

# Tailoring Financial Tools to be Equestrian Business Solutions: Lines of Credit vs. Credit Cards

November 30, 2022

At Ford or Tesla, some of the biggest and most hotly-anticipated events in the corporate calendar are the rollouts of new models. Well, believe it or not, there's a parallel to the banking world. Here at Malvern, we also have exciting highlights in our calendar that are centered on new product rollouts. Ours just happen to be new financial tools instead of a Model Y or an F-150.

One of the latest tools is our brand-new Unsecured Line of Credit. It has a top speed of 180mph and handles curves like it's riding on rails. Just kidding. It of course doesn't go 180mph, but it does have horsepower in its own right.

I'm genuinely excited about what our Unsecured Line of Credit can do for my fellow equestrians. After all, we designed it with you in mind.

During this period when our new Line of Credit tool is being rolled out, I've done a lot of thinking (while also consulting with the compliance and finance teams) about how it can be tailored to, and best used by, our Equestrian customers. Right out of the gate, it's clear that one of the best services I can provide is a concise breakdown of lines of credit vs. credit cards, and how each might help you and your respective businesses (or hobbies!).

Instead of a huge laundry list of bullet points, I'm going to just highlight what strikes me as some of the more germane data points that can help people do big-picture thinking about



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which tool might be right for them (and in which particular situation). I also want to simplify the whole comparison by doing something I haven't seen done in the online literature: break the subject into three big clear buckets. Similarities, Important Differences, and Very Important Differences.

## 1. Similarities

The primary feature that set lines of credit and credit cards apart from other tools is that they both provide (1) unsecured access to (2) revolving credit. The unsecured part is key; you typically don't put up collateral. (There are exceptions to this, as there are secured lines of credit, but we're only discussing unsecured lines of credit in this blog post).

Activity on both gets reported to credit bureaus. The key here is timely re-payment. I always recommend setting up auto-pay, immediately. While this reporting might seem intimidating, it can actually be used to build one's credit if payments are made in a timely fashion.



There is a set borrowing limit for both—the lender will set a limit on the amount you can borrow, which depends on a number of factors (see below). Once you're approved for that borrowing limit, you can choose when to borrow, and how much, right up to that limit. You pay interest only on what you borrow, and you can do it over and over—so long as you repay what you owe, and do not exceed the limit. Lines of credit and credit cards both have variable interest rates, and the APRs may rise and fall over time.

## 2. Important Differences

### Uses

Lines of credit are often used for longer-term funding of bigger expenses or things like refinancing debt at a better rate. If you're considering a construction project on your farm (that new hot walker), buying a treadmill or therapeutic blanket, a golf cart or a tractor, a line of credit might be a great financial tool. (I also hear a top-of-the-line Western saddle can run up to \$30,000!)

Emergencies. A line of credit is a useful tool for those large unforeseen expenditures—the ones no one wants to have, but every horse owner encounters at one time or another. A line of credit could be a lifesaver in the face of an enormous vet bill or a truck and trailer breaking down. You don't pay interest until you borrow, so a line of credit is ideal to have in case of emergency.





Lines of credit can provide additional cash flow ideal for equestrian businessmen and women. Young professionals or new business owners who need a bit of extra startup capital may find a line of credit to be a beneficial financial tool. Similarly, if your equestrian business has expected fluctuations in cash flow (seasonal rent, income that depends on horse sales, etc.), a line of credit could provide that safety net during the leaner times.

Credit cards are often used for daily purchases of things like consumer goods, gas, etc. Use the credit card at the tack store, or at your favorite horse show coffee stand. Take your barn staff to dinner, and put it on the credit card. Credit cards are a convenient way to pay, without carrying cash. These are usually everyday spends, well within your budget.

### How money is accessed + how it's paid back:

With a line of credit, cash is secured during a set “draw period,” which then concludes, ending access to further money, and commencing the repayment schedule.

Credit cards have a preset limit, and ongoing expenditures add to a running balance up to that limit, but there is typically no restriction on the spending period.

## 3. Very Important Differences

### Interest Rates and Fees

Lines of credit typically require higher credit scores upfront, but they tend to offer much lower Annual Percentage Rate (APR.) Terms vary by lender, but the interest rate on a line of credit can be nearly half that of credit cards.

For lines of credit, the APR is tied to the prime rate, and it can often be anywhere from just over 9% to almost 18%. For credit cards, the national average is roughly 16%. Credit cards also tend to have associated fees that do not typically accompany lines of credit.

### Qualification requirements / How easy is it to get approved?

For credit cards, the key things evaluated are creditworthiness and DTI (debt-to-income). For lines of credit, the amount a lender is willing to extend typically depends on your creditworthiness and ability to repay the funds. The higher your credit score and better your repayment history is, the higher your chances are for approval for a line of credit—and for a higher approved amount to borrow.

Getting approved is typically a faster process with a credit card than with lines of credit. A credit card can be approved on the spot. But, the 1-2 business-day turnaround for Malvern's Unsecured Line of Credit isn't bad—and it's definitely worth the wait.



As you can see, there are strengths on both sides. But the important thing is clearly understanding the kind of spending you want (or need) to do, and that’s something well worth discussing with your private banker.

### **Another Approach: Don’t choose, use both.**

It’s also important to remember that it doesn’t necessarily have to be one or the other. Lines of credit and credit cards are both beneficial financial tools when properly used. A credit card is a convenient way to put gas in your car on the way to the barn—then utilize a line of credit for construction to make that barn bigger and better.

Oh, there is one other thing. There’s a difference I didn’t mention yet: credit cards have perks like rewards for spending. While lines of credit don’t have “perks,” with features like a lower APR and fewer fees, you never know—you might end up with more cash on hand for that well-deserved-but-seldom-taken vacation, than what you would have earned with rewards miles from a credit card.



I hope this was helpful in providing a bit more information and clarity on some useful financial tools for the equestrian industry. Are you interested in opening up an unsecured line of credit but don't know where to start? Have more questions about what options could be best for you? That's where we come in. Malvern is your go-to equestrian bank. Reach out to me directly at [HDobbs@MyMalvernBank.com](mailto:HDobbs@MyMalvernBank.com) or [561.657.0969](tel:561.657.0969).

Learn more about [Malvern Bank](#).

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