WELLS FARGO

Commercial Banking

Asset-based vs. cash flow loans

Which approach makes sense for your business?

While conventional business financing, which relies heavily on assessing a company's cash flow, suits many businesses, there's another option to consider. Asset-based lending offers an alternative that may provide more flexibility and help maximize borrowing capacity. As you seek capital to support ongoing operations or expansion, consider whether an asset-based loan approach or a conventional cash flow loan would better suit your business's needs.

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

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

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