LOAN WORKSHEET #1 – ASSET BASED LENDING

Asset Base Lending (ABL) is a specialized loan product that is fully secured by collateral such as inventory, accounts receivable, equipment or other assets of a company. These loans are structured to provide a flexible source of working capital as borrowers may be highly leveraged, operate in a highly volatile or seasonal industry, or may be experiencing rapid growth. ABL is also used by healthy companies seeking greater flexibility in executing operating plans.

The primary source of repayment for revolving ABL credits is the conversion of the collateral to cash over the company's business cycle. Loan advances are limited to a percentage of eligible collateral (the "borrowing base"). Strong controls and close monitoring are essential features of ABL. ABL lenders may also provide term financing for borrowers requiring longer-term capital or funding needs.

The primary risks associated with ABL are credit, operational, compliance, strategic, and reputation. Price and liquidity risks may also be applicable to the extent the bank syndicates or sells ABL loans.

Evaluate	Comments
_____ **1.** Does written policy contain the following criteria pertinent to asset-based lending? **A.** Maximum credit limits • per industry: • per products: • per borrower: **B.** Maximum advance rates by product or industry. **C.** A lower advance rate or exclusion for unfinished inventory. **D.** Minimum requirements for verification of collateral. **E.** An annual audit of the borrower.	

LOAN WORKSHEET #1 – ASSET BASED LENDING (continued)

Evaluate	Comments
F. A clean-up period for seasonal borrowers. **G.** Periodic receipt of: • Borrowing base reports. • Aged list of Accounts Receivable. • Detailed inventory list. • Financial statements. • Third party inventory and accounts audit (an audit by bank personnel is acceptable where the audit function is separate from lending function). • Letter loan agreement/demand note. ______ **2.** In its analysis of the credit, has the bank:	

LOAN WORKSHEET #1 – ASSET BASED LENDING (continued)

Evaluate	Comments
A. Determined the level of customer credits arising from disputes and returns? (Inventory is sold and becomes an account receivable. Occasionally, the customer is dissatisfied with the product and returns it. The returned item becomes a customer credit. The percentage of returns is sometimes referred to as "dilution." A company which experiences a significant volume of dilution may be overstating the amount of sales and accounts receivable in its financial statements.) • Are they of sufficient volume to cause concern? **B.** Evaluated concentrations in accounts and the financial strength of the largest accounts? • Does the volume of concentrations result in transferring credit risk to the large accounts? • If so, is there sufficient information to analyze the credit-worthiness of the account customer (i.e. a Dunn & Bradstreet report)?	

LOAN WORKSHEET #1 – ASSET BASED LENDING (continued)

Evaluate	Comments
_____ **3.** Evaluate control of collateral proceeds. **A.** Does the bank utilize a lockbox arrangement or some other form of control to protect collateral margins and ensure performance? **B.** Are lockbox accounts periodically reviewed to evaluate the extent of credits arising from customer disputes? **C.** Is there evidence that invoices are paid out of chronological order? _____ **4.** Perform credit analysis. **A.** Spread interim and last 3-year end statements. **B.** Analyze trends in significant ratios. • Current ratio. • Quick ratio. • Inventory turn - days. • Accounts Receivable turn - days. • Accounts Payable turn - days.	

LOAN WORKSHEET #1 – ASSET BASED LENDING (continued)

Evaluate	Comments
• Interest coverage. **C.** Analyze sources and uses and changes in financial position. **D.** Analyze line utilization. • Review draw and payment history. • Is there evidence to indicate bank review of borrowing base and financial information prior to funding draw requests? • Compare line utilization to ratio analysis and changes in financial position. **E.** Determine the type of credit facility. • Temporary or seasonal lines should be cleaned up annually. • Permanent ("evergreen") lines should be amortized based upon earnings before interest, taxes, depreciation, and amortization.	