RETIS REAL ESTATE
Commercial Finance Consulting
New York - Las Vegas - Lima - Bogota

Guillermo A. Retis
Phone: 1 (702) 480 6463
Email: gretis@retisrealestate.com

WHAT IS ASSET-BASED LENDING OR AN ASSET-BASED LOAN?

Asset-based lending (ABL) is a business loan secured by collateral, also known as assets. The loan is secured by accounts receivable, inventory, and equipment. ABL finance is typically structured as a revolving line of credit, which allows a company to borrow against assets on a continuing basis to cover investments or expenses as required.

Qualifying for ABL Finance or Financing

Also known as ABL Financing or Finance, asset-rich companies can utilize asset lending to maximize borrowing capacity. ABL financing can be used for strategic growth for companies looking to expand into new markets. To qualify for asset based financing, it is generally required that the company is both stable and have assets that are able to be financed.

How asset-based loans differ from traditional loans

When it comes to the different types of business loans available in the marketplace, owners and entrepreneurs can be forgiven if they sometimes get a little confused. Borrowing money for your company isn't as simple as just walking into a bank and saying you need a small business loan.

What will be the purpose of the loan? How and when will the loan be repaid? And what kind of collateral can be pledged to support the loan? These are just a few of the questions that lenders will ask in order to determine the potential creditworthiness of a business and the best type of loan for its situation.

Different types of business financing are offered by different lenders and structured to meet different financing needs. Understanding the main types of business loans will go a long way toward helping you decide the best place you should start your search for financing.

Banks vs. Asset-Based Lenders

A bank is usually the first place business owners go when they need to borrow money. After all, that's mainly what banks do loan money and provide other financial products and services like checking and savings accounts and merchant and treasury management services.

But not all businesses will qualify for a bank loan or line of credit. In particular, banks are hesitant to lend to new start-up companies that don't have a history of profitability, to companies that are experiencing rapid growth, and to companies that may have experienced a loss in the recent past. Where can businesses like these turn to get the financing they need? There are

Guillermo A. Retis
Phone: 1 (702) 480 6463
Email: gretis@retisrealestate.com

several options, including borrowing money from family members and friends, selling equity to venture capitalists, obtaining mezzanine financing, or obtaining an asset-based loan.

Borrowing from family and friends is usually fraught with potential problems and complications, and has the potential to significantly damage close friendships and relationships. And the raising of venture capital or mezzanine financing can be time-consuming and expensive. Also, both of these options involve giving up equity in your company and perhaps even a controlling interest. Sometimes this equity can be substantial, which can end up being very costly in the long run.

Asset-based lending (or ABL), however, is often an attractive financing alternative for companies that don't qualify for a traditional bank loan or line of credit. To understand why, you need to understand the main differences between bank loans and ABL their different structures and the different ways banks and asset-based lenders look at business lending.

Cash Flow vs. Balance Sheet Lending

Banks lend money based on cash flow, looking primarily at a business' income statement to determine if it can generate sufficient cash flow in the future to service the debt. In this way, banks lend primarily based on what a business has done financially in the past, using this to gauge what it can realistically be expected to do in the future. It's what we call "looking in the rearview mirror.

In contrast, commercial finance asset-based lenders look at a business' balance sheet and assets primarily, its accounts receivable and inventory. They lend money based on the liquidity of the inventory and quality of the receivables, carefully evaluating the profile of the company's debtors and their respective concentration levels. ABL lenders will also look to the future to see what the potential impact is to accounts receivable from projected sales. We call this "looking out the windshield.

An example helps illustrate the difference: Suppose ABC Company has just landed a $12 million contract that will pay out in equal installments over the next year, resulting in $1 million of revenue per month. It will take 12 months for the full contract amount to show up on the company's income statement and for a bank to recognize it as cash flow available to service debt. However, an asset-based lender would view this as receivables sitting on the balance sheet and consider lending against them, depending on the creditworthiness of the debtor company.

In this scenario, a bank might lend on the margin generated from the contract. At a 10 percent margin, for example, a bank lending at 3x margin might loan the business $300,000. Because it looks at the trailing cash flow stream, an asset-based lender could potentially loan the business much more money perhaps up to 80 percent of the receivables, or $800,000.

Guillermo A. Retis
Phone: 1 (702) 480 6463
Email: gretis@retisrealestate.com

The other main difference between bank loans and ABL is how banks and commercial finance asset-based lenders view the business' assets. Banks usually only lend to businesses that can pledge hard assets as collateral mainly real estate and equipment hence, banks are sometimes referred to as "dirt lenders. They prefer these assets because they are easier to control, monitor and identify. Commercial finance asset-based lenders, on the other hand, specialize in lending against assets with high velocity like inventory and accounts receivable. They are able to do so because they have the systems, knowledge, credit appetite and controls in place to monitor these assets.

Apples and Oranges

As you can see, traditional bank lending and asset-based lending are really two different animals that are structured, underwritten and priced in totally different ways. Therefore, comparing banks and asset-based lenders is kind of like comparing apples and oranges.

Unfortunately, many business owners (and even some bankers) don't understand these key differences between bank loans and ABL. They try to compare them on an apples-to-apples basis, and wonder especially why ABL is so much "more expensive than bank loans. The cost of ABL is higher than the cost of a bank loan due to the higher degree of risk involved in ABL and the fact that asset-based lenders have invested heavily in the systems and expertise required to monitor accounts receivable and manage collateral.

For businesses that do not qualify for a traditional bank loan, the relevant comparison isn't between ABL and a bank loan. Rather, it's between ABL and one of the other financing options friends and family, venture capital or mezzanine financing. Or, it might be between ABL and foregoing the opportunity.

For example, suppose XYZ Company has an opportunity for a $3 million sale, but it needs to borrow $1 million in order to fulfill the contract. The margin on the contract is 30 percent, resulting in a $900,000 profit. The company doesn't qualify for a bank line of credit in this amount, but it can obtain an asset-based loan at a total cost of $200,000.

However, the owner tells his sales manager that he thinks the ABL is too expensive. "Expensive compared to what? the sales manager asks him. "We can't get a bank loan, so the alternative to ABL is not landing the contract. Are you saying it's not worth paying $200,000 in order to earn $900,000? In this instance, saying "no to ABL would effectively cost the business $700,000 in profit.

Look at ABL in a Different Light

If you have shied away from pursuing an asset-based loan from a commercial finance company in the past because you thought it was too expensive, it's time to look at ABL in a different light.

Guillermo A. Retis
Phone: 1 (702) 480 6463
Email: gretis@retisrealestate.com

If you can obtain a traditional bank loan or line of credit, then you should probably go ahead and get it. But if you can't, make sure you compare ABL to your true alternatives.

When viewed in this light, an asset-based loan often becomes a very smart and cost-effective financing option.

Guillermo A. Retis
Phone: 1 (702) 480 6463
Email: gretis@retisrealestate.com

ASSET-BASED FINANCING: HARD MONEY LOANS VS. TRADITIONAL LENDERS

Due to rigorous and stressful loan approval procedures, traditional lenders in California have lost a huge chunk of their property-based money lending business to diligent private financiers like PB Financial Group. Many prospective investors have turned to **hard money loans in Los Angeles** to fund their realty ventures. The following comparative discussion pro/cons hard money lenders and mainstream banking institutions in a bid to showcase the most advantageous.

Eligibility and Availability

Inarguably, hard money is the most readily available form of asset-based finance in the property market. Whereas traditional banks in California consider a myriad of factors, like your income levels, tax returns and your credit rating (FICO), before approving a loan, hard money lenders in Los Angeles are mostly concerned about the equity or value of your collateral property. All homeowners and commercial (corporations) with realty ventures in this region are eligible for hard money loan. This includes even those with terrible credit ratings like bankruptcies and/or foreclosures.

Convenience

Compared to the cumbersome and hectic process of getting a traditional loan, hard money loan is simply the best because it is processed in record time. At PB Financial Group, a typical loan closes within 7-14 days. This means that hard money loans are the most appropriate for quick investment ventures like competitive real estate purchase bids.

Flexibility

As mentioned above, hard money loans are not encumbered or constrained by most of the regulatory guidelines that govern traditional bank lending. This means that in addition to easy eligibility and fast approval, this financing option offers limitless funding. The size of a hard money loan awarded is not determined by your creditworthiness; hence you can secure a huge sum of money provided that your collateral has adequate equity. You will also be able to get flexible/variable amounts to fund various project financing levels including subordinate 1st, 2nd and/or 3rd position loan options.

Cost

The last consideration is the cost of the loan as dictated by the interest rate. Presumably, hard money loans charge higher interest rates than traditional loans. They are expected to be relatively costlier due to their convenient approval and fast processing times. But in most cases hard money costs are the same or even cheaper than mainstream loans. Reason being that most hard money loans are offered for short-term financing whereas traditional lending usually goes to long-term projects. As such, the overall cost (factoring in time to calculate the total accrued interest) of a

Guillermo A. Retis
Phone: 1 (702) 480 6463
Email: gretis@retisrealestate.com

typical hard money loan is usually equal or lower than the cost of an ordinary long-term loan from a bank.

As you can clearly see from these basic facts, hard money realty loans work more toward your advantage than traditional financing sources.