

**Fall 2003**

### **The Mechanics of Asset-Based Lending**

Loan amounts vary significantly in asset-based lending, depending both on the business and the collateral, but it's not unusual for a loan amount to exceed the net worth of the business. An asset-based loan usually is structured as a revolving line of credit on an interest-only basis, without a set repayment schedule.

The lender will disburse funds according to a percentage of the value of the assets. As the assets convert to cash, the loan amount is repaid to the lender.

When accounts receivable is used as collateral, the funds disbursed are normally limited to between 70% and 85% of asset value. For a loan secured by inventory, the ceiling is usually about 60%.

Asset-based lending is similar in concept to factoring, which is the discounted sale of accounts receivable, but with an asset-based loan the borrower maintains ownership and control over accounts.

Loan fees are fairly competitive for asset-based loans, typically based on a percentage above prime, at a floating rate instead of a fixed rate. Fees generally vary about a quarter of a point among lenders.