

IF YOUR PERSONAL OR BUSINESS CASH FLOW IS OFF TRACK, WHAT ARE YOUR BORROWING OPTIONS?

By Adam Gentry, Financial Planning Analyst, and Koji Watanabe, CFP®, Vice President, Senior Financial Planner

When a light goes out, sometimes the fix is as simple as replacing the bulb. But if there's a wiring issue, the repair may require more work. First, you have to diagnose the problem before you can fix it.

The same is true with a cash flow pinch. Is it a temporary or long-term issue? If you need to have a longer-term plan, what are the risks or downsides? Your answers not only help you understand your capacity to manage income against payments, but also help determine the type of credit that's the best financial fit.

PERSONAL BORROWING OPTIONS

Before you begin the borrowing process, check out your credit score and history. If you're planning to buy or refinance a new or existing primary residence or vacation home, how might borrowing now affect that decision? Take advantage of your annual free credit report to avoid any surprises when applying for credit. Your credit score, debt to income ratio and available collateral are key to an effective and efficient liquidity plan.

HOME EQUITY LOAN / HOME EQUITY LINE OF CREDIT (HELOC): If you have equity built up in your home, a home equity loan or HELOC is an attractive borrowing option that may offer tax benefits.* With a home equity loan, you can borrow against the value of your home, less any current mortgages. HELOCs operate much the same way. However, just like a credit card, you only pay interest on the money you borrow and you can advance or repay the loan up to the predetermined credit limit. HELOCs are lending arrangements secured by the equity in your home, typically featuring lower interest rates.

CASH OUT REFINANCE: With interest rates at historically low levels, another borrowing option is to refinance your primary residence or vacation home. This allows you to take advantage of a lower borrowing rate and pull excess liquidity out of your home to be used for another purpose. These funds can be held in cash or used for investment opportunities.

MARGIN LINE OF CREDIT: Borrowing against the value of your investment portfolio is another common and flexible borrowing option. Similar to a HELOC, the variable interest rate is typically tied to a percentage of the current Prime lending rate. The borrowing limit is set to a specific percentage of account value usually around 50% or 60% loan-to-value (LTV). You should use extra caution with this borrowing option when market activity is volatile. Should the borrowed amount exceed the LTV limit, the lender will likely take the required steps to bring the account in compliance, including liquidation of securities to pay down or pay off the balance.

CREDIT CARDS: Occasionally, credit card companies offer no fees on balance transfers and 0% APR for a promotional period. If your current credit card debt carries a high interest rate, transferring the balance onto a new card with these terms could be beneficial. If you don't have credit card debt and need short-term help, a 0% APR card could be a good solution; however, be extra diligent about making timely payments and paying off the balance before the period ends.

BUSINESS BORROWING OPTIONS

BUSINESS LINE OF CREDIT: This solution gives your business the option to borrow, repay, and re-borrow as cash flow allows (similar to a revolving credit card), giving you more flexibility to bridge needs of short-term financing.

SMALL BUSINESS ADMINISTRATION (SBA) LOANS: The SBA has gained attention recently through the Paycheck Protection Program (PPP) provisions within the CARES Act. Aside from extraordinary circumstances, the SBA typically guarantees loans with long repayment terms at very low interest rates. These loans can be tough to qualify for, so they may not be right for short-term cash flow needs.

Additionally, many banks offer a variety of merchant services that can help solve cash flow problems, trim the bottom line, and make your business more efficient.

MEETING YOUR NEEDS

Having liquidity helps build confidence in uncertain times and helps avoid the need to liquidate temporarily depressed financial assets. While liquidity needs are unique to each family and business, it is helpful to establish a funding source prior to an urgent need. Your team of advisors can help you find the best solutions for your financial situation.

* Consult your tax advisor

The opinions and other information in the commentary are provided as of May 21, 2020. This summary is intended to provide general information only, and may be of value to the reader and audience.

This material is not a recommendation of any particular investment strategy, is not based on any particular financial situation or need, and is not intended to replace the advice of a qualified attorney, tax advisor or investment professional. While Commerce may provide information or express opinions from time to time, such information or opinions are subject to change, are not offered as professional tax or legal advice, and may not be relied on as such.

Data contained herein from third-party providers is obtained from what are considered reliable sources. However, its accuracy, completeness or reliability cannot be guaranteed, and is subject to change.

Commerce Trust Company is a division of Commerce Bank.



1-855-295-7821 | [commercetrustcompany.com](https://www.commercetrustcompany.com)

NOT FDIC INSURED | MAY LOSE VALUE | NO BANK GUARANTEE



Commerce Trust Company is a division of Commerce Bank.

ABOUT THE AUTHORS



ADAM GENTRY

Financial Planning Analyst

Adam is a financial planning analyst with Commerce Trust Company. He is a member of the financial advisory services team, a dedicated financial planning practice within Commerce Trust that provides objective financial advice to clients. Following a thorough assessment of a client's unique situation and thoughts regarding wealth, Adam develops holistic and coordinated plans to help clients meet their short-term and long-term goals as well as take full advantage of various planning, tax, and investment strategies along the way. Prior to joining Commerce Trust Company in 2019, Adam started his career at Commerce Bank in the Ascend Bank Trainee program in the commercial credit department. He collaborated with commercial relationship managers across Commerce's footprint to conduct comprehensive financial analysis for commercial loan packets and researched underwriting principles inclusive of loan structure, cash flow, collateral, competition and industry factors. Adam earned his Bachelor of Business Administration in finance from the University of Missouri. Adam volunteers his time at Harvesters and City Union Mission.



1-855-295-7821 | [commercetrustcompany.com](https://www.commercetrustcompany.com)

NOT FDIC INSURED | MAY LOSE VALUE | NO BANK GUARANTEE

ABOUT THE AUTHORS



KOJI WATANABE, CFP®

Vice President, Senior Financial Planner

Koji is a financial planner for Commerce Trust Company. He is a member of the financial advisory services team, a dedicated financial planning practice within Commerce Trust that provides objective financial advice to clients. Following a thorough assessment of a client's unique situation and thoughts regarding wealth, Koji develops holistic and coordinated plans to help clients meet their short-term and long-term goals as well as take full advantage of various planning, tax and investment strategies along the way. In addition to his current role, he has also served as a private banking relationship manager with Commerce Trust. Prior to joining Commerce Trust, Koji was a client manager with Bank of America's wealth management group. Koji received his bachelor of arts degree from Colby College in Waterville, Maine, and has earned his CERTIFIED FINANCIAL PLANNER™ designation. Additionally, Koji is a member of the Kansas City chapter of the Financial Planners Association. He also serves on the board of Brookside Charter School in Kansas City, Missouri.



1-855-295-7821 | commercetrustcompany.com

NOT FDIC INSURED | MAY LOSE VALUE | NO BANK GUARANTEE