Private Debt Investor

By: Guest Writer
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INVESTORS

ABL: The acronym that describes different approaches to a trillion-dollar industry

Asset-based lending and asset-backed lending can be easily confused but represent contrasting lending activities. Richard Gumbrecht of Secured Finance Network explains the differences.

When someone in private markets says "ABL" what do they mean?

The acronym can refer both to asset-based and asset-backed lending. The problem is that these are fundamentally different credit frameworks. The distinction matters, because it can lead investors and regulators to draw the wrong conclusions about the risk and resilience of a financial mechanism that quietly supports the mid-market.

Traditional asset-based lending involves loans directly to operating companies predicated primarily on an assessment of the value of current assets, consisting of self-liquidating collateral such as receivables and inventory. A working-capital revolver is a classic feature of asset-based lending.

It is a growing industry: broadly syndicated loan volume alone through the first nine months of 2025 was $114 billion, already surpassing all of 2024 by over 8 percent. According to the Secured Finance Network Market Sizing Study, total commitments to traditional asset-based loans exceed $550 billion.

A key feature of traditional asset-based lending is establishing the valuation of the underlying assets where the company may go through a restructuring, or, in a worst-case scenario, may cease to operate and liquidate.

Another key feature is the monitoring that lenders routinely go through to maintain the relationship between the collateral values and the outstanding loans. Credit agreements give lenders rights to examine collateral frequently and to adjust valuations based on the results of those examinations and appraisals.


Richard Gumbrecht

Cash control mechanisms known as dominion give lenders the ability to exert direct control over incoming payments. Incoming cash from receivables goes into a lender-controlled account that is used to pay down the outstanding loan balance. Field exams, collateral appraisals, financial audits and proof-of-delivery checks provide additional levels of verification.

Over decades, these risk controls have translated into some of the most consistent credit performance in secured lending. And when distress and volatility appear, these mechanisms can become more stringent.

When sales slow or receivables age, borrowing bases shrink. Reporting moves from weekly to daily, and lenders increase the cadence of field exams and collateral checks. Cash dominion, eligibility tests and advance rates all tighten automatically when performance weakens, which gives lenders earlier visibility and limits the chance that small problems compound into larger ones. In this regard, traditional asset-based lending has controls that provide an early warning system, something which is not always present in other forms of secured or cashflow lending.

Asset-backed lending looks quite different. Definitions may vary but typically this type of secured lending advances against pools of assets, typically in a bankruptcy remote structure. It may establish valuations up front but does not typically have the same "worst case" lens as asset-based lending and does not have the same frequency or depth of reporting.

Some structures rely heavily on monthly balance sheets or borrower representations. Others involve multiple funding vehicles or less direct visibility into the collateral. This difference is a by-product of what are typically higher credit quality obligors, often as validated by public ratings.

In short, the lender's exposure is not to the business, but to the performance of pools of assets including mortgage-backed securities, securitised consumer receivables, auto loans, or long-term assets such as infrastructure.

The asset-backed market is significantly larger than the asset-based market, and investors are much more diverse, including banks, insurance companies, private credit, sovereign wealth funds and family offices around the world. The asset-backed market has served an extremely useful and important role for many years and has grown rapidly as banks have sought to focus more on their core businesses and distributed assets, which they formerly held on their balance sheets.

It does not, however, provide the same analytical rigour and immediate insight into credit and collateral performance as asset-based lending. This is somewhat by design, as these loans have typically been to higher quality companies or at lower attachment points to large and diversified pools of assets.

The credit metrics of this asset class – including, importantly, the loss given default – may be highly favourable to cashflow-based loans, but likely less favourable than asset-based lending. At a minimum, lumping these lending structures together with the same acronym obscures how they work and why their risk profiles diverge.

Over time, asset-based and asset-backed lending have produced meaningfully different outcomes. Across decades of industry data and lender experience, traditional asset-based lending has produced loss rates well under 50 basis points for more than 30 years.

That includes downturns, frauds, covid-19 and periods of rapid credit expansion. When collateral is verified regularly and cash collections are controlled, lenders see changes in a borrower's condition in close to real time. This is true even when a borrower experiences stress. This discipline has supported the sector through cycles and through business failures that could have been far more costly.

Whether induced by controllable or unmanageable circumstances, some of the failures that have drawn public attention recently did not appear to adhere to these practices. Several involved multiple lenders advancing money against the same collateral through a network of special purpose vehicles that limited transparency. Others advanced large sums without the cash dominion or verified borrowing bases that define asset-based lending.

The big picture view

The broader secured lending ecosystem also deserves more attention than it often receives. We find that banks and non-bank lenders work together far more often than they compete. Banks provide treasury services and senior revolvers. Non-banks provide capital where regulatory constraints and other factors may limit bank activity.

The speed and certainty of funding provided by the private credit world is often favoured by borrowers versus lower credit costs from the public debt markets. Many transactions blend the strengths of each. This division of labour has allowed capital to reach borrowers of all sizes, from large corporations to small and mid-size businesses that rely heavily on working capital finance.

The lending industry has already reacted to recent concerns over several notable bankruptcies where fraud may have been a factor. Law firms and accounting firms are establishing new guidelines for documentation and reporting. Rating agencies are looking with much more scrutiny at public disclosure and off-balance sheet financings. Lenders are redoing due diligence for their portfolios, increasing the frequency of collateral reviews, tightening reporting timelines, revisiting financial covenants and distribution provisions, and limiting or restricting the use of off-balance sheet financing.

Field examiners and appraisal firms are in high demand as lenders move to validate information across existing portfolios. Many institutions are shifting away from non-traditional forms of credit that may not show up on the balance sheets of their borrowers and towards larger, more transparent syndicated structures. Others are enhancing their internal systems, including the use of data analytics and fraud detection tools. These types of changes are much easier to accomplish within asset-based lending versus asset-backed lending because the processes are already in place.

The capital that comes from asset-based lending continues to support the businesses that form the backbone of the economy. Understanding the distinctions at the heart of secured credit will be essential for anyone seeking to judge the resilience of the market in the months ahead.

Richard Gumbrecht is chief executive officer of Secured Finance Network, an industry association for secured finance