

## Exploit Revolving Credit

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**The scenario:** A company is in a stable position to acquire or grow, but capital is hard to come by as banks tighten their lines of credit.

**The tactic:** Pull cash from a revolving line of credit — if you're lucky enough to get one — so you'll be ready when opportunity knocks.

Among the many types of lending available to companies is the so-called credit “revolver” — the corporate equivalent of a consumer's revolving line of credit. Viewed as a rainy-day fund, revolvers can sit untapped for long periods, much like a consumer's unused credit cards, and they tend to have lower rates than standard-term loans. But with the epidemic of recent bank failures and liquidity in lock-down mode, some companies are pulling more cash from their revolvers for fear that lenders will run into further trouble.

Drawing on revolvers may seem at first like a defensive tactic, but having cash on hand means a company is ready to pounce on competitive opportunities that might arise. [Goodyear Tire and Rubber Co.](#), for instance, announced in September that it would withdraw \$600 million from its revolving credit lines because it couldn't tap the \$360 million in cash it had placed in a fund that was temporarily unavailable. The company stated that it would use the money for seasonal working capital needs and to “enhance the company's cash liquidity position.” Similarly, [American Electric Power](#) disclosed in an October SEC filing that it had borrowed \$1.4 billion from credit lines to increase its cash position during disruptions in the debt markets. As the filing explained, “The borrowings provide AEP flexibility and will act as a bridge until the capital markets improve.”

**Caution:** Companies have credit ratings, and maxing out too much debt to handle day-to-day business expenses can be regarded as a sign of poor fiscal health. Rates on revolvers are climbing, too. And because credit revolvers are offered as a kind of back-up for companies — and many companies are drawing on them right now — banks and corporate lenders may seek ways to limit their exposure to credit draw-downs in the future, or may offer less money in revolving accounts. Revolvers must be renewed periodically, and banks and lenders may opt against re-upping a revolver or may reduce credit limits.