Why You Should Leverage Your Assets for Working Capital

Every small business owner knows that their company is worth more than just the money in their checking account. While you may not be able to secure a loan based on valuables like your company's commitment to quality or bright vision for the future, you can use tangible assets such as equipment and inventory to increase your working capital- but why should you? Here are our top 3 reasons why you should leverage your assets for working capital:

1. Financial Safety
2. More Flexibility to Invest
3. Better Relationships with Lenders

Financial Safety

Owning and running a business comes with risks. While you can't always avoid them, you can make sure that you always have enough working capital to cover unexpected expenses. For businesses whose cash flow may not be their biggest strength, leveraging your assets as working capital is a great alternative to having extra money in the bank. Your equipment is a significant investment, so why not get your money's worth? Using your assets as collateral, you can secure loans without weakening the cash flow of your business.

More Flexibility to Invest

Your business can’t grow if you’re not investing. If you’re in a tight financial spot, however, it’s difficult to both keep your business healthy in the present and plan for the future. When job offers and chances to invest come up unexpectedly, leveraging your assets as working capital can make all the difference between saying yes to an opportunity for growth or having to pass. With more working capital, you can get the specific equipment you need for a project and leverage it as collateral. It doesn’t pay for itself, but it does give you more flexibility to take advantage of the opportunities you deserve. It also lets you maintain the same level of debt, which is helpful when you need to take on more projects in order to make payments on the loans you already have.

Better Relationships with Lenders

Local banks and captive lenders often offer loan rates that are hard to pass up, and when it’s a matter of saying yes to a job or passing, you might feel like you have no choice but to live with their terms. However, these rates often come with constraints (that they may not clearly disclose) that make anything beyond traditional loans unlikely. Rather than continue the cycle of taking out loans to pay for equipment in order to take a job to pay your loans, you can diversify your borrowing sources and use your assets as leverage for more working capital. Non-captive lenders have greater flexibility than lenders whose financing relies on a parent firm. Greater flexibility on loan terms makes it possible to use your assets as collateral when your cash flow isn’t sufficient. This also puts less pressure on you to secure the whole loan amount needed from captive lenders. With a smaller ask, you’re more likely to meet their lending criteria and get everything you need to take care of business.

Whether you need a cash flow alternative to secure a loan or you want to provide economies of scale as your revenues increase, leveraging your assets for working capital is a great way to make the most of your equipment and inventory. Since working capital is determined by subtracting your current liabilities from your current assets, using your assets as collateral reduces the liabilities you would have incurred from taking out a traditional loan. It may not be the solution to all of your financial dilemmas, but when you need equipment to turn a profit, leveraging your assets is one of the best ways to get it done.