

The New Liquidity Playbook: Why Asset-Based Lending Is Back

How CFOs and treasurers are turning receivables and inventory into scalable liquidity, and how ABL fits in 2026 capital structures

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1. From Last-Resort Financing to Mainstream Liquidity

Historically, Asset-Based Lending (ABL) carried a stigma in corporate finance, as it was viewed, at best, as a niche product and, at worst, as a financing option for distressed companies. However, recent global market data indicates that this perception is rapidly changing. In 2024, the global Asset Based Lending Market size was estimated to reach \$785-\$800 Billion and could potentially reach \$1.4 Trillion by 2029. This represents a double digit CAGR over the next five years[1]. In 2025, Asset-Based Lending has become a mainstream source of capital for operationally sound companies.

How did this shift occur? The "free money" era is coming to an end. Rising interest rates from historically low levels and the increased regulatory capital requirements by banks, have made the cost of obtaining an unsecured revolving line of credit prohibitively expensive. Therefore, forward thinking Treasury professionals and Chief Financial Officers are beginning to recognize that they are sitting on idle collateral - namely, large amounts of working capital in the form of inventory stored in warehouse facilities and receivables waiting to be collected, which may be monetized via Asset-Based Lending.

Asset-Based Lending offers a flexible, all-weather financing solution that is designed to adapt to economic cycles. During periods of rapid growth, the ABL advances against the increasing sales and growing receivable balances. During periods of economic uncertainty, the ABL relies on asset value to act as a financial safety net when the income statement becomes less relevant for liquidity purposes. As we approach 2026, Treasurers and CFOs will no longer view asset-based financing options solely for accessing capital, rather, their focus will be on utilizing asset-based financing to optimize both the cost and the flexibility of their capital structure strategies.

2. How Asset-Based Loans Work From a Corporate Finance Perspective

Every Asset-Based Loan is centered around a borrowing base, the governing mechanism of the credit line. Unlike a cash flow loan, which limits availability to a fixed percentage of historical EBITDA, an Asset-Based Loan's available balance grows and shrinks based on the size and quality of the borrower's assets.

Controllers need to be familiar with the mechanics of eligibility in order to understand how an asset-based facility works. The two most typical forms of collateral used by lenders in an asset based lending transaction are trade receivables and inventory. Typically, lenders will provide 85% to 90% of the face value of trade receivables and

40% to 70% of the face value of inventory[2] (although the percentage of the face value of the inventory lent will depend on the liquidity characteristics of the inventory being pledged). In addition, the lender's advance on the assets may never reach 100% of the gross book value of those assets. This is because the lender will exclude certain classes of assets from the borrowing base calculation. Common exclusions of assets can include foreign trade receivables (dependent on jurisdiction), concentrations, related party balances, disputed invoices, slow moving or obsolete inventory and trade receivables greater than 90 days past due.

This results in the asset-based facility ranking at the top of the capital stack, as the first lien senior secured debt. As such, it has a very direct correlation with the operational efficiency of the company and the availability of liquidity. For example, when the company is able to manage its working capital cycle efficiently (i.e., collect customer payments in a timely fashion and turn over its inventory quickly), its overall liquidity will increase. Conversely, a decrease in the collection of customer payments will directly reduce the amount of available cash under the asset-based loan, thereby providing a strong incentive to maintain working capital discipline, which is particularly pronounced in ABL structures.

3. The Intersection of Macro and Banking Regulation

ABL's resurgence looks less like a cyclical bounce and more like a structural shift driven by the intersection of macro conditions and bank regulation. Prior to the dramatic rate increases in 2022, corporations had access to capital at historically low costs and were able to justify the higher interest expense associated with unsecured corporate debt for the flexibility to draw on the funds at any time. Regardless of whether central banks ease rates gradually, we have entered an era where accessing capital at historically low interest rates will no longer be feasible. The corporate borrower faces a dilemma in that paying a premium for unsecured flexibility is difficult to justify when secured financing can be obtained at a much lower spread.

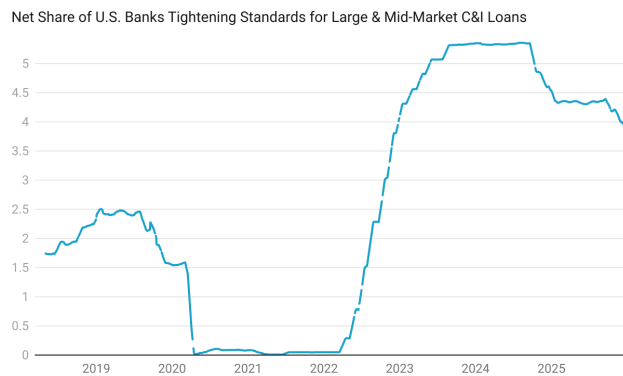


Figure 1: Federal Reserve (SLOOS), net % of banks tightening standards for C&I loans to large & middle-market firms (DRTSCILM), via FRED

At the same time, there is a fundamental transformation occurring within the banking sector resulting from the Basel 3.1 reform package[3]. The reforms require banks to hold more capital against unrated/unsecured corporate exposure, essentially penalizing banks for traditional cash flow lending[4]. Thus, banks are motivated to encourage their clients to utilize secured products. For the CFO, this creates an opportunity: banks will be more willing to lend and will provide more competitive pricing if the client agrees to pledge collateral.

This backdrop is made even more significant by the proliferation of private credit. Non bank lenders now manage trillions of dollars[5] of assets and the ABL market has become significantly deeper. Private credit lenders are generally less constrained by regulatory capital limits and are increasingly aggressive in valuing complex assets, such as intellectual property[6] or foreign receivables. The increased competition between traditional banks and private credit funds has created a borrower friendly environment where liquidity is available provided the company has sufficient collateral to back it.

4. Uses and Tradeoffs: How Companies Utilize ABL

One of the key advantages of ABL is that it can act as a shock-absorbing mechanism for the company's working-capital cycle. Because retailers and distributors often face working-capital swings driven by demand shifts, inventory build cycles, and unexpected disruptions, an ABL facility can help liquidity track the balance sheet more closely. It permits companies to borrow more money at times when they have rising inventory and

receivable levels as long as the collateral continues to meet eligibility criteria. The ABL facility provides more flexibility than an unsecured line of credit by reducing the likelihood of having too much credit available in slow sales periods and/or not enough credit available in high demand periods.

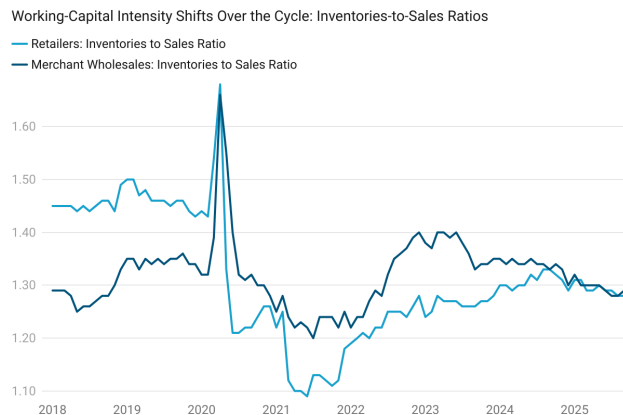


Figure 2: Source: U.S. Census Bureau, Manufacturers' and Trade Inventories and Sales; inventories-to-sales ratios (RETAILIRSA, WHLSLRIRSA), via FRED

The inventories-to-sales ratios for U.S. retailers and merchant wholesalers show how quickly working-capital intensity can change. When inventory rises relative to sales, cash is tied up on the balance sheet and liquidity pressure increases.

ABL can also play a strategic role in M&A and restructuring, beyond funding day-to-day operations. In an acquisition, an ABL facility can finance the target's working-capital needs as part of the overall package, reducing the equity contribution required from the acquirer. In periods of financial stress, ABL may be one of the last sources of liquidity still available. Because the ABL lender holds a first-priority security interest in identifiable collateral, it is often more willing to keep funding ongoing operations, creating time and liquidity for an orderly restructuring.

The ABL facility will increase the efficiency of the company's use of capital and the effectiveness of its working capital management, however, it will also introduce operational trade-offs. Therefore, to successfully execute an ABL transaction, the company must demonstrate discipline and coordination among its Treasury, FP&A (Financial Planning and Analysis), and Accounting teams.

Typically, unsecured revolving credit agreements require periodic covenant testing, such as quarterly. As opposed to revolving credit agreements, ABL facilities typically require borrowing base reports on a weekly or monthly basis. These types of reports can significantly add to the reporting burdens and require high-quality data. The operational frictions associated with implementing an ABL facility are greatest in companies with fragmented systems. If a company has multiple ERP (Enterprise Resource Planning) systems, relies on manual reconciliations, or runs a slow close, implementation and ongoing compliance burdens increase.

Finally, in stressed situations, lenders may require customer receipts to be swept into a controlled account and may restrict the company's access to cash until borrowing base conditions are satisfied.

5. Looking Toward 2026

A change toward a more sustainable financing approach begins with understanding the relationship between cash flow creation and the composition of the balance sheet. Practically speaking, lenders and management teams often utilize EBITDA as a first step proxy for a company's potential to generate cash flows; however, the actual generation of cash flows relies equally upon working capital, and the liquidity available to the company, as it does on the reported income of the company.

In the context of 2026 and forward, asset-based lending is expected to be one of the primary indicators of a company's ability to sustain its balance sheet in an environment where obtaining capital continues to depend upon the quality of the assets held by a company and therefore, we expect to see an increased reliance by companies on asset-based lending as a method to mitigate risk and ensure sufficient liquidity to allow them to meet their short-term obligations.

Prior to transitioning to an asset-based lending program, there are a few key considerations:

- **Business Fit.** Asset-based lending is best suited to companies that have high-quality accounts receivable and inventory. Companies that are service-based and/or do not have a substantial amount of balance sheet strength may not experience the same benefits from utilizing an asset-based lending program.

- **Data Integrity.** Today's modern asset-based lenders prefer companies that can provide detailed, real-time information related to both their accounts receivable and inventory. Companies that invest the time to establish automated systems to track and report their borrowing base will have substantially more bargaining power than those who do not.
- **Integration Into the Capital Structure.** Asset-based lending is not a singular solution that can be utilized independently of other forms of debt or equity financing. Therefore, companies should carefully consider how the utilization of ABL will affect their negative pledge covenants, long-term leverage ratios, and dividend payment policies.

6. Conclusion

Asset Based lending is no longer seen as the last resort of lending options for financially distressed businesses. Due to higher structural interest rates, tighter banking regulations and increasing competition from Private Credit, Asset Based lending has evolved into a viable, and often preferred, method for funding working capital and enhancing a firm's overall liquidity. As opposed to viewing accounts receivable and inventory as static asset categories on the balance sheet, Treasurers/CFOs may now leverage these assets as dynamic components of their organization's capital structure. When the asset base is strong and reporting discipline is in place, ABL can serve as a durable liquidity foundation heading into 2026.

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