

Asset-based & Cashflow loans – The Difference

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Accessing debt finance is a means of borrowing money for a set period of time to help a business realise their plans. Companies receive a loan against a set criterion and for a specific purpose. Asset and cash flow based loans are two of those examples.

Asset-Based

Asset-based loans are secured against a company or an individual's specific assets. Just like a mortgage on a house.

Purpose

To acquire or refinance new or used physical assets.

Amount

The loan amount will be a percentage of the asset value.

Rate

Interest rates are mainly based on LTV % (Loan-to-value (**LTV**) is a ratio that finance providers use as decision making tool for loans). Asset-based loans tend to be cheaper than cashflow loans because there is something physical to be sold or collected in the event of default.

Cashflow

Cashflow loans made by a bank or alternative lender who rely on the expected cash flows that a borrowing company will generate as collateral for the loan.

Purpose

Cashflow loans are for funding organic growth e.g. new people, new products and markets, sales and marketing, innovation & business acquisitions.

Amount

The amount a lender will advance will generally be a multiple of what they consider to be your sustainable cash generation. It maybe expressed as X times EBITDA (**E**arnings **B**efore **I**nterest, **T**axes, **D**epreciation and **A**mortization).

Cost

Cashflow loans are risky. They are not directly secured and are usually taken out to fund riskier activity i.e growth and acquisition. As a rule, this means they are more expensive than Asset-based loans.

Choice

Both Asset-based and Cash flow loans are available from banks and alternative lenders. As a rule, banks lend less, but are cheaper.

Which is better? If you don't have assets for security, Cashflow is the way to go. If you can offer good security, you have a choice, asset-based is likely to cost less.

The Business Support team of the University of Warwick Science Park is staffed with 'Access to Finance' specialists who manage Business Ready, a support service SMEs and Start Ups in the Coventry and Warwickshire area.

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