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Collateral Pools

In some receivables-backed programs, it makes much more sense to take a multi-collateral pool approach.

Most receivables-backed working capital programs use one set of eligibility criteria. This produces a single collateral pool of eligible receivables, to which a single purchase price and advance rate is applied.

Multi-collateral pool programs are less common, due in part to higher set-up costs, but also because of the complexity of routing receivables from one pool to another. This is a shame, as the structural benefits of tranching a receivables portfolio can be significant, especially for larger or mixed quality portfolios. Tranching will often lead to better overall advance rates, more working capital funding and the possibility of lower overall funding costs.

But times change and transaction parties are coming under increasing pressure to offer more cost-effective working capital solutions to clients. For many receivables programs, the benefits of a multi-collateral pool approach are starting to outweigh simplicity and status-quo.

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INNOVATION IN WORKING CAPITAL FINANCE

RISK PROFILING

Most sellers understand it might cost more, and there may be a lower advance, when selling low quality receivables compared to selling high quality receivables.

Portfolio tranching uses this principle to dynamically segment a single pool of receivables into risk-based collateral pools, with the intention of creating a better overall funding program than if the receivables are considered as a single pool.

'Risk' in a tranching sense is a loose term to be defined as necessary by program structurers. The key is to dynamically route receivables into different collateral pools depending on their risk profile.

Each pool may have different eligibility criteria, pricing, advance rates and could be funded by different funders and insured (or not) by different insurers.

POOL OPTIMIZATION

Optimization can be achieved by systematically rerouting receivables made ineligible in one pool into the next most attractive pool where they are retested.

This rerouting continues until receivables either become eligible, but on increasingly less attractive terms, or are eventually excluded from the funding program for this eligibility run.

Receivables made ineligible during one eligibility run may of course become eligible during a subsequent eligibility run, if sold invoices have been repaid and capacity released.

Collateral pool schemas and how receivables are routed can be complicated, but a multi-pool approach gives program structurers unparalleled flexibility and control.

COLLATERAL POOL EXAMPLES

Jurisdiction

The distinction could simply be domestic or export, but could equally be based on country risk bandings or funder appetite for certain jurisdictions.

Customer Size

We often see scenarios where one program funds the top sellers and another program funds the remaining sellers, which often form the bulk of the portfolio.

Custom Groupings

A corporate might have different subsidiaries or product lines, different market segments or may be trading with some clients on different terms of trade.

Risk Rating

This could be based on investment grade vs non-investment grade or could equally be based on individual S&P style rating, probability of default or failure risk.

If you would like to know more about Aronova or the services we provide, please visit www.aronova.com, or contact David Baker, Managing Director, on **+44 7739 173 961** or **+1 848 466 5288**, or email David at **david.baker@aronova.com**