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Asset Based Lending (“ABL”) in Japan*: Transactions Lending or Relationship Lending?

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Abstract

The Japanese government has been promoting a type of secured lending that uses inventory and accounts receivable as collateral. It is generally called “Asset Based Lending”, or “ABL” in Japan. In terms of lending technology, some argue that “ABL” is transactions lending, while others argue that it is relationship lending. This paper, through a case study with a Japanese regional bank, provides empirical evidence that the majority of so called “ABL” in Japan is not transactions lending. In doing so, this paper identifies four features (appraisal, advance rate, borrowing base and monitoring) that characterize “ABL” as transactions lending. Outlining these features demonstrate how such lender manages the credit exposure of the loan in accordance with the liquidation value of the collateral. This paper finds that the majority of “ABL” loans do not possess such features, indicating that they cannot be categorized as transactions lending. Specialization in lending technologies and lack of sufficient protection of lender’s security interest in the collateral during bankruptcy proceedings may be the reasons why banks in Japan are reluctant to conduct “ABL” as a form of transactions lending. The paper argues that it is incorrect to call every secured lending that uses inventory and accounts receivable as collateral, “ABL”. Only such loans that qualify as transactions lending should be categorized as asset-based lending, or ABL, which is how this terminology is used outside of Japan.

Keywords: Asset Based Lending, ABL, transactions lending, relationship lending

Introduction

Providing credit to small and medium enterprises (SMEs) is a topic of significant interest for academics, an important policy issue for regulators and both a challenge and opportunity for lenders. To alleviate the excessive reliance on real estate as collateral that deprives borrowers who lack these assets, the Japanese government has been promoting a form of secured lending that uses business assets such as inventory and accounts receivable. These types of lending are generally called “Asset Based Lending”, or “ABL”, as termed in Japan.

This paper addresses the following question. Does the purported “ABL” function in Japan as a type of transactions lending? In order to answer this question, it is essential to understand that transactions lending is primarily based on hard information that is readily available and verified with relatively little cost. In turn, relationship lending is based on soft information that is difficult to obtain and cannot be verified by others without incurring high cost. This paper argues that the majority of so called “ABL” currently being conducted in Japan does not qualify as transactions lending defined by Berger and Udell (2002, 2006). Although there are some overlaps, what is defined as asset-based lending (ABL) outside of Japan and what is the so called “ABL” in Japan are different.¹

The paper builds on the existing literature in three ways. First, drawing upon Berger and Udell’s (2002, 2006) framework for lending technologies, it identifies specific factors that characterize “ABL” as transactions lending. Second, by conducting a case study with a regional bank in Japan that wishes to be anonymous, this paper provides empirical evidence suggesting that the majority of “ABL” conducted in Japan is not transactions lending. Third, the paper articulates conditions, including the legal framework that enables ABL, a type of transactions lending, to prevail. Ultimately, this paper contributes to further developing the current academic literature on lending technology with not only ABL but also what is commonly called “ABL” in Japan.

The practical contribution of this paper is to help promote “ABL” in Japan. Credit availability to SMEs has been a major socioeconomic challenge, particularly to those without real estate that can be used as collateral. The Japanese government has a clear policy objective to rectify the situation through establishing a robust “ABL” market by expanding asset selection of collateral beyond real estate. However, there is no uniform consensus among academics, practitioners and regulators as to the exact understanding of “ABL”. Some argue that “ABL” relies on the liquidation value of the collateral, not the creditworthiness of the borrower, as the primary source of repayment (e.g., Uesugi, 2007). Others argue that the primary role of collateral used in “ABL” should be for collecting information that is otherwise difficult and costly to obtain about the borrower (e.g., Tago, Kubota and Ogawa, 2011). In effect, the former advocate that “ABL” is a type of transactions lending, while the latter insist that “ABL” is a type of relationship lending. Inevitably, confusion over the nature of “ABL” dilutes the effort to achieve the ultimate goal of expanding credit to qualified SMEs. The current size of the “ABL” market in Japan is negligible, consisting of approximately 0.1% of the corporate lending market (MRI, 2013). To the best of the author’s

knowledge, there is minimal empirical analysis on how “ABL” is executed in Japan.² This paper, although a modest initial step, attempts to address this gap.

The remainder of this paper is organized as follows. Section 1 offers an overview of lending technologies, followed by a summary of the debate on where “ABL” fits. Section 2 identifies specific mechanisms that would qualify “ABL” as transactions lending, and establishes an empirical hypothesis. Section 3 tests the hypothesis through a case study. Section 4 draws conclusions and suggestions for classification of “ABL” in Japan.

1. The Debate over “ABL” in Japan

1.1 Transactions Lending and Relationship Lending

Compared to large, publicly held corporations that have statutory disclosure requirements, lenders to SMEs have limited access to reliable information about the creditworthiness of the borrower. Four types of lending technologies have been identified to understand how lenders cope with the challenge of providing credit to small businesses (Berger and Udell, 2002). These technologies include: financial statement lending, ABL, credit scoring and relationship lending. The first three are categorized as transactions lending.

Transactions lending and relationship lending are differentiated by the information used for lending decisions. In transactions lending, lending decisions are based on hard information. Hard information relies on relatively objective criteria that can be instantaneously verified with minimal cost and is easily available at the time of loan origination (Berger and Udell, 2002). Financial ratios calculated from reliable financial data are typical examples of hard information. Berger and Udell (2006) define ABL as “a transactions lending technology in which financial institutions address the opacity problem by focusing on a subset of the firm’s assets, which are pledged as collateral, as the primary source of repayment” (Berger and Udell, 2006, p. 2949). In ABL, the utilized hard data is the information concerning the collateral, including the liquidation value (Udell, 2004, pp. 59-60). Such information is not only measured and collected at the inception of the loan, but also obtained by monitoring the collateral throughout the duration of the loan.

Relationship lending depends on soft information in making lending decisions. Soft information pertaining to a borrower is defined as that which is difficult to communicate in a verifiable manner and is accessible exclusively by a lender with a strong relationship with the borrower. It is a factor that primarily makes a bank-borrower relationship special,

since such information is gathered over the course of the relationship between the borrower and lender. Relationship bankers play a key role as the collectors and repositories of soft information (Boot, 2000; Berger and Udell, 2002; Stein, 2002). For small business lending, soft information includes specific knowledge of the quality of management, quality of the firm, its competitive position and the daily business with which it is involved. Soft information cannot be easily observed by others, verified by others or transmitted to others, without incurring high costs.

1. 2 Two Schools of Thoughts on “ABL” in Japan

1. 2. 1 Transactions Lending

Some argue that “ABL” is considered to be a form of transactions lending because the lending decision is made on the value of that asset itself, rather than the possibility of the company’s continuity (Uesugi, 2007, p. 15). “ABL” lenders rely on the cash generated from liquidation of the collateral as the primary source of repayment, not the cash flow generated from the ordinary course of the business of the borrower. Therefore, “ABL” is effective and more reliable in providing loans to companies that are in financial distress or have weak credit as demonstrated by market practices in the US (Takagi, 2007; Horiuchi, 2011).

For banks to execute “ABL” as transactions lending, inventory and accounts receivable must be recognized as collateral for regulatory capital purposes. In 2007, the Financial Services Agency (FSA) paved the way for “ABL” to be considered as transactions lending by allowing, for the first time, inventory and accounts receivable to become “ordinary collateral” (*ippan tampo*),³ given certain conditions were met (FSA, 2012).⁴ With this significant change, the FSA currently allows inventory and accounts receivable to be treated as a type of collateral that can be used to reduce the amount of write-off and default reserves to the extent of the liquidation value.

1. 2. 2 Relationship Lending

The Financial System Council (*Kinyu Shingikai*) advocates that “ABL” can be a powerful tool to facilitate relationship banking. It proclaims that “ABL” “matches the objectives of region-based relationship banking (*chiiki micchakugata kinyu*) by enabling the lender to comprehend the business of the borrower, including its operations and cash flow, through successive and periodic monitoring” (Financial System Council 2007, p. 9). Many practitioners also argue that “ABL” is an effective tool to promote relationship lending. They

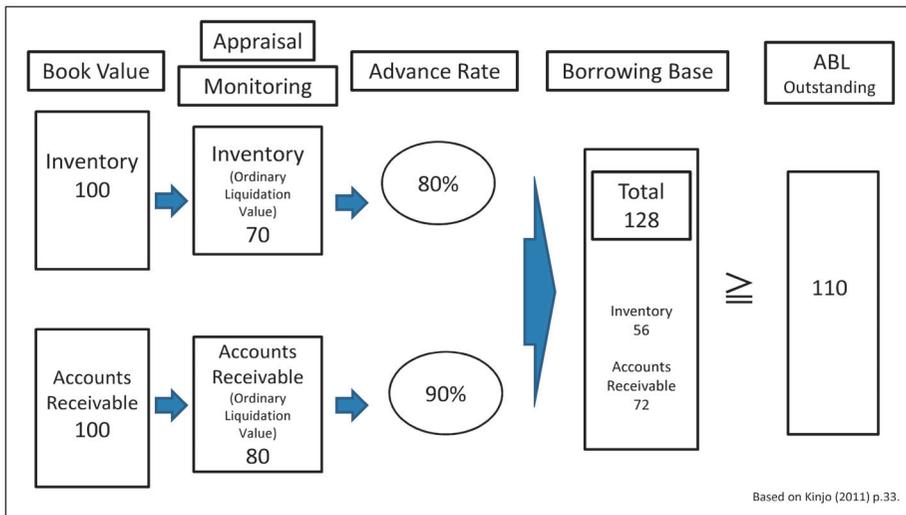
assert that monitoring the collateral, particularly inventory, provides valuable information that is difficult to obtain otherwise. Inventory and accounts receivable are business assets that are imperative to the continuity of the borrower’s business. As such, those who argue that “ABL” is a form of relationship banking emphasize that repossession and liquidation of the collateral should be used only as the last resort (Tago et al., 2011).

The FSA also supports these views that “ABL” can be a form of relationship lending. In 2005, the FSA incorporated “ABL” as a cornerstone in the Action Program for Facilitating the Function of Regional Financial Institutions, an initiative that actively calls for regional banks to enhance relationship banking. The FSA stipulates that collateral in “ABL” has a distinctive function to enable the lender to have a comprehensive and accurate understanding of the borrower’s business (FSA, 2013b).

2. Factors that Define “ABL” as Transactions Lending

What observable factors define “ABL” as a transactions lending technology? It bears emphasis that the use of collateral itself does not distinguish ABL from other lending technologies. The pledging of inventory and accounts receivable is done in other lending technologies, including relationship lending. The basis of the lending decision, i.e. whether the credit is extended primarily based on the value of the collateral rather than the overall creditworthiness of the firm, determines whether “ABL” is transactions lending or not (Berger and Udell, 2006, p. 2949). In ABL, the loan must be over-collateralized at all times. Such a basis for the lending decision can be observed in the following four interconnected factors (Udell, 2004; Berger and Udell, 2006; Kinjo, 2011). Collectively, these factors enable the lender to dynamically manage the ABL loan to ensure that the liquidation value of the collateral always exceeds the credit exposure.

Figure 1. Mechanism of ABL (Representative)



1. Appraisal

The first step in ensuring that the liquidation value of the collateral exceeds the amount of credit extended to the borrower is to analyze “the receivables and the inventory to determine how much can be prudently lent against them” (Udell, 2004, p. 59) at the inception of the loan. The collateral value typically used is not the distressed value, which is commonly referred to as a “fire sale”. Rather, what is used is the Orderly Liquidation Value (OLV) which is the estimated “amount that could be typically realized from a liquidation sale, given a reasonable time to find a purchaser, with the seller being compelled to sell on an as-is, where-is basis, as of a specific date” (APA, 2011, pp. 299-301). Lenders may be able to accurately measure the liquidation value of accounts receivable, by subtracting ineligible inventory from the collateral pool and screening the creditworthiness of obligors, as well as placing concentration limits on obligors. However, inventory, unlike accounts receivable, is not a monetary claim. To realize its monetary value, inventory must be liquidated by selling to a third party. Usually, ABL lenders do not have such expertise. Therefore, professional appraisal firms that provide liquidation services are often hired to accurately assess the liquidation value of inventory (as well as accounts receivable when needed) in executing ABL.

2. Advance Rate

The advance rate is a “general cushion against collectability risk that is not

identifiable” (Udell, 2004, p. 65). Such risk includes dilution of the collateral value as well as legal and liquidation costs that may incur in the event of liquidation of the collateral. Typically, the advance rate used when inventory functions as collateral is larger than when accounts receivable is used. Liquidating inventory that is composed of physical assets that must be sold to a third party is more difficult compared to liquidating accounts receivable that are monetary claims with recourse to the obligor.

3. Borrowing Base

The borrowing base specifies the maximum amount that can be borrowed and is determined by the appraisal value that is updated by monitoring and adjusted by the advance rate. It is used to limit the amount of funds the lender will advance to the borrower. The ABL lender establishes a mechanism to adjust the amount of the loan so that the borrowing base always exceeds the credit exposure. As such, the amount of ABL loan extended to the borrower shrinks as the borrowing base becomes smaller, and vice versa.

4. Monitoring

The appraisal provides the liquidation value at the inception of the ABL loan. However, the value of the collateral fluctuates *ex post*, because the value of inventory and accounts receivable is closely interconnected with the ongoing business of the borrower and the greater market environment. Furthermore, business assets are easily moveable compared to fixed assets. Therefore, ABL lenders must periodically examine the condition of the collateral, including physical existence and quality of the asset. More importantly, the value of the asset must be updated to reflect the latest liquidation value. The frequency of monitoring the collateral increases as the creditworthiness of the borrower deteriorates.

In addition to these four features, when the creditworthiness of the borrower is deemed to have deteriorated, mechanisms such as lock box accounts are installed to ensure tighter control of the cash flow. Such structure allows the ABL lender to direct the cash received by the borrower to repay the outstanding loan, prior to using it for other purposes so as to be over-collateralized at all times.

This paper establishes the following hypothesis: *If an “ABL” loan has all of the four characteristics, i.e. appraisal, advance rate, borrowing base and monitoring, then such “ABL” can be categorized as transactions lending.* The following case study tests the hypothesis.

3. Case Study

3.1 Methodology

This case is based on a total of 12 visits from June 18 to September 10, 2013 to a Japanese regional bank that wishes to remain anonymous to review and collect quantitative and qualitative data for “ABL” loans conducted by the bank. The field work analyzed data from the credit approval documents (the *ringisho*), credit and collateral documents and meeting memos. In addition, a total of six tape recorded, semi-structured interviews were conducted to question and verify the findings from the documents. Given its asset size of approximately JPY 4 trillion, the healthiness of its loan portfolio, and its experience in conducting “ABL”, the bank is representative of Japanese regional banks at the time. Nothing in the research suggests that the “ABL” related activities conducted by the bank are unique compared to other regional banks.

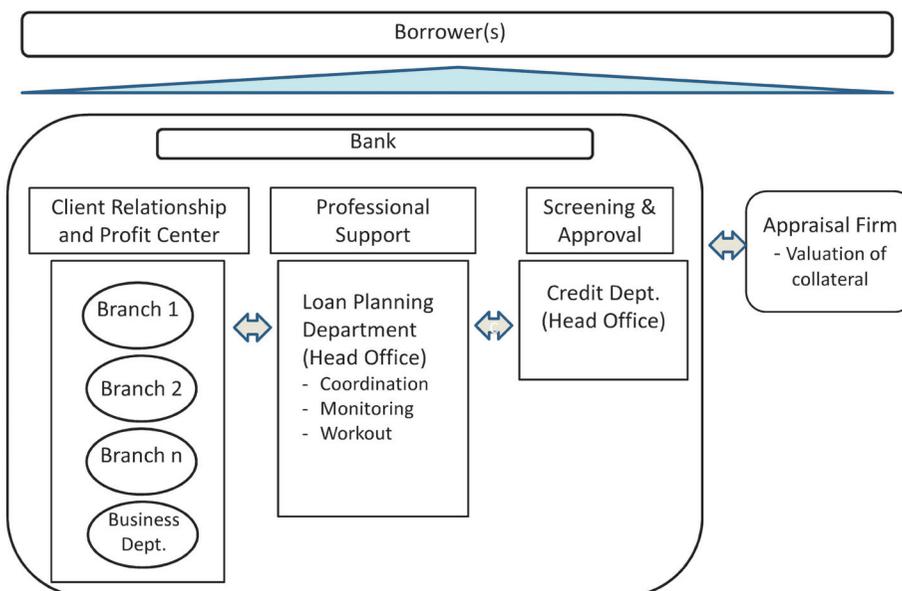
3.2 Organization and Process of Executing “ABL”

Three departments in the bank work cooperatively to execute “ABL”. The branches and business departments (*eigyō buten*) are the bank’s point of contact with the client. These divisions are profit centers, being responsible for managing the overall relationship with the bank and borrower. Each division handles various products, “ABL” being one of them. The “ABL” loans are booked in these divisions.

The Loan Planning Department (*yushi kikakubu*) plays a critical role in executing “ABL”. Part of the head office, they are responsible for the overall planning and managing of the credit risk of the bank, including collateral management. As an extension of these primary responsibilities, a team of four professionals specialize in providing expertise and technical assistance regarding “ABL” to the branches and business departments, including coordinating with professional service firms (e.g. appraisal firms). This department serves as a functional support office and is not directly responsible for the profit or loss derived from “ABL”.

The Credit Department (*shinsabu*) located in the head office has the responsibility to screen the borrowers, assess the overall risk and decide whether to approve or decline the “ABL” loan proposals.

Figure 2. Organizational Structure for Executing ABL (Representative)



3. 3 Findings

By analyzing every “ABL” loan the bank executed between the beginning of November, 2008 to end of June, 2013 (totalling 50), This paper rejects the hypothesis that these loans can be categorized as transactions lending. There is no compelling evidence that the lender relied primarily on the liquidation value of the collateral as the primary source of repayment for the loan. Rather, the bank appears to use the collateral to monitor and manage the creditworthiness of the borrower. In that regard, this case study suggests that “ABL” among regional banks in Japan is not conducted as transactions lending, but is more inclined towards relationship lending.

This paper tests the hypothesis by investigating the existence of the four characteristics that define “ABL” as transactions lending. At the inception of the loan, 38% of “ABL” used professional appraisal firms to measure the orderly liquidation value of the collateral. However, only 24% of loans had the advance rates needed to determine the amount to lend. Not surprisingly, all loans that had advance rates also used the borrowing base formula to adjust the credit exposure. The bank monitored the collateral of an overwhelming majority (92%) of loans, suggesting that the lender’s primary objective for monitoring was not to update the liquidation value of the collateral, but to collect broader information about the borrower. Only 6% of loans had all of the four characteristics that constitute “ABL” as

transactions lending.

Further analysis questions the argument that “ABL” is conducted as transactions lending. Specifically, none of the collateral in the loans were categorized as ordinary collateral for regulatory capital purposes. This implies that the bank is not relying on the liquidation value of the collateral as the primary source of repayment of the loan, or at least they are not confident that the estimated liquidation value will be realized. In turn, 80% of “ABL” loans were delivered to borrowers with which the bank was the principal bank, i.e. had an existing relationship. Thus, the bank appears to use “ABL” as a compliment to enhance the relationship with the borrower, rather than extending such loans to a client with whom there is no existing relationship. If the bank were to choose the latter, it would have to rely on hard information, using the liquidation value of the collateral as a substitute for the client relationship. This was not seen in the majority of the samples evaluated.⁵

Table 1. Characteristics of ABL
n = 50

	Yes (%)	No (%)
Used professional appraisal firms to value orderly liquidation value	38	62
Used Borrowing Base formula	24	76
Uses Advance Rate	24	76
Monitors collateral	92	8
The bank is the principal (main) bank of the borrower	80	20
Categorized collateral as ordinary collateral (ippan tampo)	0	100
Used Government Credit Guarantees (kyokai hoshō)	46	54
Loan Amount is less than JPY 100 million	48	52

Note: Based on data from one Japanese bank that wishes to remain anonymous. The bank's asset size is approximately JPY 4 trillion as is a member of the Regional Banks Association of Japan. The author had access to the files to every "ABL" loan the bank conducted from beginning of November, 2008 to end of June, 2013. The author is prohibited under a confidentiality agreement with the bank to disclose further information, including the identity of the borrowers.

These findings are consistent with a recent survey conducted by the Mitsubishi Research Institute in 2013. MRI (2013) indicates that 83% of regional banks responded that they continued or reinforced “ABL” “to monitor the activities of clients,” while only 37%

“to mitigate loss by securing collateral.” Furthermore, a minority of 21.7% of all banks used collateral as ordinary collateral.⁶ Considering that almost 100% of collateral are categorized as ordinary collateral when real estate is used as the secured asset, evidently Japanese banks are very reluctant to rely on the liquidation value of the collateral in “ABL” to mitigate loss.

3. 4 Legal Rights of the Secured Lender in the US

It is worth noting that the protection and enforcement of secured claims for inventory and accounts receivable in bankruptcy are well defined and is an established practice in the US. Specifically, the ABL lender’s effort in lending against the borrowing base, i.e. maintaining that the credit exposure is less than the orderly liquidation value of the collateral, is rewarded. The secured claim of the ABL lender is given “adequate protection” as long as the value of the collateral securing the claim prior to bankruptcy is greater than the amount of the claim (Hilson, 2010).

As in Japan, secured lenders in the US are subject to the “automatic stay” provision that limits the ABL lender to get repossession of, foreclose upon or otherwise deal with its collateral (US Bankruptcy Code, Section 362). However, unlike Japan, the US bankruptcy court is obliged to ensure that the secured lender’s value in the collateral is protected. Such measures include providing the “indubitable equivalent” of the value of the affected interest in the property (US Bankruptcy Code Section, Section 361) to maintain the same value of the collateral at the initiation of the bankruptcy proceedings. This provision is particularly important in ABL, considering collateral is constantly being converting from raw material, inventory and accounts receivable into cash within the operating cycle of the borrower. In effect, the court allows the operating cycle of the borrower to continue by transforming the working assets to cash flow, while protecting the security interest of the borrower under an automatic stay.

Furthermore, when an ABL is used to finance a “debtor-in-possession (DIP),” where the borrower remains in charge of the business both during the bankruptcy petition and the confirmation of a plan of reorganization, the DIP lender is given a “super priority claim” (US Bankruptcy Code Section, Section 364c). Therefore, the ABL lender can be quite comfortable in financing a borrower in distress knowing that the bank is entitled to priority right of payment over all other administrative expenses. In addition, should the borrower enter into a partial or entire liquidation of its assets during reorganization, it is done under the auspices and with the approval of the Bankruptcy Court (Udell, 2004, pp. 121-122). In such cases, the

court, through a bidding process, appoints professional liquidation firms that often conduct appraisals of the collateral in the ABL, ensuring against a fire sale by the borrower that would severely diminish the value of the collateral. In effect, the court enforces the orderly liquidation of the collateral in the US.⁷

4. Conclusion

Taken together, the majority of “ABL” conducted in Japan by regional banks does not qualify as ABL, a form of transactions lending. Rather, the lender appears to use “ABL” to facilitate relationship banking by focusing on monitoring the collateral.⁸ There are two reasons why Japanese regional banks are reluctant to conduct ABL.⁹

First is specialization. “ABL” in the form of transactions lending may not be a lending technology fit for regional banks because they are essentially relationship lenders. Relationship lending is based substantially on proprietary information about the firm. This data is obtained over time through an assortment of contacts and is accumulated through various financial products and contacts with not only the borrower but also the local community, suppliers and customers (Berger and Udell, 2002). Therefore, regional banks invest in the long term relationship with the borrower and are expected to work closely with the borrower particularly when they need help. Liquidating the collateral is an option, but only as a last resort when every other effort fails. In turn, ABL, where lending decisions are made primarily on the liquidation value of the collateral, may be too “transactional” for regional banks. It implies that the bank is ready, or at least seriously considering a quick exit without substantial effort to help the borrower by terminating the business to cover the bank’s loss. Such lending practice carries substantial reputational risk of being perceived as a predatory lender. This risk could seriously undermine the effort of maintaining a reputation as being trustworthy and reliable, which is critical for building sustainable client relationship in the region.

In fact, even in the US where banks are perceived to be more aggressive in protecting their rights at the expense of the borrower, commercial banks, which include regional banks, are not major players in ABL (Carey et al., 1998). Finance companies whose client relationship is weaker compared to commercial banks are the major players for ABL. After all, unlike finance companies, banks are reluctant to liquidate collateral and are more eager to collect on the loan through cash flow generated from the borrower in the ordinary course of

business. The fact that 80% of “ABL” loans were delivered to borrowers who had the lender as their principal banking institution implies that “ABL” in Japan complements relationship lending. However, finance companies do not appear to be actively delivering ABL in Japan.

Another reason why ABL is not prevalent in Japan may be because legal protection of security interest under bankruptcy proceedings is insufficient. The establishment of the Law on Special Rules to the Civil Code Concerning the Perfection of the Transfer of Movables and Assignment of Receivables in 2005 was a necessary condition in promoting ABL by enabling filing of the transfer of titles in inventory and accounts receivable. However, it may not have been a sufficient condition to protect the secured party’s rights (Kozuka and Fujisawa, 2009). When the borrower of ABL files for bankruptcy protection under the Corporate Reorganization Law (*kaisha kosei ho*), the method by which inventory and accounts receivable are recognized, measured and to what extent the secured lender’s rights are protected is unclear (Horiuchi, 2013). This uncertainty becomes a significant risk for ABL lenders because the collateral and its value are more unstable when compared to fixed assets such as real estate.

For “ABL” to properly function as a transactions lending technology, various safeguarding measures must be in place, working together as an organic whole. Changing the law to perfect security interest in inventory and accounts receivable as well as allowing such assets to be recognized as collateral for regulatory capital purposes are necessary, but not sufficient. The bank must also establish other mechanisms, such as lending against a dynamically managed borrowing base formula. Establishing a well-defined legal structure in bankruptcy proceedings to ensure the orderly liquidation of collateral is critical. Without such a platform in place in Japan, it is not surprising that the foundations that support “ABL” as transactions lending are weak. Currently, “ABL” appears to be functioning to supplement and facilitate relationship lending. It is, nevertheless, an important lending technology that needs to be empowered among regional banks in Japan.

Today, *every* type of secured lending that has inventory and accounts receivable is universally called “ABL” in Japan. However, this research indicates that not all “ABL” are equal. In fact, a small minority of “ABL” in Japan appear to incorporate the four factors of transactions lending. To further complicate the matter, what is defined as ABL among academics and practitioners outside of Japan are only those that qualify for transactions lending (Berger and Udell, 2002 and 2006). Therefore, this paper proposes the following: Secured lending that uses inventory and accounts receivable should be called “moveable

assets and accounts receivable lending (*dosan urikake saiken tampo yushi*),” not “ABL”. Among such type of lending, only those that qualify for transactions lending should be called ABL. This definition is not an exercise on taxonomy. It is an essential step toward clarifying very different types of lending that, on surface, appear to be identical but in reality are very different.¹⁰ Without such classifications based on the correct understanding of the different roles of collateral in transactions lending and relationship lending, the current confusion over a secured lending using inventory and accounts receivable as collateral cannot be rectified. This task is also necessary to effectively promote and expand the market for this important lending product in Japan.

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Notes

- 1 To avoid confusion, this paper will use the following terminologies. ABL in quotation marks (“ABL”) depicts what is so called Asset Based Lending in Japan. What is defined by Berger and Udell (2002, 2006) as asset-based lending will be called ABL without the quotation marks.
- 2 Kinjo (2014, in press) provides empirical research based on a case study.
- 3 Technically, inventory was stipulated as a type of movable assets (*dosan*) and accounts receivable as claims (*saiken*) in the inspection manual.
- 4 The content of the inspection manual has not materially changed from the 2007 version.
- 5 Although 46% of loans were guaranteed by Government Credit Guarantees, it only covers 80% of the loan amount with a maximum limit of JPY 200 million. Thus, the lender still bears considerable lending risk.
- 6 This means that 21.7% of all banks had more than one ABL loan that categorized collateral as ordinary collateral. The percentage of ABL that had ordinary collateral may be much less. There was no data available for regional banks alone.
- 7 In addition, the legal concept of a “floating lien,” where filing of liens on both existing and future inventory and accounts receivable, provides additional legal comfort to ABL lenders in the US.
- 8 See Kinjo (in press) and Kinjo (2014) for details.
- 9 The third reason may be that the relatively small size of the loans. 48% of ABL loans were less than JPY 100 million, which may be too small to cover expenses to appraise, monitor and dynamically manage the exposure in accordance with the liquidation value of the collateral.

10 In fact, this is very similar to how the US regulators classify this type lending.

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