## Obtaining Short-Term Financing VS Long-Term Financing

### SHORT-TERM FINANCING
- Funds needed for a year or less
  - Importance
    - Purchasing additional inventory
    - Paying bills that come due unexpectedly
    - Helping firm stay afloat when cash is low

### LONG-TERM FINANCING
- Funds needed for more than a year (2 to 5 years)
  - Importance
    - Purchasing expensive assets such as plants and equipment
    - Developing new products
    - Financing an expansion of a firm

### Different sources of Short-Term Financing
- Trade Credit— the practice of buying goods now and paying for them later. Most widely used source of short-term funding.
- Promissory note— a written contract with a promise to pay a supplier a specific sum of money at a definite time
- Family and Friends
- Commercial Banks—lend money to businesses so they can finance their products or services with the firm paying back the money at the end of an agreed due date plus interest.
- Factoring of Receivables—another form of funds is basically the company sells its accounts receivables to a bank at a discount, allowing the company to get the money they need right away.
- Commercial Paper
- Credit Cards

### Different forms of Short-Term loans
- Secured loan—A loan backed by collateral, something valuable such as property. Ex. If you can’t pay the loan, I can take your car. Allows banks to take less risk when lending money.
- Unsecured loan—A loan that doesn’t require collateral. It’s rare to get this type of loan and is usually given to businesses that are highly regarded or long-standing businesses.
- Line of Credit—A given amount of unsecured short-term funds a bank will lend to a business, provided the funds are readily available.
- Revolving Credit agreement—A line of credit that’s guaranteed but usually comes with a fee.
- Commercial finance companies—Organizations that make short-term loans to borrowers who offer tangible assets as collateral.

### Different sources of Long-Term Financing
- Debt Financing—Borrowing money the company has a legal obligation to repay
  - Borrowing from lending institutions
    1. Term loan agreement— A promissory note that requires the borrower to repay the loan in specified installments.
    2. Risk/return trade-off— The principle that the greater the risk a lender takes in making a loan, the higher the interest rate required.
  - By Issuing Bonds
    1. Indenture term—The terms of agreement in a bond issue
    2. Secured bond— A bond issued with some form of collateral
    3. Unsecured Bond— A bond backed only by the reputation of the issuer; also called a debenture bond.

### Leverage
- Raising needed funds through borrowing to increase a firm’s rate of return.

### Equity Financing
1. Selling stock
2. Financing from retained earnings—Profits from the business
3. Financing from venture capital— Money that is invested in new or emerging companies that are perceived as having great profit potential.

### Cost of capital
- The rate of return a company must earn in order to meet the demands of its lenders and expectations of its equity holders.