

Best Practices for Using a Business Line of Credit

A business line of credit can be one of the most flexible tools for managing cash flow — when it's used with a clear plan.

Unlike a term loan, a line of credit allows you to borrow, repay, and reuse funds as needed. It's designed to help you handle short-term cash flow needs while keeping your day-to-day operations running smoothly.

Use Your Line of Credit for Short-Term Needs

A line of credit works best when the need is temporary and tied to your business's normal operating cycle. Common uses include:

- Covering temporary cash flow gaps
- Purchasing inventory ahead of sales
- Managing timing differences between receivables and expenses
- Handling seasonal payroll or operating costs

Avoid using a line of credit for:

- Long-term losses or ongoing shortages
- Major purchases better suited for a term loan
- Expenses without a clear repayment source

A good rule of thumb: if the balance doesn't come down regularly, the underlying issue may not be timing—it may be cash flow strategy.

Plan How You'll Repay Each Advance

Before using your line of credit, define how and when the balance will be repaid.

- Tie each advance to a specific purpose
- Identify the incoming cash that will repay it
- Be accountable for your repayment plan
- Review your balance regularly

This approach keeps your line of credit working as intended and helps you maintain financial strength.

Keep Availability for What Matters Most

One of the biggest advantages of a line of credit is having access to funds when you need them. To protect that flexibility:

- Avoid using the full limit unless necessary
- Set a target utilization level
- Pay balances down when cash flow improves

Keeping part of your line unused gives you room to act quickly when opportunities or unexpected expenses arise.

Monitor Costs and Key Timelines

A line of credit can be a valuable tool — but it still comes with borrowing costs. At UFCU, business lines of credit:

- Require interest payments during the revolving period
- May convert to a term loan with scheduled repayment at its 2-year anniversary.

To stay in control:

- Review borrowing costs regularly
- Know when and how interest is charged on your balance
- Plan ahead for any transition to term repayment

Strengthen Your Overall Cash Flow Strategy

A line of credit works best when paired with strong financial habits:

- Sending invoices promptly and following up early
- Aligning supplier payment terms with incoming cash
- Monitoring inventory levels
- Using a cash flow forecast to plan ahead

Improving these areas can reduce how often you need to borrow and help you maintain flexibility. Learn [how to build a cash reserve for your business](#).

Stay Connected with UFCU

Keeping your lender informed helps ensure your line of credit continues to support your business effectively.

- Share updated financial information
- Communicate changes in your business early
- Ask questions before challenges arise

A line of credit is most effective when it's part of a broader banking relationship.

Next Steps

- Review your recent cash flow to identify short-term gaps
- Set internal guidelines for when and how to use your line of credit
- Define a repayment plan before borrowing
- [Forecast your future cashflow](#)