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Make Your Intercompany Loan Management Easier With a Few Simple Steps

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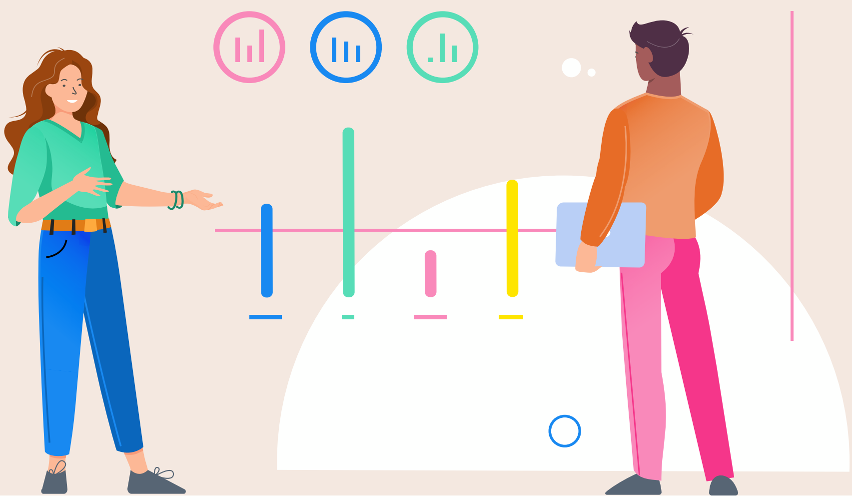
Intercompany loans, or internal loans, are loans from one entity to another within the same company. All wholly-owned subsidiaries' internal loans have one thing in common; they have either been set up as a result of the requirements for managing the liquidity within the company, as a result of legal requirements, or so that the real estate-owning subsidiary's mortgage deeds can be used as security in an external loan agreement.

How intercompany loans are managed has little to do with managing the company's financial risk. Instead, this type of management is about ensuring that the correct costs are transferred to the correct entity. For example, there can be external requirements in a loan agreement regarding the framework of the internal loan, which you need to comply with.

When constructing internal loans, it's important to try to make an as correct and simultaneously administratively smooth process as possible. That is where the interest rate and loan arrangements come in.



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Make sure to connect the interest rate to the external debt

Historically, many internal loans have had a fixed interest rate to alleviate the administrative work. The problem is that if the market changes, that can quickly lead to a situation where the market interest rate of the external debt and the interest rate of the internal loans are vastly different. That is why it's crucial that the interest rate follows the external agreements' interest rate terms when there are external loans and other costs connected to intercompany loans.

In Nordkap's treasury management system, you get user-friendly system support for stating your own internal interest rates. That way, you can easily ensure that the interest rate is updated on all your intercompany loans simultaneously. We usually recommend calculating the internal interest rate so that it is defined by the external debt portfolio's average interest rate at the end of each quarter.

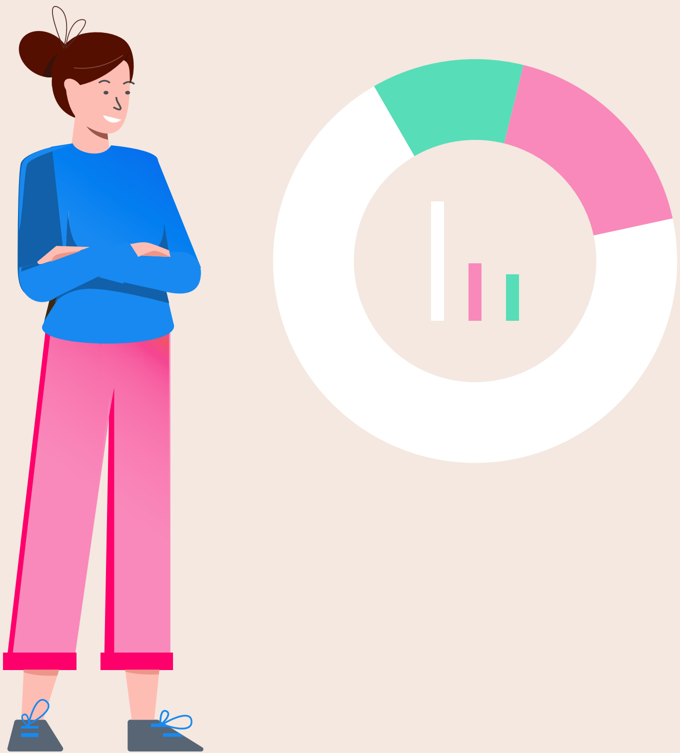
Capitalise the interest rate and make your liquidity management more efficient

You need to pay interest on your internal loans. However, it is possible to avoid an excessive amount of administration due to payments between the company's different entities. The trick is to construct the agreements in a way where the interest is capitalised instead.

So, what does that mean? If the interest is capitalised, the interest payment is substituted by an increase in the debt instead. That way, the interest payments don't need to be attested, transferred, and accounted for every quarter. Instead, you can do the accounting between the different entities based on other liquidity requirements within the company and regulate it with the help of a decrease or increase of the loan.

To make the process easier while also making the liquidity management of the company's entities more efficient, you can create a company account structure that every entity within the company takes part in. This kind of company account structure can be beneficial because it allows an entity to have a negative balance while other entities have a positive one – without that having to become a financial expense on a company level.

Using a company account structure allows for the possibility of avoiding quick emergency transfers. Instead, you can gather several transfers between the entities that then regulate the intercompany loans. How often these transfers need to occur can differ depending on, for example, the subsidiaries' liquidity needs and is therefore different for different companies.



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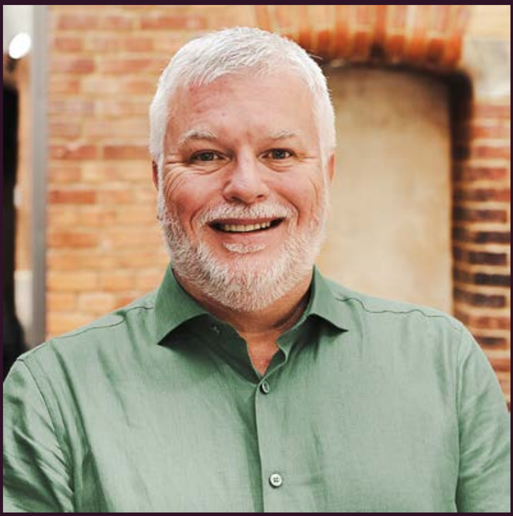
Want to know more?

Are you curious about how Nordkap's Treasury Management System can help you improve your intercompany loan management? Don't hesitate to reach out! **Our experts are happy to help!**

About Nordkap

Ever since we founded Nordkap in Stockholm in 2011, we've had a clear vision of what we want to do: make the finance and treasury world easier to navigate. We saw an untapped opportunity to create innovative solutions that could alleviate real estate companies' work, a potential to do things differently – do things better. Since then, a lot has happened, and today, our's is the most successful Treasury Management System in the Nordics, with market-leading and user-friendly SaaS solutions within treasury management for all types of real estate companies, no matter the size of your business.

Let's get in touch!



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