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**As the downturn in the U.S. economy continues, the virtual disappearance of the syndication market tied to cash-flow debt has thrust asset-based lending (ABL) into the forefront for companies seeking cash for working capital or other business requirements.**

With credit quality suffering at the borrower level and lenders consolidating under liquidity pressure, now may be the best time for borrowers to shop for an asset-based lender. According to a recent article in *Financial News*, ABL outstanding loans totaled \$545 billion as of June 30, an 11% increase from last year, with many ABL lenders reporting higher backlogs.

### The ABL Solution

While long a common ingredient in larger leveraged financing transactions, the virtues of ABL financing have become more pronounced than ever for a number of reasons:

- ▶ ABL financing is relatively inexpensive compared to cash flow or “B” term loans, which may carry both higher interest rates and equity kickers. With daily borrowing and daily

loan reductions, interest expenses can be minimized through a traditional ABL revolving credit facility.

- ▶ The ability to closely monitor collateral allows the ABL lender to assume more controlled risk, while instilling internal discipline for the borrower.
- ▶ With tight controls over collateral and seasoned management at the lender and borrower levels, the ABL lender may be more inclined to pursue well-structured turnaround opportunities.
- ▶ ABL financing is also a good way to provide both debtor-in-possession (DIP) bankruptcy financing and exit financing, since it incorporates the discipline and controls that creditors value.

In contrast to traditional lenders, asset-based lenders look to the quality of a company’s collateral that may be converted into cash relatively quickly, reducing outstanding loans. This collateral will primarily include accounts receivable and inventory which, aside from cash, are the most liquid assets. Asset-based lenders also tend to be more flexible in their loan decision-making and how the loans are structured — offering the operational leeway a financially troubled company may need to repair its internal issues and turn itself around.

### Meeting Borrowers’ Needs in a Down Market

Many businesses in today’s market have suitable fundamentals to access an asset-based lender, particularly companies whose accounts receivable and inventory are strong. Here are several key guidelines for identifying what borrowers want from an asset-based lender:

- ▶ Relevant experience: Borrowers expect to see a track record of demonstrated success in their industry. Be prepared to provide compelling client references and a clear understanding of the value chain that characterize a

borrower’s industry.

- ▶ Longevity: The longevity of senior lending officers is crucial. Borrowers will be significantly more disposed toward lending officers who’ve seen every kind of economic cycle and can provide material insight and counsel.
- ▶ Access: Easy access to senior lenders and other high-level officers translates into rapid turnaround during the loan application process, something companies in need of capital regard as essential.
- ▶ Flexibility: Flexibility by the lender in structuring the terms and repayment schedule as well as in the types of assets that are acceptable collateral for the loan is high on the list for borrowers in good markets, let alone turbulent ones.
- ▶ Alignment: Borrowers are responsive to lenders that demonstrate clear alignment between the lender’s business and their own. For lenders, that means overlapping with borrowers in terms of loan size and structure.
- ▶ Bank-owned versus pure-play: A common misperception among borrowers considering ABL lenders is that banks bring more regulatory constraints to the table than pure-play ABL shops. In fact, bank-based lenders are in a position to bring substantially more product diversity and solutions to the table — something borrowers often recognize as a value-add in the final assessment.

When it comes to putting asset-based lending to work for borrowers in today’s volatile market, knowing what borrowers expect and need — and delivering it — is a critical success factor for lenders. **TSL**

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