



Asset-Based Lending: A Primer

Asset-based lending (ABL) has long represented a differentiated, if somewhat unheralded, source of return for private debt portfolios and a strong complement to traditional loans.

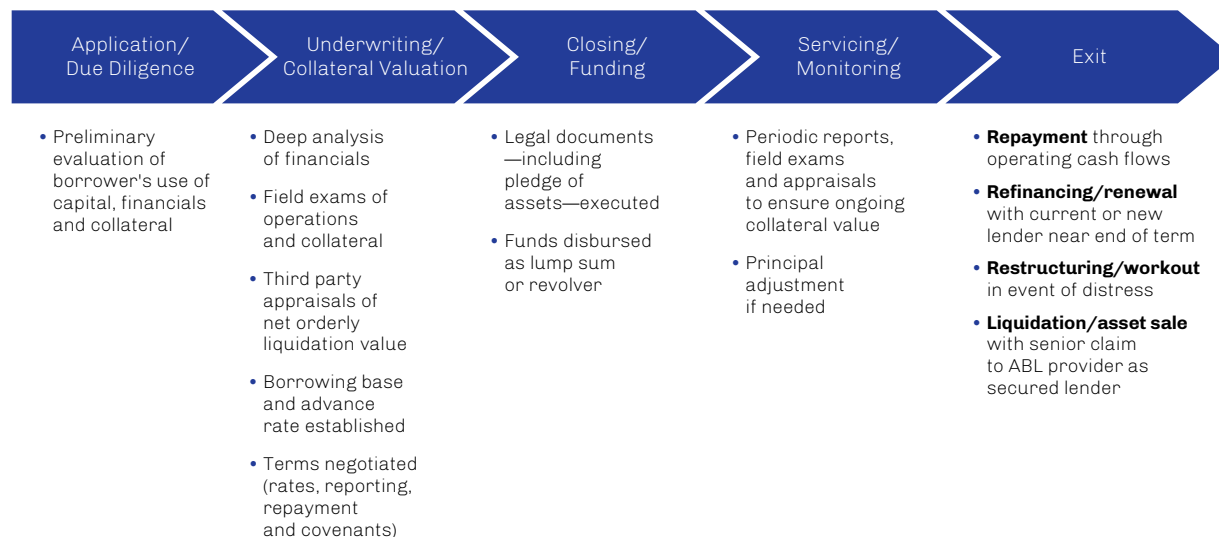
Traditional middle-market loans are typically underwritten based on an assessment of the borrower's cash flows and governed by a range of financial covenants tied to those cash flows. An ABL facility, in contrast, is secured by specific assets of the borrower—such as inventory, accounts receivable, real estate, machinery and equipment, and intellectual property—and features structural provisions designed to preserve the value of those collateral assets and maintain strict loan-to-value guidelines.

As ABL facilities are focused on the collateral available to secure the loan, appraising the value of pledged collateral is a key component of the ABL diligence process as shown in Exhibit 1. Loans generally are limited to a set percentage (the “advance rate”) of the value of the borrower's collateral assets (the “borrowing base”). Both the advance rate and the structure of the ABL facility are dependent on a range of factors that influence the quality and resilience of the collateral assets.

KEY TAKEAWAYS

- ABL facilities—corporate loans supported by the borrower's assets as collateral—have long represented a differentiated, niche source of return for investors.
- ABL investing may represent a distinct opportunity within the private credit world offering potentially higher yields and appealing downside mitigation when accompanied by strong structural provisions and explicit collateral backing.
- The complexity of ABL facilities can expose inexperienced underwriters to considerable risk; extensive lender experience across asset classes and market cycles is essential to effective underwriting and implementation of these loans.

Exhibit 1. Lifecycle of an ABL Transaction



Source: First Eagle; data as of September 30, 2025.

Conservative valuation of collateral is key to risk management, in our view. Prudent ABL lenders size loan proceeds based on worst-case, forced-sale assumptions for the collateral. Thereafter, collateral is systematically monitored throughout the facility's term—with heightened scrutiny during periods of stress—to maintain sufficient value to recover loan principal in the unlikely event of liquidation. Term sheets outline frequent and detailed monitoring requirements for collateral, along with a variety of triggers intended to mitigate downside impact by keeping the borrowing base on formula while also providing fee-generating opportunities for the lender.

While the liquidation of collateral assets is an option for a nonperforming ABL facility, it typically is a last recourse. Explicit collateral backing combined with loan terms that are tightly structured to preserve the lender's interests historically have helped support low loss-given-default rates.

ABL Offers Flexible Financing Solutions for Borrowers...

ABL facilities help borrowers—often middle market companies with high working capital needs and substantial assets but sometimes inconsistent cash flows—optimize their capital structures and maintain sufficient liquidity by leveraging unencumbered assets. These facilities carry floating rates, typically have terms of five years or less, and can be structured as term loans or revolving lines of credit.

ABL can monetize a borrower's unencumbered assets to optimize its capital structure and maintain liquidity.

While ABL facilities can provide borrowers with flexible access to capital, they often come at a higher cost than traditional loans; often a coupon 650-800 basis points above the Secured Overnight Financing Rate (SOFR) plus closing and other ancillary fees generated during the course of the loan. As a result, borrowers typically seek to retire ABL deals as soon as feasible—often in advance of contractual terms—in favor of cheaper financing. A compressed loan life can have a notable positive impact on the internal rate of return generated for investors.

While always present to some extent, demand for ABL historically has been countercyclical to the liquidity cycle, increasing when other financing options—especially to companies pressured by uncertainty or in transition—become constrained.

...and the Potential for Differentiated Returns and Downside Mitigation for Investors

For investors, ABL may present a differentiated source of returns within the private credit world, one with the opportunity for potentially higher yields and appealing downside mitigation when accompanied by strong structural provisions and explicit collateral backing. Asset-based loans can diversify a portfolio and provide stability via the “valuation floor” that results from carefully vetted and monitored collateral.

The highly structured nature of ABL facilities represents a double-edged sword. While disciplined underwriting, proper controls and diligent monitoring can mitigate the potential loss on these loans, the complexity of these tasks can expose inexperienced lenders to considerable risk. Extensive lender experience across asset classes and market cycles as well as a deep understanding of the nuances of collateral assets and their valuation are essential to minimizing losses in adverse circumstances.

Meet Our Team

Larry Klaff, senior managing director and head of asset-based loans, and **Lisa Galeota**, managing director and head of asset-based lending portfolio management and underwriting, lead the ABL practice for Napier Park Global Capital, a \$42 billion global, alternative credit platform acquired by First Eagle Investments in 2022.

Larry and Lisa share 60 years of combined experience sourcing, underwriting, structuring and monitoring ABL transactions. They both joined First Eagle in 2020 after years together at Gordon Brothers—a leading global asset-valuation expert—and have now worked together, as a team, for more than 20 years.

Over the decades, Larry and Lisa have honed their skills underwriting and structuring ABL transactions within multiple sectors and across market cycles. Understanding how collateral valuations ebb and flow over time, and structuring deal terms accordingly, can help maximize outcomes for all stakeholders.

In the course of garnering specialized ABL expertise over the years, Larry and Lisa have developed—and continue to maintain—extensive networks of collaborative relationships, deepened through executive-level involvement with industry groups such as the Secured Finance Network and Turnaround Management Association.

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Risk Disclosures

All investments involve the risk of loss of principal.

Diversification does not guarantee investment returns and does not eliminate the risk of loss.

Alternative investments can be speculative and are not suitable for all investors. Investing in alternative investments is only intended for experienced and sophisticated investors who are willing and able to bear the high economic risks associated with such an investment. Investors should carefully review and consider potential risks before investing. Certain of these risks include:

- Loss of all or a substantial portion of the investment;
- Lack of liquidity in that there may be no secondary market or interest in the strategy and none is expected to develop;
- Volatility of returns;
- Interest rate risk;
- Restrictions on transferring interests in a private investment strategy;
- Potential lack of diversification and resulting higher risk due to concentration within one or more sectors, industries, countries or regions;
- Absence of information regarding valuations and pricing;
- Complex tax structures and delays in tax reporting;
- Less regulation and higher fees than mutual funds;
- Use of leverage, which magnifies the potential for gain or loss on amounts invested and is generally considered a speculative investment technique and increases the risks associated with investing in the strategy;
- Carried interest, which may cause the strategy to make more speculative, higher risk investments than would be the case in absence of such arrangements; and
- Below-investment-grade loans, which may default and adversely affect returns.

Definitions

Asset-based lending (ABL) facilities are corporate loans secured by specific assets of the borrower.

Loan-to-value (LTV) is the ratio of a loan's amount relative to the value of the collateral pledged as security.

Private credit refers to a loan agreement between a borrower and single or small group of nonbank lenders. Private credit can also be referred to as "direct lending" or "private lending".

Secured Overnight Financing Rate (SOFR) is a broad measure of the cost of borrowing cash overnight collateralized by Treasury securities.

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