



CNB BUSINESS BROADCAST

NEWSLETTER FOR BUSINESS CLIENTS OF CANANDAIGUA NATIONAL BANK & TRUST

Put a Business Line of Credit to Work for you

What is a business line of credit?

A business line of credit is an agreement between a commercial bank and a business specifying the amount of short-term borrowing the bank will make available to the firm over a given period of time. The agreement is usually made for a period of one year and often places certain constraints on the borrower.

Managing a business line of credit involves:

- compiling the appropriate financial documentation when submitting the loan application,
- submitting the application for the line well before credit is needed, and
- maintaining business cash flow that will allow for payments to be made in a timely fashion.

How does it work?

A line of credit is most often used by small businesses with short-term or seasonal cash needs, or with unpredictable cash flow needs. Basically, a bank agrees to set aside a certain amount of money for a specified period of time which you can draw on as needed. The interest rate on a line of credit is normally stated as a floating rate (e.g., the prime rate plus a percentage). If the prime rate changes, the interest rate charged on new as well as outstanding borrowings will automatically change. The charge a borrower must pay in excess of the prime rate depends on the borrower's creditworthiness; the more creditworthy the borrower, the lower the interest increment above prime. One advantage of a line of credit is that although no interest is accrued until the funds are withdrawn, the line is immediately available for the company's cash flow needs.



Annual cleanups

Many banks also require what is known as an "annual cleanup" to ensure that money lent under a line of credit agreement is actually being used to finance seasonal needs. This means that the borrower must have a loan balance of zero (i.e., the business must owe the bank nothing) for a certain number of days during the year. Forcing the borrower to carry a zero balance for a certain period of time, typically 30 days, ensures that short-term loans do not turn into long-term loans.

How do you apply for a line of credit?

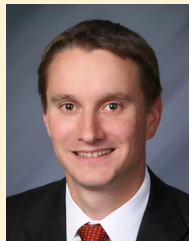
Before extending a line of credit, most banks will require you to provide your company's tax return and/or accountant-prepared financial statements from the last three years along with financial information from the individuals guaranteeing the line. A bank also wants to know how you propose to repay the loan. Ideally, you should repay it out of operating cash flow.

Your financial statements should be reasonably detailed, and projections, if provided, should make sense. Most banks prefer to see accountant-prepared financial statements depending on the amount that you are asking to borrow. Banks also require collateral to secure the line and will look to your inventory, machinery, and equipment.

It's wise to make arrangements for your line of credit well before your projected credit crunch. As with a standard bank loan, the best time to apply is when you don't need the money. When an application for a bank line is rejected, it's often for the same reasons a bank may reject a term loan. In other words, your loan may be rejected if the company has poor liquidity (its ratio of current assets to current liabilities is too low), too much long-term debt (debt-to-equity ratio exceeds 2:1), unstable management, or if there are indications that cash flow from the business appears unable to repay the loan. You can increase the inflow of cash to your business by tightening your credit policies with customers and by aggressively collecting receivables. You can also try to keep inventory as low as possible, seek up-front payments, increase your prices, and step up sales efforts.

Our commercial loan officers are always available to discuss a line of credit for your business.

Brendon Crossing is a Vice President and Relationship Manager with our Commercial Services Team. He can be reached at (585) 419-0670 x50638 or BCrossing@CNBank.com



Welcoming Lindsay Rambert to the Business Banking Unit!



Lindsay Rambert

Business Banking Officer
(585) 419-0670 X50633
LRambert@CNBank.com

In Lindsay's current role as a Business Banking Officer, she works with existing and prospective businesses on their lending and banking needs. She provides education and advice to all business types with annual sales under five million dollars, including start-ups. Lindsay prides herself on thinking outside of the box when it comes to finding solutions for clients; if there is a way to make something work, Lindsay and her resources will find it.

Lindsay has been with Canandaigua National Bank & Trust since 2011 serving in many roles in retail banking. Prior to joining the Business Banking Unit, she was the Assistant Manager of our Brighton Bank Office.

Lindsay is a graduate of St. John Fisher College, where she earned a Bachelor of Arts Degree in English with a Minor in Marketing and has completed MBA courses in Leadership, Accounting, Financial Analysis and Strategic Planning.

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9:00am - 1:00pm
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Perinton
Saturday, April 29th
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6720 Pittsford-Palmyra Road
Fairport, NY 14450

Irondequoit
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Rochester, NY 14617

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