contact the Bank as soon as it becomes aware of the situation, so that a mutually acceptable way forward can be found.

The business attempts to draw more than the overdraft limit?

In general, the Bank's systems should prevent a business from exceeding its overdraft limit, and should reject further payments that would take the overdraft balance beyond the agreed limit.

However, managing the overdraft facility remains the responsibility of the business, not the Bank.

In the event that a payment is made that takes the business beyond the agreed limit, the Bank will contact the business and require it to make immediate payment such that the overdraft balance is brought back within the agreed limit. If the business fails to do so the Bank may treat the situation as a default, as described above.

The business persistently breaches the limit?

Bank of St. Helena reserves the right to cancel any overdraft facility and demand immediate repayment of any amounts outstanding. The Bank will not take such action lightly, but may do so if a business is, in the Bank's opinion, persistently misusing the overdraft facility.

Please note: Irresponsible or inappropriate use of your overdraft facility can affect your credit history and make it harder to get loans or overdrafts in future

We have a selection of Lending Brochures available from Bank of St Helena:

- Lending
- Personal Lending
- Mortgages (Housing)
- Commercial Lending
- Business Loans - A Guide for Applicants
- Understanding Overdrafts
- How your Loan Works
- Financial Support for Young Entrepreneurs



CONTACT US

Bank of St Helena - Lending

T. +290 22390

F. +290 22196

commercialending@sainthelenabank.com

personallenging@sainthelenabank.com

Head Office Address

Market Street · Jamestown · St Helena Island · STHL 1ZZ

T. +290 22390 E. info@sainthelenabank.com

www.sainthelenabank.com

Understanding Business Overdrafts



Bank of St. Helena Ltd.

www.sainthelenabank.com

What is an Overdraft?

An overdraft facility allows you to borrow money via your current account by permitting you to spend more than what is actually available in your account. It is a form of borrowing and will need to be paid back to the Bank but there are no scheduled monthly repayments; you will be in control of the overdraft facility via your bank account. The overdraft must be settled prior to the date that the facility expires.

Overdrafts are available to businesses for working capital purposes only. They can be considerably cheaper than a conventional bank loan because interest is only charged on the amount of the overdraft being used, not the full amount of the facility. An overdraft facility is also more flexible than a conventional bank loan as you can reduce the balance and reuse the funds as many times as you wish, during the term of the facility.

Working capital is the money needed to fund the normal, day to day operations of your business e.g. wages, stock and fuel.

Interest

Interest on an overdraft facility is accrued on a daily basis and applied to the account to which the facility is attached at the end of each calendar month.

Repayments

With a conventional loan, a fixed amount is borrowed and regular repayments have to be made. If interest rates remain constant, the repayments will be the same each month until the loan is repaid.

With an overdraft facility there are no fixed borrowing amounts (although there is an agreed maximum limit) and no requirement for regular repayments. All that is required is that the total outstanding remains within the overdraft limit, and that the overdraft is repaid in full by the time the facility expires.

Responsible use of Overdrafts

When used properly, an overdraft facility can be a flexible and cost-effective form of business financing, but when misused they can present real dangers.

The business is not forced to make regular repayments, and if the situation is not properly managed it is easy for the business to find itself approaching the expiry of its overdraft facility with insufficient cash flow to repay the borrowing.

For this reason, Bank of St. Helena does not offer overdrafts in all situations. For an overdraft to be offered it is necessary for the Bank to be satisfied that the business will be in a position to clear the overdraft balance within the limits of the overdraft expiry date, as evidenced by the submitted cash flow forecast.

Similarly, the business needs to make sure that the assumptions it makes when drawing up its cash flow forecast are realistic. If the business fails to generate enough cash it can find that the overdraft balance is growing each month. In an extreme case, where the interest on the overdraft facility becomes greater than the amount of cash the business is generating, the business is clearly heading for financial difficulties.

Although Bank of St. Helena will not offer overdrafts in situations which appear to be risky, the Bank's decision to lend should not be taken as a confirmation of your plan. It remains your responsibility to run your business in such a way that it can meet its commitments, including the need to repay any borrowings.

Financing with an Overdraft

An overdraft facility can solve the problem of insufficient cashflow if projected accurately. The business would request an overdraft facility to be placed on their account, which enables it to borrow money as it needs it, up to a maximum borrowing amount (called the 'overdraft limit') and for a limited period of time (currently 12 months). At the end of the period the overdraft must have been cleared (i.e. all borrowing must have been repaid), or if required the facility can be renewed for a further period, but as long as the facility is in place, the business can borrow as much or as little of the overdraft limit as it needs.

How to Apply

If you think your business could benefit from having an overdraft facility please contact the Bank.

You will need to fulfil the Bank's requirements for lending and accept its terms and conditions.

In particular, to support your application, you will need to draw up a business plan for the project or investment you are planning to make and submit with supporting documentation. Please see our "Business Loans – A Guide for Applicants" which will define the documentation required.

