



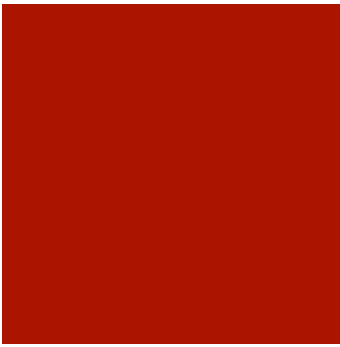
Improve your cash flow & learn about Asset- Based Loans



What you'll learn from this?

For businesses in need of funding, one option is the asset-based loan. In this guide, you will learn about asset-based loans, how to obtain and use them, and the benefits they can bring to businesses.

You will also discover how Trade Advance can assist you in securing an asset-based loan for your own business.



+ The Importance of Your Business Assets

Every business owner in the world wants to make money. We've all heard the old quote, "You have to spend money to make money." A common reason that businesses fail is because they don't have the assets required to maintain and expand their resources. So how can a company secure the proper financing to help it grow and be successful?

There are lots of options. The most common place for funding is a bank. But bank loans are often the most difficult loans to obtain. Regulations are in place that limit the number of businesses that can qualify for loans from a bank. Even if your company is lucky enough to qualify for a bank loan, it doesn't mean you'll be approved, and the application process can be long, stressful and quite confusing. Large banks are typically inflexible on terms and conditions of loans, which can be hard on your business if conditions change.

Luckily, banks aren't your only funding option. Asset-based lending is another choice that more companies are turning to today. Asset-based loans are based on the size of a particular business, along with its resources and receivables. Asset-based lending also offers much more flexibility for businesses and allows borrowers to change the amount of funds loaned to them. This is highly advantageous over banks for all types and sizes of



Advantages of Asset-Based Loans

No need to
give away
equity

Because of their flexibility, asset-based loans offer many advantages over other types of financing.

Typically, asset-based loans are much easier to qualify for than bank loans, because they are based on a company's measurable worth. A business owner doesn't need to have a perfect credit score to qualify for an asset-based loan, and even companies facing bankruptcy or other financial problems may be able to secure asset-based loans as they reorganize.

Since a company's assets can be inventoried and measured, the lender can easily figure out the line of credit for each asset-based loan. This means shorter wait times and faster funds for borrowers.

Business owners can secure asset-based loans through finance companies like Trade Advance, instead of going to a bank. Finance companies like Trade Advance benefit from fewer government regulations and restrictions, which often limit the number of businesses a bank can lend to, and limit the amounts of approved loans.

Asset-based loans quickly inject funds into a business, giving it the opportunity to invest in its employees, its resources and its goods and services. With quick funding, small and medium-sized businesses that are growing fast can benefit from the extra cash on hand.

Since asset-based loans are based on the assets a company already has, the loan amounts are generally safer and help prevent that company from exceeding its credit limits or becoming upside down in the loan. Each asset-based loan is customized to the individual borrower's own business situation. The loans are constantly monitored to protect both borrower and lender.

When a business owner takes out an asset-based loan, he or she doesn't have to sign their business over to the lender. Borrowers retain ownership of their business as well as the assets and operations of their business. A borrower's customers never know about the loan.

The amounts of asset-based loans can be adjusted to meet a borrower's current and changing needs, often on a daily basis. This is a big benefit to borrowers because it means they never have to borrow more money than they need. Lower loan amounts help keep interest payments at a minimum.



So what are Asset-Based Loans?

Like the name implies, an asset-based loan uses a company's assets as security against the loan. These assets vary from business to business, and can include items like:

- **Equipment**
- **Materials**
- **Inventory**
- **Accounts Receivable**

Unlike banks and institutional lenders, asset-based loans are typically short-term or revolving credit facilities, otherwise known as "revolvers." A revolving credit facility is an agreement between a lender and a borrower for a maximum lending limit based on the borrower's assets. The borrower can then use any amount of that loan as needed at any time, just like with a credit card. Revolvers differ from term loans because borrowers can change the size of the loan and the size of the payments, depending on their current business situation.



Obtaining an Asset-Based Loan

Before loan approval, an asset-based lender like Trade Advance will review the potential borrower. Lenders typically visit a business to get a better perspective of its day-to-day operations and what factors affect it. The in-person visit also helps a lender confirm the actual value of a company's assets that will be used as collateral in the loan.

It is important to note that not *all* assets can be used as collateral. Let's say a manufacturer has several products that are not yet complete. These works-in-progress aren't usually included in the asset valuation, although finished products would be added to total assets. Lenders generally leave out unfinished products because they are too difficult to assess a value.

After all physical assets are calculated, a lender will decide how much credit to issue based on total assets used as collateral. Two percentages are used in the decision: *dilution* and the *advance rate*.

Dilution is the percentage of outstanding invoices or accounts receivable that are never received by the potential borrower. These can be due to bad customers, returned products or discounts for early payments.

The advance rate is the percentage of a borrower's authorized assets that can be offered as credit.

For accounts receivable, a lender will calculate the advance rate by subtracting the dilution rate times two, plus an additional 5%. An example works like this:

- A dilution rate equals 10%, so the rate times two equals 20%. Plus the additional 5% makes the total rate 25%. So the advance rate is 100-25%, or 75% of the total accounts receivable balance.

For physical assets, the advance rate is calculated depending on the type of each asset and the individual business. The advance rate for physical assets is typically lower than the rate for accounts receivable.

After these variables, the lender will determine the maximum amount for an asset-based loan with a simple calculation: multiplying the asset worth by the advance rate. If a potential borrower has \$1 million in authorized assets, and the advance rate is 75%, the maximum loan amount will be \$750,000.

How Revolving Credit Works

Once a lender establishes the maximum amount of an asset-based loan, the borrower can get a cash advance up to that maximum. As outstanding invoices are paid, those funds are used to pay down the balance of the loan. This helps minimize the amount that the borrower owes at any given time, and it also serves to keep interest rates low. As a loan balance is paid down, the borrower may take additional advances as needed, up to that original maximum amount.

Typically, asset-based loans also include a promise a borrower must make to the lender. The agreement stipulates that the borrower continue to meet certain terms in order to maintain the original loan arrangement. Asset-based loans that do not require such a promise usually contain lower cash advance limits or higher interest rates to compensate for increased lender risks.

Qualifying for an Asset-Based Loan

Like any financial assistance option, not everyone will be approved for an asset-based loan. Asset-based loans are easier to attain than traditional bank loans, but potential borrowers need to meet some general criteria.

Most importantly, a company must have assets that can be used as collateral on a loan. Some assets are more valuable than others. For example, accounts receivable are typically good security against an asset-based loan. This is because:

- An invoice has a clear and stated value.
- They easily become cash once a customer pays.
- Wait times for invoices to become cash is typically short.

Other assets are worth something to the company, but that worth may be harder to determine by a lender and so they do not make great collateral. These assets can include:

- Unfinished products
- Damaged inventory
- Past-due accounts
- Intellectual property

(Continued) Borrowers can still qualify and be approved for asset-based loans with assets like these, but the assets will be less valuable if used as collateral on the loan.

Since many products can in fact be quantifiably valued, asset-based loans can be advantageous to borrowers in retail, wholesale and manufacturing businesses, and generally work well for many types and sizes of businesses in all types of financial situations.

How to Use Your Asset-Based Loan

The reasons to apply for an asset-based loan are endless. If you are considering an asset-based loan for your business, here are some popular ways other companies put their loans to use.

Funding Growth

- Even successful businesses face problems with cash flow. When a company's sales grow, its resources must also grow to keep pace. While waiting for customers to pay their invoices, a company can experience a cash flow shortage. An asset-based loan injects immediate funds into a cash-strapped business, helping it to keep up with demand.

Purchasing Equipment

- Companies that rely on expensive equipment to get the job done can benefit from asset-based loans by using their existing equipment as collateral on the loan. This funding will allow the business to purchase other necessary resources to help it grow.

Weathering Uncertain Times

- A shortage of funds is often blamed on a decrease in business. Asset-based loans can help a company get through those tough times by providing lines of credit and cash advances until business picks back up.

Funding Acquisitions

- Purchasing another company can be very rewarding, but it is also very expensive. Acquisitions aren't common practice because of their cost. With an asset-based loan, a company can raise the capital needed to buy out competitors or other businesses. Business owners often need to act fast to acquire another property, so the short approval times for many asset-based loans can help them get the funds they need to close the deal. A lender like Trade Advance may even be able to provide a loan based on the assets of the company a borrower is purchasing.

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Funding for Everyday Expenses

- Even if a business is doing just fine but could benefit from a bit more cash on hand, asset-based loans may be a good investment. The flexible funding provides companies of all types and sizes the opportunity to do things like upgrade equipment, pay bills and hire more employees.

Improving Credit

- For companies that want a loan but may not qualify for bank or other traditional lending, a short-term asset-based loan that is easier to attain can help them improve their credit standing. This makes the business more attractive to investors, while assisting its overall growth and expansion.





How Trade Advance Can Get You On Track

We hope you learned more about asset-based loans, how they work and how they are used. These loans aren't designed for everyone, but they do offer lots of flexibility and versatility that most traditional lenders simply can't match. There are almost as many kinds of financing as there are reasons to seek it, and asset-based loans provide business owners one more option when it comes to lending.

Trade Advance offers a variety of services to help your business grow and succeed. We look forward to working with you to:

- Offer clear, concise and honest information about your options, so that you can make the most educated decision for your business.
- Tailor the terms & conditions and create a loan that works best for your particular needs.
- Provide competitive pricing and funding as soon as possible.
- Avoid confusing paperwork and keep fees low and transparent.
- Build a long-term relationship that benefits both parties.
- Keep everything about your loan simple!

We want to hear from you! **Call Trade Advance on 1300 300 815** to learn more about asset-based loans and how they can bring your company the success you desire.



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