EQUIPMENT FINANCING AND LINES OF CREDIT

Two practical ways to borrow: one for the things you buy, one for the ups and downs of cash.

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AT A GLANCE

- **Equipment financing** pays for vehicles, machines and tools, and the equipment itself is usually the collateral.
- A **line of credit** is a set amount you can borrow, repay and borrow again, for short-term needs like inventory or slow months.
- Match the loan to the need: **long-life items with longer loans; short-term needs with short-term credit**.

Why it matters

Using the right kind of borrowing protects your cash. Paying cash for a $40,000 oven can leave you short for payroll. Using a line of credit to buy a van can leave you with expensive debt that never seems to shrink.

Equipment financing

Feature	Typical
Used for	Vehicles, kitchen equipment, salon chairs, machines, computers
Collateral	Usually the equipment itself
Term	Often matched to the equipment's useful life, commonly 2 to 7 years
Down payment	Varies; some lenders finance most or all of the price
Who offers it	Banks, credit unions, equipment makers and dealers, specialty lenders

Leasing is another option: you rent the equipment for a set time, sometimes with an option to buy at the end. Leasing can mean lower payments and easier upgrades, but often costs more over time.

Lines of credit

Feature	Typical
Used for	Inventory, seasonal dips, waiting for customers to pay
How it works	Borrow what you need up to the limit; pay interest only on what you use
Term	Often reviewed or renewed yearly
Collateral	Sometimes unsecured; sometimes backed by receivables or inventory

> TIP
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> **Open a line of credit before you need it.** Lenders are much more willing when your business is doing well than when it's short on cash.

Example

> EXAMPLE
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> **Grace** financed a **$30,000** commercial refrigerator and oven over 5 years, so her monthly payment was spread over the equipment's useful life. She also opened a **$15,000 line of credit**. In January, a slow month, she drew $6,000 to cover ingredients for a big February catering season, then repaid it in March from those sales. She paid interest only for the two months she used it.

Step by step

1. **Match the need to the type**: equipment or short-term cash.
2. **Get quotes** from your bank, a credit union, and the equipment dealer.
3. **Compare total cost**: rate, fees, term and any balloon payment at the end.
4. **Check the payment against your cash flow.** See **M-16 12-Month Cash Flow Forecast**.
5. **Use lines of credit for short-term needs only**, and pay them down regularly.

Common mistakes

- **Using a line of credit for long-term purchases.**
- **Treating a line of credit as extra income.**
- **Ignoring the total cost of a lease.**
- **Waiting until cash is tight to apply.**

Your checklist

- ☐ List equipment you'll need in the next year
- ☐ Get two or three financing quotes

- ☐ Compare buying vs. leasing
- ☐ Apply for a line of credit while business is good
- ☐ Set a rule for paying down the line

Key words, explained

Word	What it means
Equipment financing	A loan to buy equipment, secured by that equipment.
Lease	Renting equipment for a set time.
Line of credit	Revolving credit you can draw and repay.
Balloon payment	A large final payment at the end of a loan.

Where to go next

- **R-06 Small Business Loans and SBA Loans**
- **M-06 Cash Flow: Why Profitable Businesses Still Run Out of Money**
- **R-08 Revenue-Based Financing**

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