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"bridging the lending gap"

## **The Basics of Revolving Lines of Credit**

Small business owners usually look towards traditional financing options like loans for help. While loans can be a lifeline, revolving lines of credit may be simpler and more suitable for short-term needs like extra cash flow. Read on to learn about the basics: the 'who, what, when, where, why' of revolving lines of credit.

### **What Is a Revolving Line of Credit?**

A revolving line of credit (RLC) is a flexible method of borrowing cash for your small business. It is very similar to a credit card in the sense that an RLC has an established credit limit that you can borrow up to, only without a plastic card.

### **Who Can Apply for a RLC?**

Anyone can apply for a revolving line of credit, though your business credit score will determine first if your application is approved, and then your resulting credit limit. Similar to your personal credit score, your business credit score reflects your historical ability to pay back debt owed to your creditors.

### **Why Would I Want a RLC?**

While loans are great for long-term purposes like financing new equipment or facilities, they lack the flexibility of revolving lines of credit. If you are a small business owner who needs short-term help to meet your business's cash requirements, then a RLC may be the way to go.

Businesses that need flexible cash borrowing for any of the following reasons may be good candidates for a RLC:

- Seasonal and business cycle fluctuations
- Day-to-day operations
- Cushion between customer and vendor payments
- Inventory and supplies purchases

### **Where Can I Find a RLC?**

K-WAM Financial Services can help.

Revolving lines of credit usually charge for account set-up, transactions, as well as annual fees. Interest rates may fluctuate based on the market and other factors, so take this into consideration if you decide to set up a RLC.

### **When Should I Apply for a RLC?**

Though this question may seem intuitive- you only borrow money when you need it, many argue that you should even borrow money when you *don't* need it at the moment. By borrowing and paying off your debt on time, you



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are establishing a good line of credit and building a good credit score. Therefore, when a rainy day comes, you will find it much easier to obtain the RLC you need.

**Remember...**

While establishing a RLC may be advantageous to your business, don't forget to carefully monitor its activity. A RLC should be a source of financial assistance and not a source of debt.