

A bank line of credit: Should your business have one?

Just exactly what is a bank line of credit and who should be using one? A bank line of credit is not a great deal different from a credit card. You make draws against your line of credit from time to time as you need cash. You pay interest only on the amount of the loan balance outstanding. You are expected to make payments and occasionally bring your outstanding balance to zero. Let's look at an example.

Let's say that your bank has arranged for you to have a \$100,000 line of credit. You are not obligated to draw any of it at any given time, and you will pay no interest until you actually make a draw (much as you do with a credit card).

Assume that you want to build up your inventory for the holiday shopping season and need \$30,000 to do so. After your inventory purchase, you still have \$70,000 available even if the \$30,000 is still outstanding, but you are only paying interest on the \$30,000. You may have several occasions during the year to borrow on your line of credit. Since your line of credit is intended for short-term cash needs, your banker expects your balance to be paid down as your cash flow improves.

Do not use a line of credit for capital purchases. If you need to expand your building or buy new equipment, arrange a term loan for that specific acquisition. You should not use a credit card for such an investment, and you should not use your line of credit for that either.

If your business has at least two years of making a profit, you may well qualify for a bank line of credit. Start by checking with your current bank. Your banker would like to keep your business, and if your financial statements support it, you will most likely be offered a loan. Lines of credit for small amounts may not require collateral. On larger loans, you may need to put up collateral, and you may need a co-signer.

A bank line of credit can make your operation more efficient. There is comfort in knowing that you have a reliable source of instant cash for your short-term needs.

Most banks are willing to make loans to businesses that have uneven income cycles. You may want to shop around for the best loan terms. Some banks may already have several customers in your industry and do not want more (perhaps a bank examiner's concern). Accordingly, their terms may be less favorable than some other bank or credit union.

Please contact us at Burkett Burkett & Burkett if you would like assistance in preparing a request for a bank line of credit.