



### EXPERT BANKING ADVICE FOR YOUR SMALL BUSINESS

# How a Line of Credit Can Help Your Business

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When companies fail it is most likely because they don't have ready access to capital. Maybe you start out by pulling money from your personal savings account, or you accept a loan from a family member. But then as time goes by, you start putting expenses on personal credit cards, and that is where self-funding starts to get really risky. At this point, a business line of credit may be the more prudent choice.

For example, with personal credit card debt you're paying an average of 11 to 24 percent with little flexibility in making advances. So, when you have one account receivable that comes in late, thereby delaying your repayment to the credit card, not only does your rate get hiked up, but now you've earned a black mark on your credit that will make a loan in the future more difficult to secure. Compare that to a business line of credit, where you're paying between 5 to 7 percent on the credit you use, and nothing on the credit you don't. In addition, the capability to borrow against it when needed is less costly and fairly simple.

A line of credit works best for business owners when it is used towards growing pains for the business, such as hiring more people and having to meet payroll, increasing inventory to take advantage of a large order discount, or purchasing supplies to take on a new contract. A line of credit can also be used when bidding on a big project, like with government contract work. Typically the vendor will want to see that you are credit worthy and have the resources to ramp up quickly should you win the deal. A line of credit helps you get the deal done.

When applying for the line of credit, your banker will want to know that the investment of funds will come back to you in 12 months or less. (For money needed longer than 12 months, as with

buying major equipment or a building, a term loan is the better option.) Your banker will want to see a business plan as part of your application.

At Hamilton, we can direct you to free resources for developing a business plan if you don't already have one. Then, you will want to meet with your banker so that they can review the line amount for which you're eligible, evaluate the collateral you are offering, and determine the best rate and terms to meet your need. All of this will be structured based on your individual business needs. Most banks will want to see that your business has been in existence for at least two years before you are eligible to apply.

The need for additional capital is the reason you want to begin building a relationship with your bank from the moment you start your business. If you plan for success, you need to plan on securing supplementary funding at some point. Think of having a line of credit as a resource for your business – because although it may not be needed today, it may be in the future.

#### ABOUT BOB DEALMEIDA



Bob DeAlmeida is president and CEO of Hamilton Bank, which operates five Maryland locations and meets the complete banking needs of small businesses, retailers, consumers, and homeowners across Greater Baltimore.

#### MORE INFORMATION

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