

Negotiating and Preparing an ABL Loan Agreement Transactional Task-Line

Topic Covered:
Syndicated Loans

Scenario: Asset-Based Loan Transaction

You are acting for the asset-based lending group of a Schedule I Bank. The Bank has just issued a term sheet to a retail borrower and asked you to take the lead in drafting the first turn of the loan agreement. Timing is tight and you need to be efficient. The loan is a bilateral loan with a single lender. The ABL facility includes a revolver with a letter of credit sub-facility. The ABL facility has a borrowing base comprised of eligible receivables and eligible inventory. In preparing the loan agreement, the Bank asks you to make sure the following asset-based related issues are covered in the loan agreement:

- Separate advance rates for different classes of eligible receivables.
- A rent reserve equal to four months' rent under its existing leased premises.
- All inventory outside of Ontario is to be excluded from the borrowing base unless landlord or warehouseman waivers are obtained.
- Concentration limits for certain receivables must be included in the definition of eligible receivables.
- The applicable margin on the borrower's loan changes depending on excess availability levels.
- The financial covenants are springing in nature, based on excess availability levels.



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