

# Items to Consider When Evaluating an Asset Based Loan (ABL):



## LIMITATIONS

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



## COVENANTS

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



## FEES

- Interest on credit line utilization
- Unused fees on differential between revolver amount and credit line utilization
- Loan set-up fees
- Upfront commitment fees
- Legal contract review
- Amendment fees
- Contract extensions
- Default/non-compliance



## REPORTING

- Borrowing base reporting (weekly and monthly)
- Covenant compliance reporting
- Monthly business/financial reviews
- Full year financial projections – monthly forecast updates
- Bank syndicate approvals and general communication



## AUDITS AND APPRAISALS

- Periodic field examinations to appraise collateral – could result in an advance rate change
- Periodic financial audits



## OTHER CONSIDERATIONS

- Insurance
- Opportunity cost of using equity (redeploy cash for growth)

