Things to consider when evaluating an Asset Based Loan (ABL)

Limitations

1. Advance rates on different types of collateral (all are less than 100%, so equity is required)
2. Customer concentration limits
3. The bank can implement miscellaneous reserves at any time
4. Difficult to exit without substantial equity to buy out of the program
5. Bank implemented "cushion" that can never be accessed for borrowing
6. Ineligible collateral (contra, aged working capital, cross-age, foreign AR, WIP, in-transit inventory, aged inventory, etc.)
7. Suppressed availability

Covenants

1. Weekly availability review
2. Fixed charge coverage ratio
3. Debt coverage ratio: Pre-distribution
4. Debt coverage ratio: Post-distribution
5. Cap on shareholder distributions and dividends
6. Capital spending limits
7. Limits on guarantees and other debt including off balance sheet obligations
8. Restrictions on ownership changes (mergers and acquisitions)
9. Availability testing prior to the occurrences of capital expenditures owner distributions, additional debt, mergers or acquisitions

Fees

1. Interest on line utilization
2. Unused fees on differential between revolver amount and line utilization
3. Loan set-up fees
4. Upfront commitment fees
5. Legal contract review
6. Amendment fees
7. Contract extensions
8. Default/non-compliance

Reporting

1. Borrowing base reporting (weekly and monthly)
2. Covenant compliance reporting
3. Monthly business/financial reviews
4. Full year financial projections – monthly forecast updates
5. Bank syndicate approvals and general communication

Audits and Appraisals

1. Periodic field examinations to appraise collateral – could result in a change to the advance rate
2. Periodic financial audits

Other Considerations

1. Insurance
2. Opportunity cost of using equity (redeploy cash for growth)

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