

ALTERNATIVE FINANCING



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ASSET BASED LENDING

It's almost inevitable that at some point your business will need some financing that exceeds what your existing bank lines of credit can accommodate. In most cases, this need would correspond with one of the periodic bursts of growth that most businesses experience.

If your business is new or hasn't shown steady profitability, it's going to be very difficult to secure a small business loan since banks are notoriously conservative. I even had one banker tell me that if a business is growing more than 10-15% per year, that's considered too aggressive for traditional bank financing.

As you can imagine, in this COVID-19 era, lenders are tightening up restrictions now more than ever. For a recent SBA loan submission, I had a lender request a 20-item questionnaire strictly related to the impact of COVID on the business in addition to their typical full underwriting package. It's going to be more difficult than ever to get funding.

Luckily, there are other options. Asset based loans provide you with an alternative source of financing.

WHAT IS AN ASSET BASED LOAN?

You get an asset-based loan by putting up collateral owned by the business. In most cases, you offer up an asset that has high liquid potential. That means the lender can convert the collateral into cash quickly.

The assets you can put up for an ABL include:

- Accounts Receivable (typically advanced at 85%)
- Inventory (35-50% advance)
- Machinery & Equipment (up to 70% advance)
- Real Estate
- Intellectual Property

Facilities available from \$250,000 to \$25 million.

BENEFITS

The biggest benefit of these kinds of loans is that you get a cash infusion. This money lets you purchase materials, inventory, or hire additional employees when you need them.

You can secure asset-based loans much quicker than a traditional loan. Alternative lenders are not as heavily regulated and can fund much faster than banks.

It's easier for you to qualify for this kind of credit than a regular business loan. These deals are underwritten primarily on collateral rather than on cash flow.

You also typically avoid putting up personal property such as your home to secure the loan. This benefit can prove to be most crucial.

Like any other credit facility, staying in compliance helps your overall credit score. This makes getting other forms of financing easier down the road. Most lenders will allow you out of any contract if/when you qualify for traditional financing.

CONCLUSION

In summary, asset-based lending is ideal for small to mid-sized businesses that have a high percentage of current assets, need working capital to support growth, have seasonal or cyclical natures, have outgrown their current lender or need a more flexible solution than what their traditional bank can provide.

Choosing a qualified asset-based lender and developing a partnership is extremely important to a business' success. We will help you find a lender who knows your industry and can tailor the loan accordingly.