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How Businesses Use Credit

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About SCORE

As a resource partner of the SBA, we help small businesses by:



Providing free
business advice
and mentoring



Offering low or
no-cost business
training



Sharing free business
templates and
resources

Request a SCORE mentor at www.score.org/find-mentor

Presenter: Timea Kajogbola



- Timea Kajogbola is an FVP, Market Sales Manager at Provident Bank, where she oversees branch locations in Hillsborough, Somerville, Bridgewater and North Brunswick. With over 15 years of banking experience in the banking industry she specializes in supporting small businesses by helping them improve cashflow management and achieve sustainable growth.
- She is passionate about supporting local entrepreneurs and small business owners, offering tailored guidance on lending solutions and business banking resources. Timea's passion lies in building strong client relationships and delivering tailored financial solutions that drive long-term success.

How Businesses Use Credit

Workshop Goals



Today, you will...

- 1 Define credit.
- 2 Understand how small businesses use credit.
- 3 Explain why businesses use credit.
- 4 Know the different forms of credit that businesses can use.

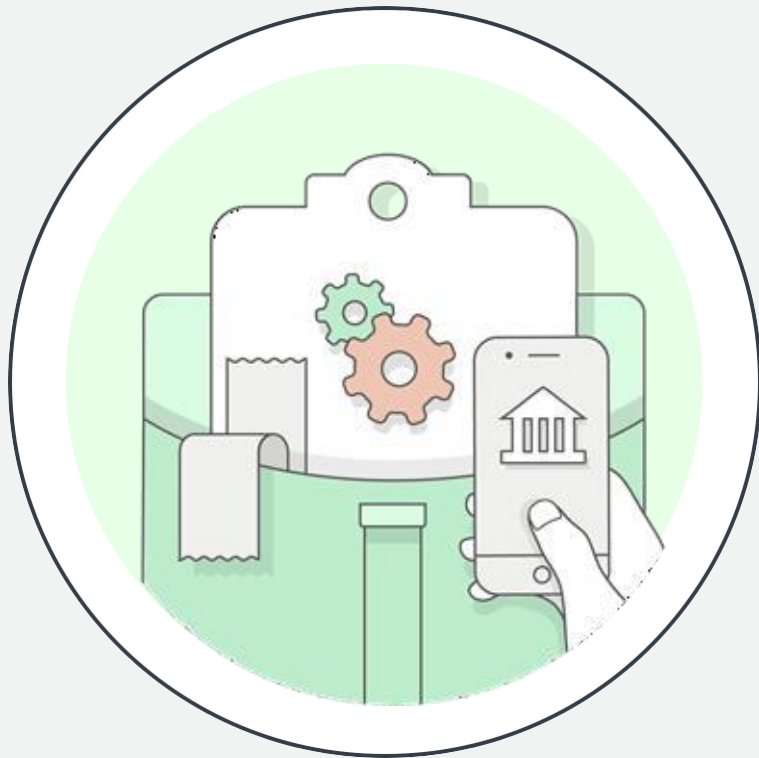
What is Credit?



Credit is a contract — or agreement — between a borrower and a lender, in which the lender provides something of value to the borrower and the borrower agrees to repay the lender with interest.

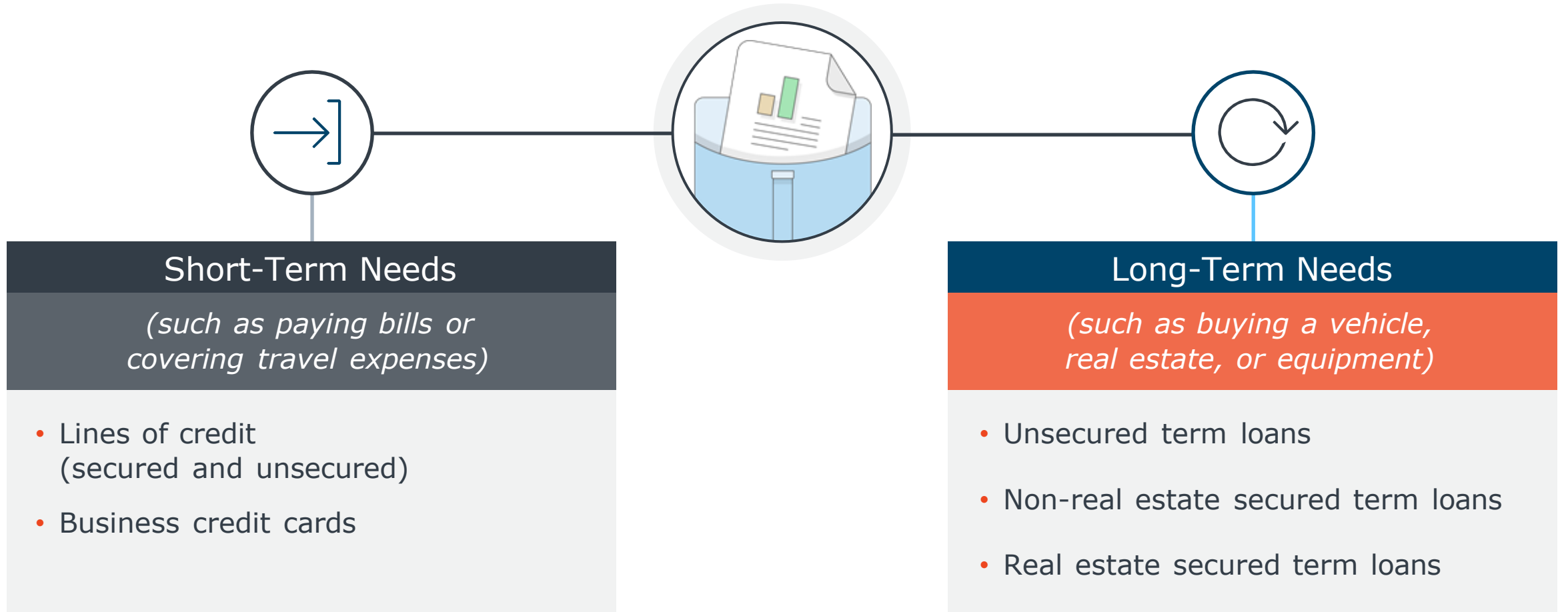
Credit can also refer to borrowing capacity, or how much money a borrower can borrow.

Why Businesses Use Credit



- **To grow a business.** Businesses often obtain loans during an expansion phase.
- **To start up.** Without seed funding, businesses may never be able to get off the ground.
- **To provide working capital/cash flow.** Without adequate cash flow, businesses cannot operate smoothly.
- **To purchase fixed assets.** Businesses borrow money for large purchases, such as vehicles, equipment, or real estate. Tying up cash in large purchases can hurt a business's ability to operate smoothly.

Types of Credit that Businesses Use



Lines of Credit



What Are Their Characteristics?

- Provide short-term finances
- Allow borrowing up to a specified dollar amount
- May be revolving – as principal is repaid, it becomes available again
- Can be repaid, with interest, in installments over time
- Have interest rates that may fluctuate with time

Why Use Them?

- Fund ongoing operations
- Have working capital and easy access to cash
- Have cash flow, especially during seasonal fluctuations
- Acquire inventory
- Meet short-term goals
- Take advantage of trade discounts

Pros and Cons: Lines of Credit



Pros

- Are more flexible based on cash flow needs — especially during seasonal fluctuations — or unexpected situations
- May build business credit history if managed responsibly
- Can be repaid incrementally

Cons

- Can be riskier: depending on the type of business you have, you may be personally liable if your business fails
- May have adjustable interest rates, based on the index on which they depend
- May have annual fees and require you to provide financial documents every year
- May have to be fully repaid at some point during each 12-month period

Business Credit Cards



What Are Their Characteristics?

- Are issued to businesses rather than individuals
- Are used to make purchases related to the business
- Usually have higher credit limits than personal credit cards

Why Use Them?

- Have purchasing power wherever you go
- Allow for authorized users
- Provide access to cash
- Establish your business's creditworthiness

Pros and Cons: Business Credit Cards



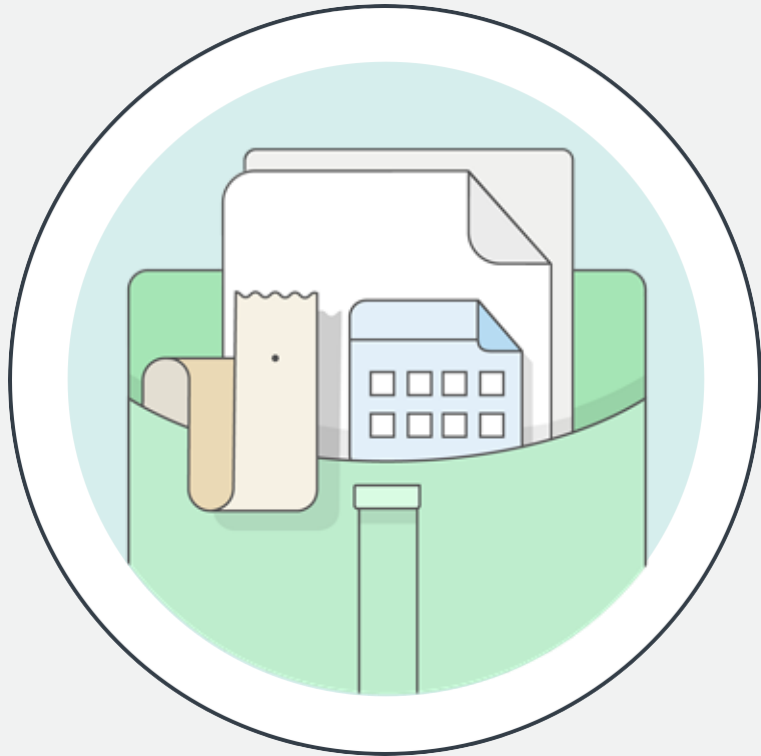
Pros

- May add other authorized users and track their expenses
- May assign credit limits for authorized users
- Keeps your personal expenses separate from your business expenses
- May have a robust rewards system

Cons

- Authorized users might abuse their spending privileges
- Mishandling a business credit card account may negatively affect your personal credit report
- If you have a large balance, interest can add up quickly

Term Loans



What Are Their Characteristics?

- Provide a fixed payment amount
- Are for a specific purpose
- Are repaid over a fixed period, up to 30 years
- Are usually secured with collateral
- Offer repayment in installments

Why Use Them?

- Purchase vehicles or equipment
- Purchase capital assets or anything that has long-term value and durability, apart from real estate and software products
- Close on acquisitions
- Fund construction projects

Pros and Cons: Term Loans



Pros

- Help finance major expenses and keep cash available for working capital
- Are repaid with fixed monthly payments, which allows for easy budgeting and financial management
- Are used to purchase equipment, vehicles, or other long-lived assets
- Are used to fund growth for well-established, profitable businesses that require permanent working capital
- Provide one lump sum at the time of funding

Cons

- May have higher interest rates than lines of credit, depending on whether a loan product is secured or unsecured
- Require borrower to reapply for additional funds

Real Estate Secured Loans



What Are Their Characteristics?

- For purchasing property that will generate its own income
- Might allow for a high loan amount
- Have higher interest rates than personal real estate loans
- May have repayment terms of 5 to 20 years

Why Use Them?

- **Non-owner-occupied real estate loan:** Acquire or purchase commercial property that will generate its own income
- **Owner-occupied real estate loan:** Purchase property or build improvements on land that will be used to conduct business operations

Pros and Cons: Real Estate Secured Loans



Pros

- Flexible terms of up to 20 years, with an option to repay in installments
- Opportunity to finance real estate, such as owner-occupied properties
- Opportunity to finance land improvements

Cons

- Down payments may be higher
- Additional fees may raise the total cost of the loan
- May have prepayment fees, severe penalties, or even lockdowns on early repayments
- Interest rates may be higher than those of personal real estate loans because the risk to the lender is higher

Summary

Remember...

- 1 Small businesses may use credit to support operations, purchase equipment, or expand services.
- 2 Common types of credit used by small businesses include personal loans, term loans, lines of credit, and business credit cards.



Helpful Links

- Find SCORE resources for small businesses at www.score.org/templates-resources
- Find more SCORE live and recorded workshops and courses at www.score.org/get-business-training
- Book an appointment with a SCORE mentor at www.score.org/find-mentor





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