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Revolving Credit Facilities

In this working capital guide will be answering the question: “What is a revolving credit facility?”.

Revolving credit facilities are a great alternative to a traditional overdraft provided by the high street banks. The funder agrees a line of credit with the business which can be drawn down and repaid during the agreed term.

Interest is often charged for the funds drawn, for the time they are drawn and dependant on the lender there is little to no charge for funds which aren’t drawn. When you combine that with often no set-up fee involved, this type of facility is often chosen as a ‘rainy day fund’.

How does a revolving credit facility work?
Revolving credit facilities are exactly that, they revolve. As opposed to a fixed business loan which runs for a term of say 3-5 years, a revolving facility is often a rolling agreement with the initial term either 12 or 24 months, with some facilities being structured on an ongoing rolling basis similar to that of a credit card.

Key benefits

1. Quick – can be set up much quicker than a traditional overdraft or bank loan, often within a matter of days.
2. PG backed - no security tied to the debt and as a result no legal or valuation fees.
3. Flexibility – This product is perfect for businesses with seasonal need for working capital or growing businesses. Although they are often a more expensive option than a business loan, they do provide working capital for business which otherwise would be unlikely to be able to secure more traditional funding.

Eligibility

- You must be a UK based company either registered as a sole-trader, partnership or limited company.
- These types of facilities are available to start-up companies (often capped at a lower amount), as well as established businesses.
- Home ownership is almost always a requirement.

Criteria

- The amount a lender offer is typically calculated as either one month’s revenue or the average turnover of the last 3 months.
- Credit profile personally & for the business must be fair.
- As these facilities are Personal Guarantee backed, a lender will often apply a 2:1 equity ratio, essentially if the borrower is asking for £40,000, the lender will need to be able to see equity in personal assets of £80,000, covering the debt 2:1.