ABF is Paving the Future of Private Credit

The combination of historic interest rate hikes and increasing regulations has accelerated the evolution of Asset-Based Finance. Once a specialized strategy, it has become a vital source of capital for the real economy.

Private ABF has shifted from niche product to critical funding source as traditional bank lenders have retrenched. The sharpest rate-hiking cycle in forty years has pushed borrowing costs higher just as banks, bracing for the "Basel III Endgame," cut exposure to balance sheet intensive lending. In 2023, new commitments from bank structured-credit desks fell, while non-bank commitments rose 12% and outstanding balances soared 168%.[1]

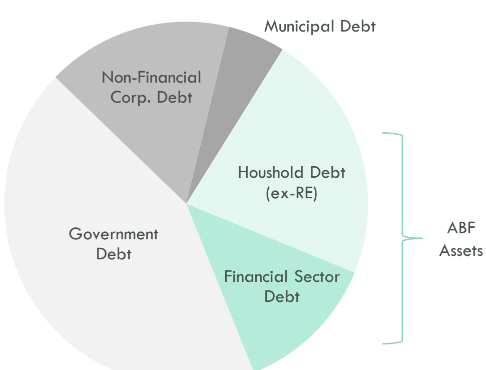
Specialist ABF managers are filling the gap with debt facilities secured by granular, self-liquidating pools of collateral - loans, receivables, equipment leases, and other cash flowing assets - rather than by a borrower's enterprise value. These structures include excess spread, over-collateralization, and cash-trap triggers, giving lenders significant asset protection and borrowers timely access to liquidity. As private credit AUM is expected to exceed $3 trillion by 2028, the accelerating growth of ABF is becoming increasingly relevant for investors pursuing durable, collateral-backed returns and for borrowers navigating a tighter credit regime.

What is ABF?

A flexible funding solution that is secured by the contractual cash flows and the liquidation value of a pool of assets - such as portfolios, receivables, and leases

ABF is a form of lending provided to a non-bank originator or acquirer of assets that generates predictable cash flows such as a mortgage lender, credit card issuer, or fleet manager. The financing is secured by a pre-defined pool of assets whose cash flows are used to service and ultimately repay the loan. Unlike traditional corporate credit or direct lending, ABF lends against specific collateral that is self-amortizing and monitored at the asset level. This structure enables lenders to set advance rates (or leverage levels) with precision, layer in structural protections, and detect early signs of performance drift through frequent reporting. These features reduce loss severity, shorten duration, and create lower correlation to broader credit markets. As the private credit industry expands, ABF has emerged as an increasingly versatile and critical source of capital across diverse sectors of the economy offering both borrowers and investors a compelling alternative to conventional corporate loans.

Composition of Credit Markets[2]



Consumer Finance

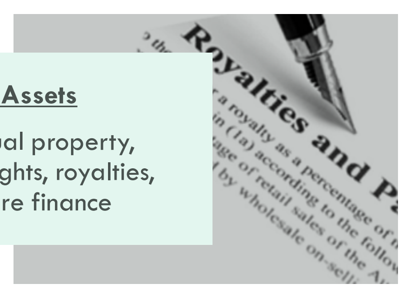
Advances, point-of-sale, secured loans, installment loans, credit cards

Commercial Finance

SMB loans, inventory finance, factoring, trade finance, charge cards

Hard Assets

Aircraft, shipping vessels, equipment, autos, energy infrastructure



Esoteric Assets

Intellectual property, media rights, royalties, agriculture finance

Real Estate

Lease-to-own, residential, CRE, fix & flip, home improvement, transitional

The Rise of ABF

The ABF market is sizable and has experienced significant growth. Several factors have contributed to this trend, making ABF an important funding solution for borrowers and an important investment class for asset managers.

ABF is commonly understood to be the private market analogue of the public structured finance or asset-backed securities (ABS) markets. Neither is a new asset class and both are well-established forms of secured financing that have evolved over decades. However, ABF's scale and importance can be traced back to the years following the GFC, when banking regulations came under increased scrutiny. More recently product innovation, investor sentiment and access to regulated capital, such as insurance company accounts, has spurred growth in private credit.

In response to systemic vulnerabilities exposed during the crisis, regulators introduced a series of measures - most notably Basel II and III and its associated capital, leverage, and liquidity requirements - that placed significant constraints on bank balance sheets. Increased capital charges, scrutiny over risk-taking, and stricter Tier 1 capital ratios made traditional bank lending significantly more onerous. As banks retreated, institutional investors facing a prolonged low-interest rate environment and seeking yield-enhancement, stepped in to fill the gap. ABF's growth was further supplemented by the development of more sophisticated non-bank lending platforms. Advances in technology and data analytics have contributed to a more efficient and robust private market ecosystem for ABF.

Today, ABF represents an important component of the private credit landscape. ABF offers tailored capital solutions to originators and specialty lenders, while providing investors with access to diversified, asset-backed exposure often insulated from broader market cycles.

ABF Offers Several Key Advantages to Borrowers

- **Speed, Flexibility, & Certainty of Execution:** ABF funds can offer quicker and more flexible financing solutions than banks, particularly in periods of market volatility or when borrowers face complex capital needs.
- **Capital On-Demand:** Asset-based deals provide funding in line with asset origination, ensuring that borrowers only draw - and pay for - capital as needed, improving balance sheet efficiency and economics.
- **Scale of Financing:** By leveraging the value of specific assets, ABF facilities can support deal sizes that significantly exceed the size of comparable corporate loans, which are also structurally subordinated to asset-backed debt.
- **Limited Recourse & Off-Balance Sheet Treatment:** The bankruptcy-remote nature of ABF structures, provides lenders with enhanced security while limiting recourse to the parent company, ringfencing balance sheet risk.
- **Favorable Unit Economics:** ABF structures enable originators to monetize assets while preserving the underlying unit economics - earning the spread between the yield on the assets (e.g. loans) and the cost of financing, while retaining residual interest.
- **Pathway to the ABS Markets:** Working with an ABF fund prepares borrowers for the structuring, administration, and reporting requirements needed for eventual access to the public ABS markets. This helps build institutional credibility and infrastructure.

How ABF Differs from Direct Lending

The definition of private credit is broad, and while it encompasses both direct lending and ABF, the latter has characteristics that make it unique from corporate credit

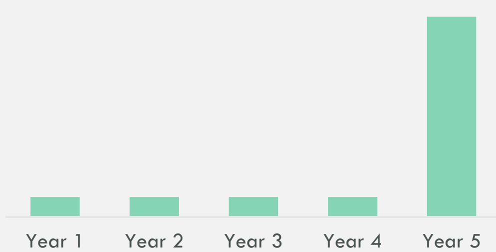
Self-Amortizing Loans

ABF facilities rely on the cash flows and liquidation value of underlying assets such as loans, receivables, or leases. As these assets generate income, principal is steadily repaid over time, reducing tail risk. This contrasts with corporate loans whose typical repayment term is a bullet-maturity, introducing significant refinancing or repayment risk.

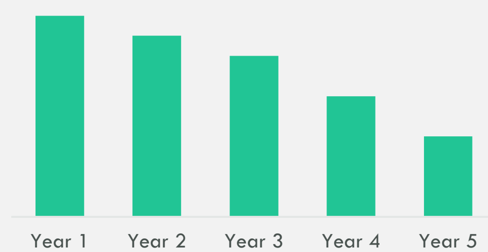
Always-On Monitoring

Daily or weekly data tapes and monthly servicer reports provide real-time visibility into asset performance and create early warning signs. Direct lenders typically receive quarterly financial reporting and covenant checks, which may delay the detection of emerging risks.

Corporate Credit Amortization Profile[3]



ABF Amortization Profile[3]



Margin for Safety

Excess spread, over-collateralization, tight eligibility rules, and "cash-trap" triggers kick in automatically if performance deteriorates. These structural protections create multiple layers of defense for lenders, far beyond what is typically available in most corporate loans.

Dynamic Leverage Levels

ABF facilities lend against the specific value of the underlying assets, with leverage levels dynamically adjusted as asset values fluctuate. This ensures that financing remains appropriately sized relative to the collateral pool. Corporate loans are typically fixed in size regardless of changes in company performance or asset quality.

Broad Diversification

An ABF facility can encompass hundreds if not thousands of individual financial contracts or assets, significantly diversifying portfolio risk. This broad asset base contrasts with direct corporate loans, which are typically concentrated in a limited number of borrowers.

Stronger Risk-Adjusted Yields

The structural safeguards and robust principal protection embedded in ABF allow it to generate higher returns per unit of risk compared to corporate credit, making it an attractive option for investors seeking stable, risk-adjusted yields.

Why Allocate to ABF

For investors seeking to enhance and diversify their public and private credit portfolios, ABF presents a compelling opportunity with unique advantages. The growing recognition of these benefits has contributed to the rapid expansion of the ABF market.

1 Enhanced & Diversified Fixed-Income Allocation

ABF portfolios of cash-flowing, collateral-backed assets broaden traditional bond exposure and exhibit historically low correlation with corporate credit and real estate, improving overall portfolio metrics.

2 Robust Downside Protection & Resilience

Asset-backing, over-collateralization, payment waterfalls, and bankruptcy-remote vehicles have helped ABF withstand market stress with lower loss rates than traditional corporate credit.

3 Vast & Growing Opportunity Set

The ABF universe now exceeds the size of U.S. and European Syndicated loan markets, providing investors with access to a wider spectrum of credit opportunities, from small business loans and residential mortgages to auto loans and aircraft leases.

4 Protection Against Inflation & Rate Spikes

Many ABF instruments are structured with floating rates, while the underlying hard-asset values tend to appreciate during periods of inflation, providing a natural hedge in a rising-rate environment.

5 Compelling Risk-Adjusted Returns

Collateralized structures and illiquidity/complexity premia have delivered higher Sharpe ratios and steadier income than unsecured corporate debt, capturing both absolute yield and superior risk-adjusted returns.

6 Proprietary, Bespoke Deal Flow

Private origination channels enable access to customized, heavily negotiated loans rarely found in public markets, offering idiosyncratic return streams and further diversification.

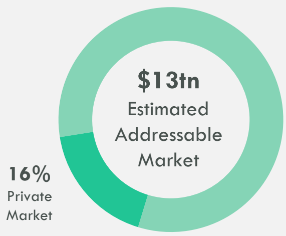
Conclusion

ABF has firmly established itself as a critical and rapidly expanding segment within the private credit landscape, with its importance only set to deepen

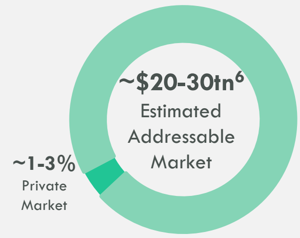
For borrowers, ABF offers tailored and flexible financing solutions that unlock access to essential capital often unavailable or constrained through traditional financing markets. By leveraging the intrinsic value, contractual cash flows, and liquidation profile of their specific assets, borrowers can finance growth and strategic initiatives more efficiently than with corporate credit.

Successful participation in ABF - whether as a borrower or investor - requires specialized expertise in evaluating the underlying assets and structuring complex, collateralized transactions. As the disintermediation of traditional bank financing accelerates and technology continues to drive efficiencies in origination, servicing, and data reporting, ABF is poised for continued growth.

Estimated Corporate Credit Market[4,5]



Estimated ABF Market[4,5]



At the same time, ABF presents a compelling opportunity for investors seeking to diversify their fixed income allocations. The global ABF market is large and expanding, offering exposure to a wide range of asset types and exhibiting low correlation with other credit and fixed income strategies. Investors are drawn to ABF's combination of attractive risk-adjusted returns, structural downside protection through asset-backing, and inflation resilience via floating-rate structures and hard asset collateral. Additionally, ABF often provides access to differentiated and proprietary deal flow not available in public markets.

It is becoming an essential capital tool for non-bank lenders and an increasingly important asset class for investors seeking differentiated returns and resilient performance.

At i80 Group, our deep expertise in ABF and track record of structuring best-in-class credit facilities positions us at the forefront of the private ABF market. We believe the next 12 to 24 months will be a defining period for ABF further solidifying its distinct position within the broader private credit landscape.

About i80 Group

i80 Group provides asset-based credit across various stages, geographies and sectors. We partner with companies throughout their life cycle to help fuel growth, expand their product pipeline and penetrate new markets.

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Endnotes

[1] ABF Journal - SFNet Reports Record Confidence Levels in Q4 2024 Asset-Based Lending Survey.

[2] The estimated addressable Asset-Based Finance markets discussed above have been amalgamated from various sources including, but not limited to: Federal Reserve Z.1, Federal Reserve Bank of St. Louis FRED database, Financial Accounts of the United States Q3 2023, FRB NY Quarterly Report on Household Debt and Credit November 2023, SIFMA statistics Q3 2023, Secured Finance Foundation 2023 Secured Finance Market Sizing and Impact Study, 2022 Equipment Leasing & Finance Industry Horizon Report, CFPB Fact Sheet March 30 2023, Preqin Private Debt 2022 data, S&P Global Credit Trends Report October 2, 2023, Interval Fund Tracker Most Recent Quarter Data 2023.

[3] For illustrative purposes only.

[4] With Intelligence, Private Debt Investor, Preqin, NAIC, Morgan Stanley Into the Great Unknown November 19, 2023, Private Equity International: Sizing the NAV finance market December 1, 2023, company websites, i80 Estimates.

[5] i80 estimates of private market aum in private credit and ABF strategies.

[6] i80 estimate.

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