How business owners can unlock capital

As the owner of a privately held company, your personal and business finances are likely inexorably linked. This connection makes it critical to optimize your complete financial picture and consider, in consultation with your independent advisors, how personal and business balance sheets can work together. A strategy that takes both into account can help you better navigate your finances, take advantage of opportunities and pursue personal and professional goals.

Privately held companies encounter a range of expenses

Starting business

- Providing start-up capital
- Covering initial operating costs
- Office or facility setup and furnishing

Managing business

- Covering taxes
- Maintaining inventory
- Financing accounts payable

Growing business

- Purchasing new equipment
- Buying land or new buildings
- Other capital expenditures

Diversifying business

- Merger or acquisition of a competitor
- Expanding business operations
- Starting a new business line

In most cases, you can probably cover these expenses with cash flow from normal operations. However, there may be times when additional capital to optimize operations is required.

The smart use of lending can provide the business with the requisite capital needed. Businesses can borrow directly or look for other forms of business financing, but business owners have another option at their disposal. If you own a privately held business, you may be able to use personal or business assets as collateral for a business loan. These "non-traditional" business loans may offer more flexible terms and rates than a traditional business loan may offer.

Note that business owners should consult with their personal legal, tax and accounting professionals to understand any tax or other consequences of linking personal and business assets and to determine the best structure to protect their assets and grow their businesses.

Business owners have financing options

Borrowing can provide an optimized way to use capital and make more efficient investments in your business. Borrowing can help avoid the negative tax consequences of selling assets to fund business expenses. It can also help avoid diverting cash from current operations that could derail established business plans as well as align expenses with future revenues related to investment in property or equipment. Interest costs related to business loans may be tax deductible as a business expense.

While businesses can often borrow directly with a business loan, non-traditional loans, to the business or its owner, backed by personal assets and/or guaranty of the borrower can sometimes come with lower interest rates or higher borrowing limits. Additionally, these kinds of loans may be easier to obtain and faster to gain approval.

Learn more about financing options

If you decide to use non-traditional lending for a business need, you will want to carefully consider your financing options before borrowing, providing a guaranty and/or committing your own assets as collateral.

Securities-based line of credit

Benefits

- Simplified access to funds
- Flexible terms and repayment options
- Competitive variable and fixed rates

Considerations and Risks

- Personal assets used as collateral
- Some restrictions on use of funds
- Risk of collateral calls
- Potential impact on entity structure/ownership
- Unless customized, typically demand and uncommitted

Securities-based lines of credit are one option that may give you access to cash with a flexible line of credit that is secured against your investments. Securities-based lines of credit may provide ready access to cash. They can be drawn on when you need additional cash for business expenses and can generally be established more quickly than traditional business loans.

In most cases, a securities-based line of credit has no fees to establish, no minimum balance and no annual fee. They come in variable- and fixed-interest rate options and usually have a simple application and approval process. Because the loan is secured against your investments, it may also offer lower rates than a traditional business loan and can be established before you need funds — providing additional flexibility in making decisions about your business.

Customized lending

Benefits

- Wide range of potential collateral
- Tailored loan terms and repayment
- Flexible structures

Considerations and Risks

- Personal guarantee required
- Potentially higher opening costs and loan fees
- High income or free liquidity may be required
- Potential impact on entity structure/ownership
- Understand different lending terms and associated risks

In addition to standardized securities-based lending products, a business owner may want to explore more customized lending options. Custom lending offers a range of lending structures that may be more tailored to the specific need and can include unsecured lending as well as many other types of collateral, including:

- Marketable securities
- Investor commercial real estate
- Recreational real estate, such as a ranch or vineyard
- Hedge fund positions
- Fine art collections

Customized lending may involve a more detailed review of your liquidity needs and financial goals to structure a credit that seeks to support the business financing needs while taking into consideration your personal financial goals.

Customized lending allows you to use a wide range of personal assets as collateral to access cash for your business, and in some cases even open an unsecured line of credit. Custom lending structures require full underwriting and may result in additional up-front costs. Certain collateral types may not fluctuate in value as frequently as marketable securities. Carefully consider the risks associated with the different financing options.

Risks for securities-based lending

Securities-based lending involves special risks. You should review any loan agreement and related documents and disclosures carefully and consult with your own independent tax and legal advisors before borrowing.

- A decline in the value of your collateral assets may require you to provide additional funds or securities to avoid a collateral maintenance call.
- You can lose more funds than are held in the collateral account and if the loan is a full-recourse loan and you will be liable for any deficiency.
- Lenders may be able to force the sale or other liquidation of any securities or other investment property in the collateral account and, unless otherwise required by law, can do so without first contacting you.
- You are not entitled to choose which securities in the collateral account are liquidated or sold.
- Lenders can change their collateral maintenance requirement at any time without notice to you.
- You are not entitled to an extension of time to satisfy the lender's collateral maintenance requirement.
- There may be adverse tax or other consequences to you if securities are sold or otherwise liquidated.
- Securities-based loans may have restrictions on the use of proceeds may apply under the terms of the loan documents and applicable laws and regulations.

In addition, if you use other assets to secure a Customized lending facility for your business, there will be risks involved in such transactions that must be carefully considered.

Other reasons to consider non-traditional business loans

The right lending solution depends on your business and personal situation. Non-traditional business loans may help support operations or business expansion, giving you an alternative way to put money into your business. It may give you flexibility in negotiations and trade dealings by potentially offering you the ability to put in place letters of credit.

Don't ignore traditional business loans

When evaluating financing options, business owners should consider traditional business loans as well as non-traditional credit sources. Many banks offer business loans that can be used to purchase inventory and materials, refinance debt or finance account receivables. Selecting the right kind of business financing option requires looking at a range of factors, including your objectives and liquidity needs, financial situation, time horizon, risk tolerance, credit limits, interest rate, processing times and loan terms. A thorough discussion with your advisor and a credit specialist can help you evaluate and select appropriate financing options. Keep in mind, the structure of the loan can have legal, tax and accounting consequences for the business owner and the business which can be more complicated if there are multiple owners. Business owners should seek independent advice on the optimal structure to achieve their goals.

Business owners can consider using lending to meet a variety of needs

Expand inventory to support business growth

Start a new business without liquidating personal assets

Invest in their company by buying property or modernizing facilities

Purchase new vehicles or equipment to refresh the company's fleet and tools

Support the transfer of a business as a part of inheritance, without having to sell

Fund the purchase and integration of a competitor

The business owner experience at Bank of America

Bank of America offers business owners a wide spectrum of credit capabilities and a depth of resources, expertise and lending capacity that few financial institutions can match. Our approach to lending combines the investment insight and support of your dedicated Merrill advisor with personal service from Bank of America credit executives to help you, in consultation with your independent advisors, determine that a credit strategy that effectively complements your larger financial plan.

Bank of America understands the critical role startups and growing businesses play in the community and works with more than three million entrepreneurs and business owners to help them tap into the liquidity they may need to help their businesses grow and thrive.

Learn more

Speak to your advisor about your liquidity needs to pursue your business and personal goals.

MERRILL
A BANK OF AMERICA COMPANY