



Capital Solutions

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Is 4.25% a good rate?

One of the things we do for clients initially, at no charge, is assess their credit profile and loan terms, to see if their loan terms are at least competitive in terms of rate, fees and collateral pledged.

And one of the questions we get is:

Do you think 4.25% is a good rate?

The short answer is yes.

The longer answer is that, depending on quite a few factors, 4.25% could represent a fair rate, a fabulous rate, or a really high rate.

For a small business borrowing on their line of credit, with their working capital serving as the only collateral, 4.25% is a very fair rate, one that could be difficult to improve with another lender without changing the deal's collateral and terms.

Conversely, if your loan is 100% secured by cash, CDs and marketable securities held by the lender, and you were paying 4.25%, you are paying way too much.

Same is true for a larger private business, with steady and strong cash flow, and ample collateral to support the loan, paying 4.25% or what amounts to Prime + 1.0% is much higher than what the market will bear.

As borrowers increase in size and loan requirements, their loans are no longer priced using the Prime rate as the base, but instead begin to use 30-Day Libor or the Fed Funds Rate as the basis of the interest rate charged. For these borrowers, rates as low as 2.0%-2.5% on working capital lines of credit are possible today.

Then there is the duration of the rate. Borrowing at 4.25% fixed for 5 years is a very solid rate for most private business borrowers. If it is fixed for less than 3 years, then it becomes a rate that can possibly be improved upon.

We have seen some businesses fix a rate for less than 4.25% for up to 10 years to finance longer term assets.

Now that is a great rate.

Thanks for reading. Please let us know if you would like our help on improving your borrowing rate and terms.



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