WELLS FARGO

Commercial Banking

ASSET-BASED LENDING | CHICAGOLAND

Asset-based versus cash flow loans

When seeking capital to support ongoing operations or expansion, consider whether a conventional cash flow loan or an asset-based loan approach best suits your business needs.

Conventional business financing relies heavily on the assessment of an organization's cash flow. Asset-based lending provides more flexibility and helps to maximize borrowing capacity.

	Cash flow loan	Asset-based lending
What's the key difference?	Based on expectation of future cash flow from revenue and profit margin to determine eligibility and terms	Allows companies to borrow against existing accounts receivable, inventory, and specified fixed assets, with eligibility determined by their value
Which is better suited to my business?	Better for large businesses with strong margins and verifiable, routine cash flow	Beneficial for businesses with strong and diverse assets, but uneven cash flow
What can I expect from the application process?	• May be more difficult to obtain than an asset-based loan • Personal guarantees may be required • Strong credit rating is required	• Requires initial analysis and examination of assets • No personal guarantees required • Credit rating not a key determining factor
Are additional covenants common?	Covenants are required to meet key financial metrics, such as EBITDA, liquidity, and leverage	Involves fewer financial covenants, generally tied to a specific event or trigger
Is ongoing reporting required?	Reporting is required, but mostly routine in nature	Yes, periodic reporting of asset levels and values required

Our team of financial specialists can work with you to help determine the most suitable financing structure to align with your business goals.