

WHITEPAPER

The Complete Guide to Warehouse Facility Setup

A practitioner's handbook for establishing and managing warehouse credit facilities in structured finance — covering facility types, key terms, negotiation strategies, and operational requirements.

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Executive Summary

Warehouse credit facilities are the foundational funding tool for lending businesses. They provide the revolving capital that keeps originations flowing while you build the track record, portfolio scale, and operational infrastructure needed for capital markets access. Yet establishing a warehouse facility is one of the most complex undertakings an emerging lender will face — involving legal structuring, data preparation, lender negotiations, and ongoing compliance obligations that can take 4–8 months from first conversation to closing.

This guide provides a comprehensive, practitioner-level roadmap for setting up and managing a warehouse facility. It is designed for CEOs, CFOs, and capital markets professionals at emerging lending platforms who are preparing for their first warehouse or looking to optimize an existing facility.

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US WAREHOUSE MARKET

4-8 mo

TYPICAL SETUP TIMELINE

80-90%

TYPICAL ADVANCE RATE

US Warehouse Lending Volume (\$B)



KEY TAKEAWAYS

- Warehouse facilities provide 80–90% advance rates on eligible collateral, enabling capital-efficient loan origination.
- Setup costs typically range from \$200K–\$500K in legal and structuring fees.
- Data quality and reporting infrastructure are the #1 factors that determine timeline and terms.
- The warehouse is not just a funding tool — it is the foundation for your eventual ABS program.

CHAPTER 1

Introduction to Warehouse Facilities

What Is a Warehouse Facility?

A warehouse facility is a revolving credit line — typically provided by a bank or specialty finance company — that allows a lender to fund loan originations on an ongoing basis. The facility is secured by the loans you originate: as you make new loans, you draw against the facility; as loans pay down, are sold, or are securitized, capacity revolves back. Think of it as a line of credit where your loan portfolio serves as the collateral.

Warehouse facilities are the workhorse of the lending industry. They provide the day-to-day funding that keeps originations flowing, bridge the gap between loan origination and permanent capital markets take-out, and serve as the accumulation vehicle for future securitizations. Virtually every lending business that reaches institutional scale — from consumer fintech to specialty commercial lenders — relies on warehouse facilities as a core component of their capital stack.

The Role in Structured Finance

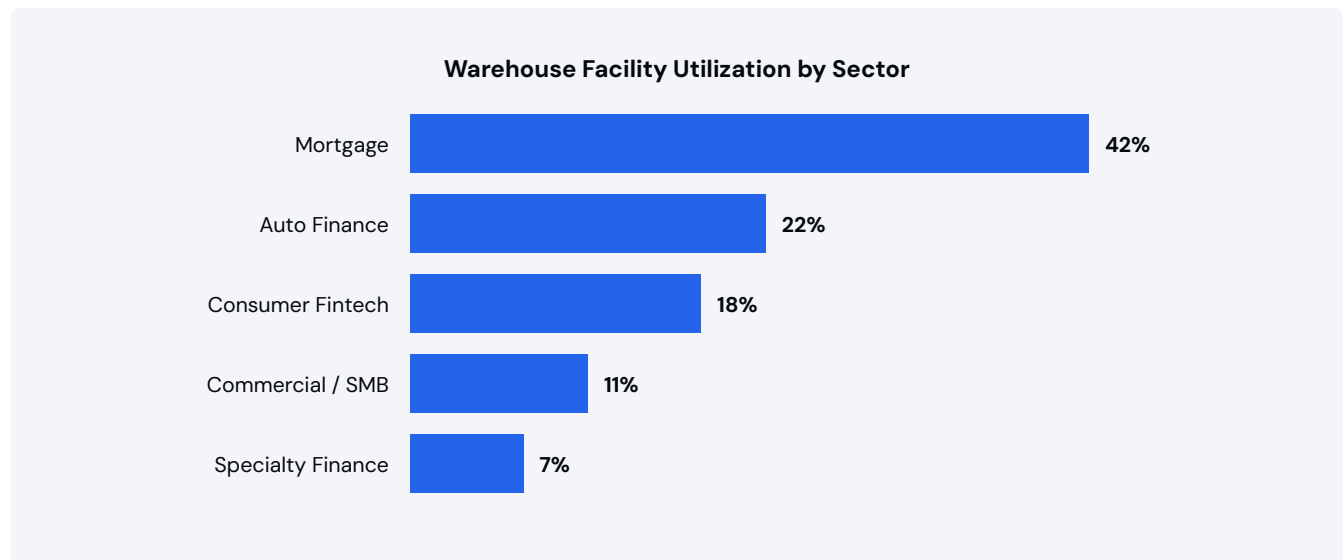
In the broader structured finance ecosystem, warehouse facilities serve two critical functions. First, they provide immediate funding for loan originations, allowing lenders to deploy capital without waiting for term securitization windows. Second, they serve as the accumulation mechanism for future ABS transactions — you originate into the warehouse, build a pool of sufficient size and seasoning, and periodically take pools out through term securitizations.

This warehouse-to-ABS lifecycle is the standard funding model for the lending industry. Understanding how to set up and manage a warehouse efficiently is therefore not just a treasury function — it is a strategic imperative that directly impacts your cost of capital, growth trajectory, and capital markets credibility.

Who Uses Warehouse Facilities?

- Consumer fintech lenders (personal loans, credit cards, BNPL)
- Auto finance companies (prime, near-prime, and subprime)
- Mortgage originators and aggregators
- Small business and commercial lenders
- Specialty finance companies (equipment, healthcare, legal)
-

Revenue-based financing and merchant cash advance providers



Warehouse Facilities vs. Other Funding Sources

Emerging lenders have several funding options, each with distinct advantages and limitations. Understanding where warehouse facilities fit in the capital hierarchy is essential for building an optimal funding strategy.

FUNDING SOURCE	COST	CAPACITY	FLEXIBILITY	BEST FOR
Balance Sheet / Equity	Highest	Limited	Maximum	Proof of concept
Venture Debt	High	Low-Medium	High	Early stage growth
Warehouse Facility	Medium	Medium-High	Medium	Scaling originations
Forward Flow	Medium-Low	Medium	Low	Predictable volume
Term ABS	Lowest	Highest	Low	Mature programs

Illustrative comparison — actual terms vary by originator profile and market conditions.

As this comparison illustrates, warehouse facilities occupy a critical middle ground. They offer significantly better economics than equity or venture debt funding while providing more flexibility and lower setup costs than term securitization. For most emerging lenders, the warehouse facility is the first institutional funding milestone — and it sets the foundation for everything that follows.

WHY YOUR FIRST WAREHOUSE MATTERS

Your warehouse facility is not just a funding tool — it is your introduction to institutional capital markets. The relationships you build, the data infrastructure you develop, and the operational discipline you demonstrate during the warehouse phase will directly determine the success of your eventual ABS program. Treat the warehouse setup process with the same rigor and strategic importance as you would a securitization.

CHAPTER 2

Types of Warehouse Facilities

Committed vs. Uncommitted Facilities

A committed facility obligates the lender to fund draws (up to the facility limit) as long as you meet the eligibility criteria and aren't in default. This provides funding certainty but typically comes with a commitment fee (25–50 bps annually on the undrawn portion). An uncommitted facility gives the warehouse lender discretion on each draw, which means lower fees but less certainty. Most institutional warehouse facilities are committed.

Revolving vs. Term Warehouse Structures

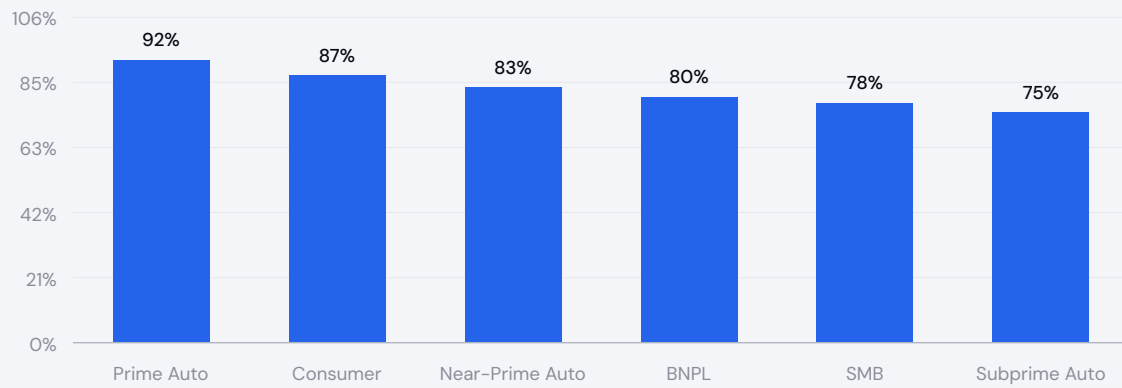
A revolving warehouse allows continuous borrowing and repayment throughout the facility term — new loans flow in as existing loans pay down or are sold. This is the most common structure and provides the operational flexibility that lending businesses need. Term warehouse structures fund a static pool of loans with a defined repayment schedule. These are less common for ongoing origination but may be used for specific portfolio acquisitions or pre-securitization accumulation.

Single-Lender vs. Syndicated Facilities

Most emerging lenders start with a single warehouse lender — often a specialty finance bank with experience in their asset class. As you scale, you may add additional warehouse lines from different lenders. At larger scale, a syndicated facility — where multiple banks participate in a single facility under a lead arranger — provides the largest capacity and typically the most competitive pricing, though it adds complexity.

On-Balance-Sheet vs. Off-Balance-Sheet

In an on-balance-sheet warehouse, you borrow directly against your loan portfolio. The loans and the warehouse debt both appear on your balance sheet. In an off-balance-sheet structure, loans are transferred to an SPV that borrows against them. The SPV structure provides bankruptcy remoteness and may improve your leverage ratios, but adds legal and administrative complexity. Most institutional warehouse facilities for emerging lenders use SPV-based structures.

Typical Advance Rates by Asset Class

Asset-Class-Specific Considerations

Different asset classes present different risks and operational characteristics that affect warehouse structure and terms.

ASSET CLASS	TYPICAL ADVANCE	KEY RISK FACTORS	REPORTING CADENCE
Consumer Unsecured	85–90%	Credit performance, regulatory risk	Monthly
Auto (Prime)	88–93%	Collateral depreciation, recovery rates	Monthly
Auto (Subprime)	72–80%	Default rates, servicing quality	Weekly/Monthly
BNPL	75–85%	Short duration, merchant concentration	Weekly/Daily
Small Business	70–82%	Business failure rates, concentration	Monthly
Equipment Finance	80–88%	Residual value, equipment type	Monthly

Ranges are illustrative and reflect typical market conditions for established originators.

Choosing the Right Structure

For most emerging lenders, the recommended starting point is a committed, revolving, SPV-based warehouse facility with a single lender that has experience in your asset class. This provides the best balance of funding certainty, operational flexibility, and structural protection. As your program matures and origination volumes grow, you can layer on additional complexity — multiple lenders, expanded eligibility criteria, or syndicated structures — to optimize cost and capacity.

PRACTICAL TIP

When selecting your first warehouse lender, prioritize relationship quality and asset class expertise over pricing. A lender who understands your business will provide more flexible terms, faster amendment turnaround, and better guidance through inevitable growing pains. You can always add a second, more price-competitive line later.

CHAPTER 3

The Warehouse Facility Ecosystem

Key Parties and Their Roles

A warehouse facility involves multiple parties, each with specific responsibilities. Understanding these roles — and selecting the right partners — is critical to a smooth setup and ongoing operations.

PARTY	ROLE	SELECTION CRITERIA
Warehouse Lender	Provides the credit facility, sets terms and eligibility criteria, monitors compliance	Asset class experience, relationship quality, capacity for growth
Originator (You)	Originates loans, services the portfolio, provides reporting, manages compliance	N/A — you are this party
Trustee / Custodian	Holds collateral documents, verifies loan files, manages cash accounts	Experience with asset class, technology capabilities, pricing
Backup Servicer	Steps in if the originator cannot continue servicing	Demonstrated capability with asset class, reasonable standby fees
Legal Counsel	Drafts facility documentation, advises on structure and regulatory compliance	Deep warehouse experience, responsive team, reasonable fees
Auditor	Provides annual audits, may perform collateral audits	ABS/structured finance experience, rating agency acceptance

The SPV Structure

In a typical SPV-based warehouse, the structure looks like this: You (the originator) originate loans and sell them to a wholly-owned SPV. The SPV borrows from the warehouse lender, pledging the loans as collateral. Collections on the loans flow into a lockbox account controlled by the trustee, which distributes funds according to the waterfall — first to the warehouse lender (interest and principal), then to cover fees, and finally any excess back to the originator.

The SPV structure serves a critical purpose: bankruptcy remoteness. If the originator experiences financial distress, the loans held by the SPV are legally isolated from the originator's creditors. This protection is what

allows warehouse lenders to underwrite based on asset quality rather than corporate credit — which is particularly important for emerging lenders without investment-grade corporate ratings.

Cash Flow Mechanics

Understanding how cash flows through the warehouse structure is essential for managing liquidity and covenant compliance.

1. You originate a loan and fund it with equity (the portion not advanced by the warehouse).
2. The loan is sold to the SPV. The SPV draws on the warehouse facility to fund the advanced portion.
3. Borrower payments are collected and deposited into a lockbox account.
4. On each settlement date, collections are distributed: warehouse interest, then fees, then principal reduction, then excess to originator.
5. As warehouse capacity revolves back, you can draw again to fund new originations.

The Importance of the Backup Servicer

Warehouse lenders require a backup servicer — an entity that can step in to manage loan collections if the originator cannot continue servicing. For emerging lenders, this is often a point of negotiation. Backup servicer fees can range from \$10,000–\$50,000 annually on a standby basis, with additional fees triggered upon actual transfer of servicing. Select a backup servicer early in the process, as warehouse lenders may have specific requirements or preferences.

Legal Counsel Selection

Your legal counsel selection has an outsized impact on timeline, cost, and outcome. Warehouse facility documentation is highly specialized — a typical facility involves 400–600+ pages of legal documents including the credit agreement, security agreement, servicing agreement, account control agreements, and numerous ancillary documents.

Choose counsel with deep warehouse and structured finance experience. Firms that specialize in this area will have document templates, know the market-standard positions, and understand which terms are negotiable and which are not. Using inexperienced counsel is the single most common cause of delayed warehouse closings.

COST PLANNING

Budget \$200K–\$500K for legal and setup costs for your first warehouse facility. This includes:

- Borrower's counsel: \$100K–\$250K
- Lender's counsel (paid by you): \$75K–\$200K
- Trustee/custodian setup: \$10K–\$25K
- Backup servicer engagement: \$10K–\$50K
- Rating agency assessment (if required): \$50K–\$150K

CHAPTER 4

Key Terms and Economics

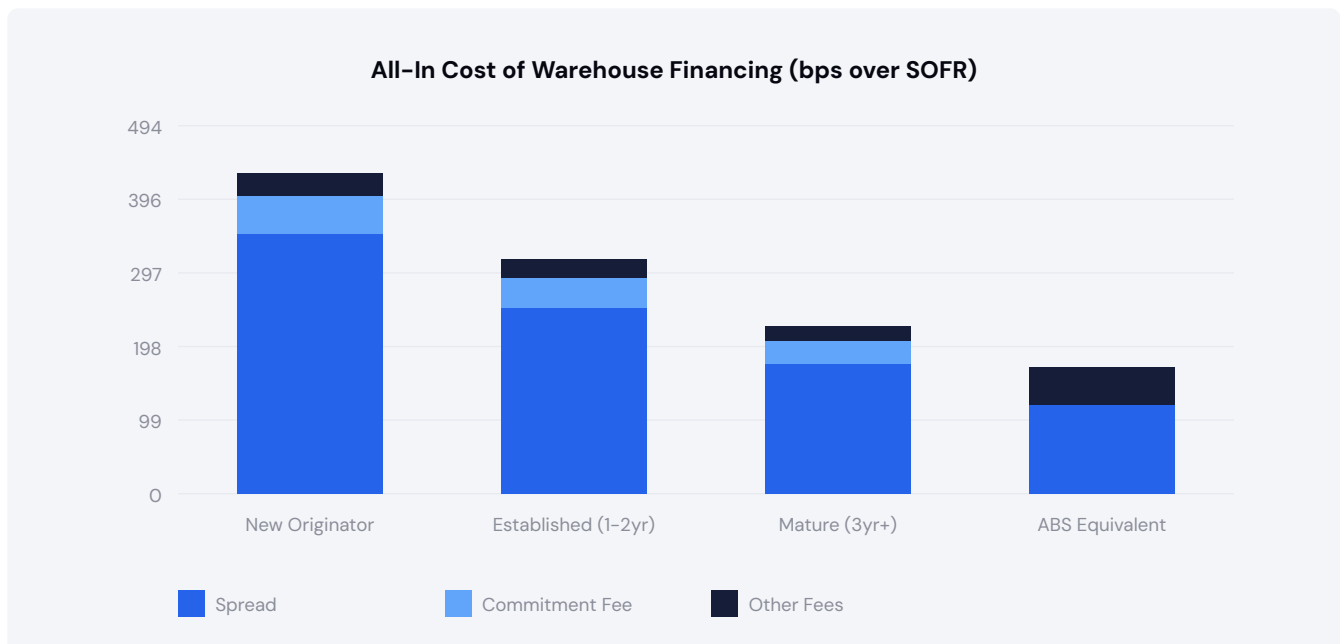
Advance Rates and Borrowing Base

The advance rate is the percentage of each eligible loan's balance that the warehouse lender will fund. For a loan with a \$10,000 balance at an 85% advance rate, the warehouse lender provides \$8,500 and you contribute \$1,500 in equity. The borrowing base is the sum of all advance-rate-adjusted eligible collateral – it represents your maximum borrowing capacity at any point in time.

Advance rates vary by asset class, originator track record, and market conditions. For established consumer lenders with strong performance, advance rates of 85–92% are common. For inaugural facilities from newer originators, expect 75–85% as the starting point, with potential to increase as performance data accumulates.

Interest Rate Structure

Warehouse facility pricing is typically expressed as a spread over a benchmark rate. In the current market, SOFR (Secured Overnight Financing Rate) is the standard benchmark. Your all-in borrowing rate will be SOFR plus a spread that reflects the credit quality of your collateral, your track record as an originator, and the overall risk profile of the facility.



Fee Structure

Beyond the interest spread, warehouse facilities carry several fees that impact your all-in cost:

- Commitment fee: 25–50 bps annually on the committed but undrawn facility amount. This compensates the lender for reserving capacity.
- Unused fee: Similar to commitment fee, sometimes structured as a minimum utilization requirement instead.
- Upfront/closing fee: 25–75 bps of facility size, paid at closing. May be reduced or waived for subsequent amendments.
- Administrative agent fee: \$50K–\$150K annually for the agent bank's ongoing administration.
- Amendment fee: \$25K–\$75K per amendment to the facility documents.

Concentration Limits

Warehouse lenders impose concentration limits to ensure portfolio diversification. These limits restrict the percentage of the borrowing base that can be attributed to any single characteristic:

CONCENTRATION TYPE	TYPICAL LIMIT	PURPOSE
Single borrower	0.5–2.0%	Prevent overexposure to any one obligor
Geographic (state)	15–25%	Reduce regional economic risk
Credit score band	25–40%	Ensure credit quality diversification
Loan size	1–3%	Limit large-balance exposure
Delinquent loans	5–10%	Control overall portfolio quality
Loan term bucket	30–50%	Manage duration risk

Limits are negotiable and vary based on asset class and originator profile.

Eligibility Criteria

Not every loan you originate will be eligible for the warehouse facility. Eligibility criteria define the characteristics a loan must have to be included in the borrowing base. Common criteria include minimum and maximum loan sizes, credit score floors, maximum DTI ratios, geographic restrictions, documentation

requirements, and seasoning limits. Loans that fall outside eligibility criteria must be funded with equity or excluded from the pool.

Performance Triggers

Performance triggers are thresholds that, when breached, change the facility's operating dynamics. They are designed to protect the warehouse lender by providing early warning of portfolio deterioration.

- Delinquency trigger: If 60+ day delinquencies exceed a defined threshold (e.g., 5–8% of pool balance), the facility may enter early amortization.
- Cumulative loss trigger: If cumulative net losses exceed a defined threshold, new draws may be suspended.
- Payment rate trigger: For short-duration assets, if the monthly payment rate drops below a threshold, the revolving period ends.
- Minimum overcollateralization: If OC falls below target, excess collections are trapped to rebuild the OC cushion.

Understanding your triggers and maintaining adequate headroom is critical. Breaching a trigger doesn't just restrict your facility — it signals distress to your warehouse lender and can damage the relationship for future negotiations.

Financial Covenants

Beyond asset-level performance triggers, warehouse facilities typically include financial covenants on the originator entity. Common covenants include:

- Minimum tangible net worth: ensures you maintain adequate equity capitalization.
- Minimum liquidity: requires cash or liquid assets above a threshold (often \$5–15M or 6–12 months of operating expenses).
- Maximum leverage ratio: limits total debt relative to equity.
- Profitability covenants: may require positive EBITDA or net income by a certain date.
- Change of control provisions: require lender consent for ownership changes.

Sample Term Sheet

TERM	ILLUSTRATIVE VALUE
Facility Size	\$100M committed, expandable to \$200M
Advance Rate	85% (eligible consumer loans)
Interest Rate	SOFR + 275 bps
Commitment Fee	37.5 bps on undrawn amount
Facility Term	2 years, with 1-year extension option
Revolving Period	Co-terminus with facility term
Minimum Utilization	50% average over each quarter
60+ Day Delinquency Trigger	6.0% of pool balance
Cumulative Loss Trigger	8.0% annualized
Min. Tangible Net Worth	\$15M
Min. Liquidity	\$5M unrestricted cash

Illustrative only — actual terms are based on negotiation and reflect originator profile, asset quality, and market conditions.

CHAPTER 5

The Setup Process: From LOI to Closing

Setting up a warehouse facility is a multi-phase process that typically takes 4–8 months from initial lender conversations to closing. Understanding each phase — and preparing for it in advance — can significantly compress the timeline and improve your outcome.

Phase 1: Preparation and Self-Assessment (Weeks 1–4)

Before approaching warehouse lenders, complete a rigorous self-assessment of your readiness. This phase is entirely within your control and determines how smoothly subsequent phases will proceed.

Portfolio Analysis

Compile a comprehensive picture of your loan portfolio: total originations to date, current outstanding balance, vintage-level performance data (delinquency, default, loss, prepayment), average loan characteristics (balance, rate, term, credit score), and growth projections. Warehouse lenders will evaluate your portfolio as the primary collateral, so this data must be clean, complete, and compelling.

Data Infrastructure Assessment

Can you produce a loan-level data tape on demand? Does it reconcile with your general ledger? Can you generate borrowing base calculations automatically? If the answer to any of these is no, invest in your data infrastructure before approaching lenders. Nothing erodes lender confidence faster than data that doesn't reconcile or takes weeks to produce.

Financial Projections

Prepare detailed 3-year financial projections showing origination growth, warehouse utilization, profitability trajectory, and capital needs. Warehouse lenders are making a multi-year commitment and want to understand your business trajectory.

Phase 2: Lender Identification and Outreach (Weeks 4–8)

Finding the Right Lender

Not all warehouse lenders are the same. Identify lenders with specific experience in your asset class, appetite for your originator profile (emerging vs. established), and capacity to grow with you. Key categories include:

- Large money-center banks: Largest capacity, most competitive pricing, but highest minimum thresholds and longest timelines.
- Regional and specialty banks: Often more flexible on terms, faster decision-making, and more willing to work with emerging originators.
- Non-bank specialty lenders: May offer the most flexibility but at higher cost. Useful for newer or niche asset classes.
- Credit funds: Alternative capital providers that may provide warehouse-like facilities with more bespoke structures.

Building the Pitch Deck

Your warehouse pitch deck should cover: company overview and management team, lending thesis and market opportunity, underwriting approach and credit model, historical portfolio performance with vintage analysis, current portfolio composition, financial projections, proposed facility structure and terms, and how the warehouse fits into your broader capital strategy (including ABS plans). Keep it to 25–35 slides, heavy on data and light on marketing language.

Phase 3: Term Sheet Negotiation (Weeks 8–12)

Once a lender expresses interest, they will issue a term sheet (or letter of intent) outlining proposed terms. The term sheet is non-binding but establishes the framework for the detailed documentation that follows.

Key Negotiation Points

- Advance rate: Every 1% increase in advance rate reduces your equity requirement significantly. Push for the highest rate your portfolio quality supports, with step-up provisions tied to performance milestones.
- Spread: Negotiate the interest spread with reference to comparable facilities. Bring market data on competitor pricing if available.
- Facility size and expandability: Start with a facility sized for 6–12 months of origination volume, with accordion features to expand as you grow.
- Eligibility criteria: Ensure criteria align with your actual origination characteristics. Overly restrictive criteria will reduce your effective borrowing capacity.
- Concentration limits: Push for limits that accommodate your natural origination patterns. If you originate heavily in California, negotiate a higher state concentration limit.
- Trigger levels: Set triggers with adequate headroom above your current performance levels. Triggers that are too tight create constant monitoring stress.

Phase 4: Due Diligence (Weeks 12–20)

Once the term sheet is executed, the warehouse lender conducts comprehensive due diligence on your organization, portfolio, and operations.

- Corporate due diligence: Financial statements, organizational structure, management backgrounds, regulatory compliance.
- Operational review: On-site or virtual review of origination processes, underwriting decision-making, servicing operations, technology systems, and compliance procedures.
-

Portfolio analysis: Independent review of your loan tape, vintage performance data, and sample loan file audit.

- Legal review: Review of loan documentation, assignment mechanisms, state licensing, and regulatory compliance.
- Third-party reports: May include a servicing assessment, data quality review, or independent portfolio analysis.

Phase 5: Documentation and Closing (Weeks 20–28)

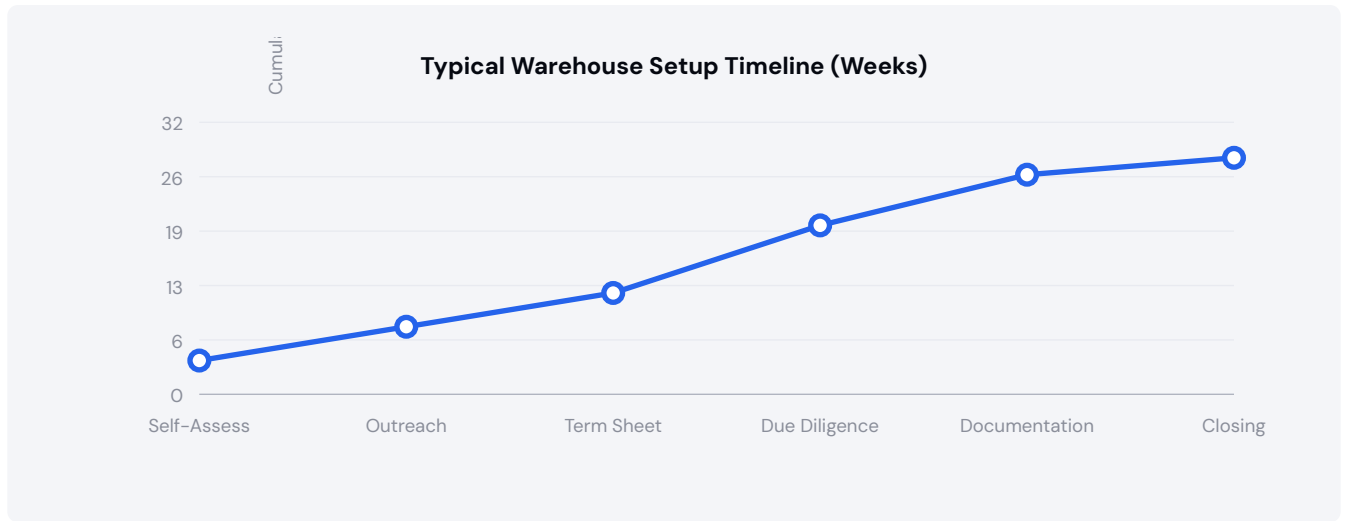
Legal documentation is the most time-consuming phase. Your counsel and the lender's counsel negotiate and finalize hundreds of pages of legal documents.

Core Documents

- **Credit agreement:** The master agreement governing the facility — terms, conditions, covenants, and mechanics.
- **Security agreement:** Grants the warehouse lender a security interest in the collateral (your loans).
- **Sale agreement:** Governs the transfer of loans from the originator to the SPV.
- **Servicing agreement:** Defines your obligations as servicer of the loan pool.
- **Account control agreement:** Gives the warehouse lender control over cash accounts.
- **Custodial agreement:** Defines the trustee/custodian's responsibilities for document custody.
- **Backup servicing agreement:** Establishes the backup servicer's role and triggers for activation.

COST CATEGORY	RANGE	NOTES
Borrower's legal counsel	\$100K–\$250K	Varies by complexity and counsel rate
Lender's legal counsel	\$75K–\$200K	Paid by borrower in most cases
Trustee/custodian setup	\$10K–\$25K	Plus ongoing monthly fees
Backup servicer setup	\$10K–\$50K	Plus annual standby fee
Rating agency (if req'd)	\$50K–\$150K	Some lenders require a servicer rating
SPV formation	\$5K–\$15K	DE LLC formation and qualification
UCC filings	\$2K–\$10K	Perfection of security interests

Total estimated range: \$250K–\$700K for inaugural facilities.



CHAPTER 6

Data and Technology Requirements

Data is the currency of structured finance. Your ability to produce accurate, timely, and comprehensive data directly impacts your warehouse terms, operational efficiency, and capital markets credibility. Investing in data infrastructure early pays dividends throughout your funding lifecycle.

Loan Tape Requirements

Your warehouse lender will require a loan-level data tape — a standardized dataset containing information for every loan in the collateral pool. The tape typically includes 50–150+ fields per loan, covering identification, origination characteristics, current status, and performance history.

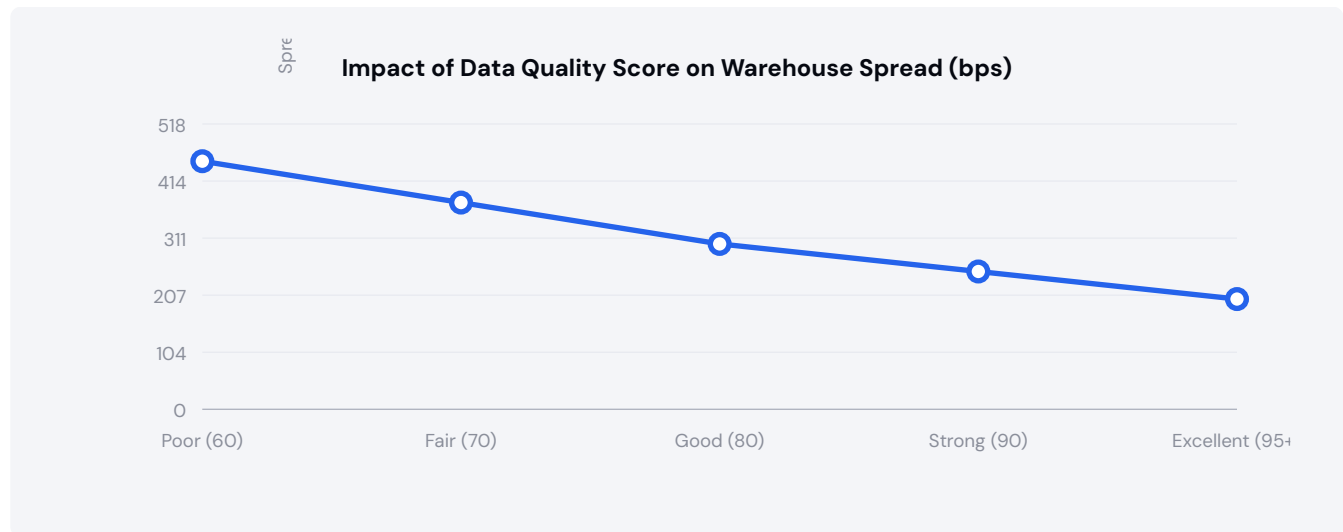
FIELD CATEGORY	EXAMPLES	IMPORTANCE
Loan Identifiers	Unique loan ID, account number, origination date	Critical — must be unique, no duplicates
Borrower Data	Credit score, income, DTI, state, employment	Critical — drives credit analysis
Loan Terms	Original balance, rate, term, payment amount	Critical — defines cash flow profile
Current Status	Current balance, DPD, payment status, next due	Critical — real-time portfolio view
Payment History	Cumulative payments, last payment date/amount	High — validates performance
Loss Data	Charge-off date/amount, recoveries, loss severity	High — calibrates loss models

Reporting Infrastructure

Warehouse facilities require regular reporting — typically monthly, though some short-duration asset classes require weekly or even daily reporting. Core reports include:

- Borrowing base report: Calculates available borrowing capacity based on eligible collateral, advance rates, and concentration limits.
- Compliance certificate: Confirms compliance with all financial covenants and performance triggers.
- Portfolio performance report: Delinquency, default, loss, prepayment, and payment rate statistics.

- Updated loan tape: Refreshed loan-level data as of the reporting date.
- Financial statements: Quarterly or annual financial statements per covenant requirements.



Servicing Systems

Your loan servicing platform is the operational backbone of the warehouse facility. It must support:

- Automated payment processing with real-time posting and reconciliation.
- Delinquency management workflows with escalation triggers and collection strategies.
- Default and charge-off processing with consistent application of charge-off policies.
- Investor reporting with automated generation of required reports in lender-specified formats.
- Audit trail with comprehensive logging of all servicing actions and decisions.

Data Quality and Validation

Implement a systematic data validation framework that runs automatically on every reporting cycle. Your framework should include three layers:

1. Schema validation: All required fields present, correct data types, values within expected ranges.
2. Business rule validation: Logical consistency between fields (origination date before maturity, balances reconcile with payments).
3. Statistical validation: Distribution analysis, outlier detection, and trend consistency across reporting periods.

BUILDING FOR THE FUTURE

The data infrastructure you build for your warehouse facility is the same infrastructure you'll need for ABS issuance. Design your loan tape, reporting, and validation systems to meet rating agency standards from day one — even if securitization is 12–24 months away. The incremental cost of building to ABS standards now is minimal compared to retrofitting later.

CHAPTER 7

Ongoing Operations and Compliance

Closing the warehouse facility is the beginning, not the end. Effective ongoing management requires disciplined processes, proactive monitoring, and strong lender communication.

Borrowing Base Management

The borrowing base calculation should be automated and run daily (or at minimum, weekly). Key activities include:

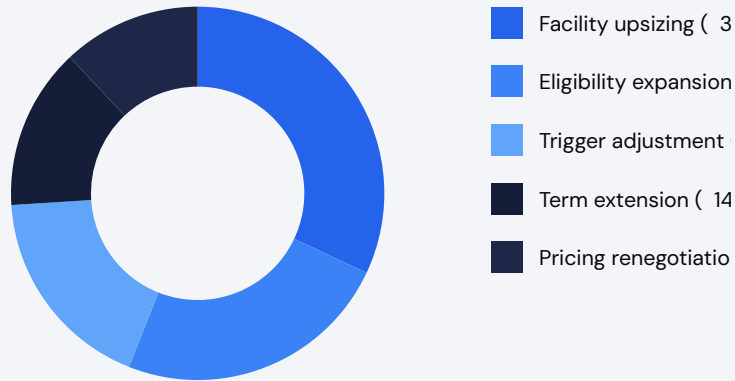
- Monitoring eligible vs. ineligible collateral ratios and understanding the drivers of ineligibility.
- Tracking concentration limits against actual portfolio composition and flagging approaching limits before they bind.
- Forecasting facility utilization based on origination pipeline and expected paydowns.
- Managing draw requests and repayments to optimize facility utilization and minimize unused fees.

Covenant Compliance

Build a covenant compliance dashboard that tracks all financial covenants and performance triggers in real-time. Don't wait for the reporting date to discover a potential breach. Common areas requiring monitoring:

- Tangible net worth: Track monthly and project forward based on P&L trajectory.
- Liquidity: Monitor daily cash balances against the minimum threshold.
- Delinquency and loss triggers: Track weekly against trigger levels with early warning alerts at 75% and 90% of the trigger threshold.
- Reporting deadlines: Maintain a compliance calendar with reminders 7 days, 3 days, and 1 day before each deadline.

Common Reasons for Facility Amendments



Collateral Administration

The trustee/custodian manages the physical or electronic loan files that serve as collateral. Your responsibilities include:

- Timely delivery of loan documents to the custodian upon origination.
- Ensuring all required documents are complete and executed.
- Managing loan substitutions — removing ineligible loans and replacing them with eligible ones.
- Responding to custodian exception reports promptly and tracking resolution.

Audit and Examination

Warehouse lenders typically require annual audits and may conduct their own collateral examinations. Prepare for:

- Annual financial audit: Audited financial statements delivered within 90–120 days of fiscal year end.
- Collateral audit: The warehouse lender or a third party samples loan files to verify data accuracy, documentation completeness, and underwriting compliance. Typically annually, more frequently for newer facilities.
- Operational review: Periodic assessment of servicing operations, technology systems, and compliance procedures.

Facility Amendments and Renewals

Your warehouse facility is a living document that should evolve with your business. Common reasons for amendments include upsizing the facility, expanding eligibility criteria to accommodate new products, adjusting trigger levels based on demonstrated performance, extending the facility term, or improving pricing based on track record.

Begin renewal discussions 6–9 months before the facility maturity date. Don't wait until the last minute — renewal negotiations require lead time, and starting early gives you leverage to shop competitive terms if needed.

RELATIONSHIP MANAGEMENT

Your warehouse lender is a partner, not just a counterparty. Maintain regular communication — quarterly business reviews, proactive updates on material changes, and advance notice of amendment requests. Lenders who feel informed and valued are more likely to approve upsizes, provide favorable terms, and move quickly when you need flexibility.

CHAPTER 8

From Warehouse to ABS

For growing lending businesses, the warehouse facility is a stepping stone to the capital markets. Understanding when and how to make the transition to term ABS issuance is critical for optimizing your long-term cost of capital.

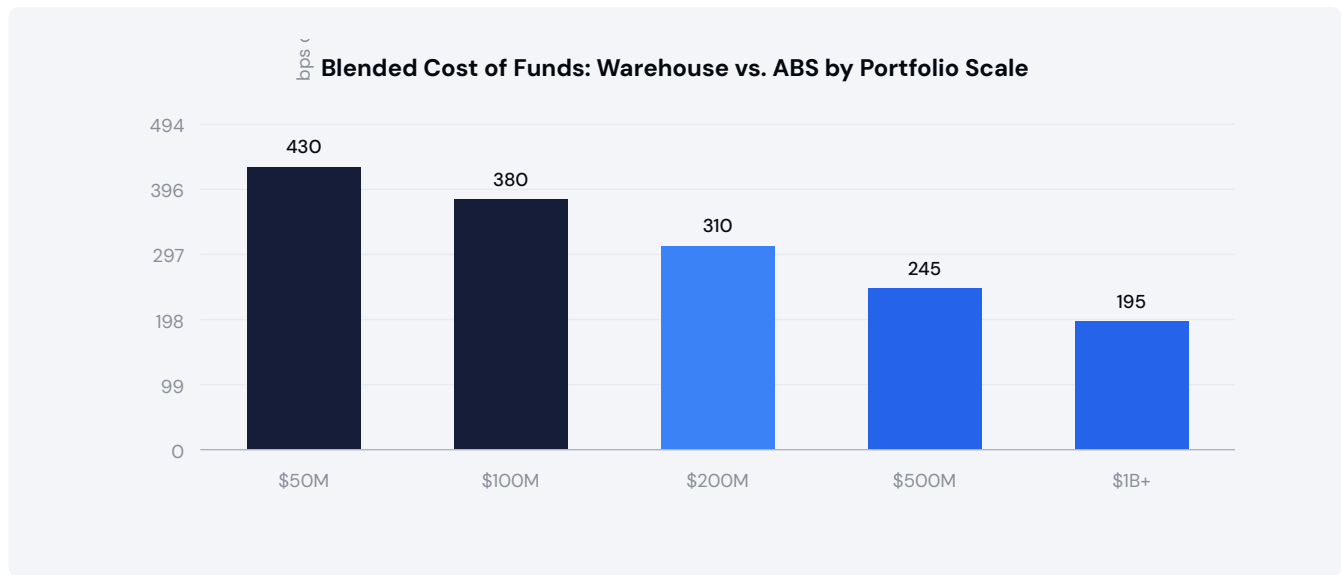
When You're Ready for ABS

The decision to pursue ABS issuance depends on several factors aligning simultaneously:

- **Portfolio scale:** Sufficient collateral to support a \$100M+ deal size (the minimum for economically viable ABS).
- **Performance history:** 18–24+ months of vintage-level performance data showing stable, predictable credit metrics.
- **Data infrastructure:** Ability to produce rating agency-ready data tapes and support ongoing monthly reporting.
- **Servicing maturity:** Institutional-quality servicing operations with documented policies, business continuity plans, and clean audit results.
- **Capital markets relationships:** Established connections with arrangers, rating agencies, and potential investors.

The Warehouse as Accumulation Vehicle

Once you establish an ABS program, the warehouse serves a dual purpose: it continues to fund day-to-day originations, and it serves as the accumulation vehicle for your next ABS pool. You originate into the warehouse, build a pool of sufficient size, and periodically transfer pools to an ABS SPV through term securitizations.



As this chart illustrates, the economics of ABS become increasingly compelling as portfolio scale grows. At \$200M+ in portfolio, the cost savings from ABS over warehouse-only funding can exceed \$2–4M annually.

Maintaining Parallel Programs

Even after establishing an ABS program, most lenders maintain their warehouse facilities. The warehouse provides daily liquidity that ABS transactions — which are discrete events — cannot. The optimal capital structure for a mature lending business typically includes one or more warehouse facilities for origination funding plus a regular cadence of term ABS issuance for cost-efficient permanent capital.

CHAPTER 9

Common Pitfalls and How to Avoid Them

1. Underestimating Data Requirements

The single most common mistake. Lenders approach warehouse conversations assuming their internal data systems are sufficient, only to discover weeks into due diligence that their loan tape doesn't reconcile, required fields are missing, or data formats are inconsistent. Start building your data infrastructure 3–6 months before lender outreach.

2. Choosing the Wrong Legal Counsel

Using a law firm without deep warehouse facility experience is the most reliable way to extend your timeline by 2–4 months and increase legal costs by 50–100%. Warehouse documentation is highly specialized. Experienced counsel will have template documents, know market-standard positions, and navigate negotiations efficiently.

3. Over-Leveraging the Facility

Running your warehouse at 95%+ utilization leaves no room for origination spikes, adverse performance developments, or market disruptions. Maintain 15–25% headroom at all times. Facilities that consistently run at maximum capacity signal desperation and reduce your negotiating leverage.

4. Ignoring Covenant Headroom

Setting triggers and covenants too tight — or failing to monitor them proactively — leads to technical breaches that damage lender confidence and may restrict your facility. Track all covenants in real-time and flag any metric approaching 80% of its trigger level.

5. Neglecting the Warehouse Relationship

Treating your warehouse lender as a passive capital provider is a mistake. They are your most important capital markets relationship. Regular communication, proactive updates, and transparent reporting build the trust that translates into better terms, faster amendments, and continued support through inevitable challenges.

6. Treating the Warehouse as Permanent Capital

Warehouse facilities are bridge funding — they are designed to be a step in your capital markets evolution, not the destination. If you're still solely reliant on warehouse funding after 2–3 years of operations and have reached meaningful scale, you're likely paying more for capital than you need to. Begin planning your ABS transition early.

7. Failing to Plan for Downside Scenarios

What happens if your warehouse lender pulls back during a market dislocation? What if your delinquency rate spikes due to a macroeconomic event? What if a key personnel change triggers a change-of-control provision? Stress-test your capital plan for adverse scenarios and maintain contingency options — relationships with alternative lenders, adequate liquidity reserves, and documented business continuity plans.

Appendix A: Glossary

TERM	DEFINITION
Advance Rate	The percentage of an eligible loan's balance that the warehouse lender will fund.
Borrowing Base	The total value of eligible collateral multiplied by the applicable advance rate.
Concentration Limit	Maximum percentage of the borrowing base attributable to a single characteristic (borrower, geography, etc.).
Eligibility Criteria	Requirements a loan must meet to be included in the warehouse borrowing base.
Early Amortization	A trigger-driven event that ends the revolving period and forces repayment of the facility.
Lockbox	A bank account controlled by the trustee where borrower payments are deposited.
Overcollateralization	The excess of collateral value over the outstanding facility balance.
Performance Trigger	A threshold that, when breached, changes the facility's operating mechanics.
Revolving Period	The period during which the borrower can draw and repay on the facility.
SPV	Special Purpose Vehicle — a bankruptcy-remote entity that holds the collateral.
True Sale	A legal transfer of assets from the originator to the SPV that withstands bankruptcy analysis.
Waterfall	The priority order in which collections are distributed to facility participants.

Appendix B: Warehouse Setup Checklist

Pre-Outreach Preparation

ITEM	STATUS	OWNER
Loan-level data tape produced and validated	i	Data/Eng
12+ months vintage performance data compiled	i	Analytics
Data tape reconciles with general ledger	i	Finance
3-year financial projections prepared	i	CFO
Pitch deck / investor presentation drafted	i	Capital Mkts
Legal counsel identified and engaged	i	CEO/GC
SPV formation initiated	i	Legal
Backup servicer candidates identified	i	Operations

Lender Engagement

ITEM	STATUS	OWNER
Target warehouse lender list compiled	i	Capital Mkts
Initial outreach and NDAs executed	i	Capital Mkts
Pitch meetings conducted	i	CEO/CFO
Term sheet received and reviewed	i	CFO/Legal
Term sheet negotiation completed	i	CFO/Legal
Term sheet executed	i	CEO

Due Diligence and Closing

ITEM	STATUS	OWNER
Due diligence data room assembled	i	Capital Mkts
Operational review completed	i	Operations
Loan file sample audit passed	i	Data/Eng
Credit agreement negotiated and executed	i	Legal
Servicing agreement executed	i	Legal
Trustee/custodian accounts opened	i	Finance
Backup servicer agreement executed	i	Legal
UCC filings completed	i	Legal
First draw successfully funded	i	Finance

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