

COMMERCIAL LOANS AND WAGE LIEN

Example One – Current Law

ABC Company has 150 employees in Wisconsin. Assume ABC Company has \$700,000 worth of available collateral to pledge to Bank A that has not previously been pledged to any other creditor. ABC Company needs a \$500,000 loan from Bank A for operating and other cash flow needs.

\$700,000 (value of available collateral)
-450,000 (150 x \$3,000 wage lien cap)
\$250,000

Except for cash collateral, banks do **not** lend 100% against the stated amount of available collateral. Nevertheless, even if a bank would ignore all federal banking standards and internal policies and lent the full stated amount of available collateral, \$250,000 is the maximum amount able to be lent by Bank A. Consequently, ABC Company would not be able to borrow the full amount it needs and may not be able to borrow anything depending on the bank's underwriting criteria since they are not allowed to lend 100% against the stated amount of available collateral.

Example Two – Unlimited Wage Lien Law

ABC Company has the same 150 employees in Wisconsin. Assume ABC Company has \$700,000 worth of available collateral to pledge to Bank A that has not previously been pledged to any other creditor. ABC Company has outstanding liabilities on its balance sheet to date for accrued but unpaid vacation time, overtime and other contracted benefits equal to \$250,000; and a payroll expense for its 150 employees of \$450,000 (*assuming a \$3,000 expense per employee per two weeks, which is a high amount for most workers*). ABC Company needs a \$500,000 loan from Bank A for operating and other cash flow needs.

\$700,000
-250,000
-450,000 (*an assumption is made here that unpaid "wages" won't exceed this amount*)
\$0

In this example, ABC Company would not be able to borrow any money from Bank A.

Note: These examples are intended to be simple illustrations of the wage lien issue for the banking industry. In commercial lending, normal underwriting is at most an 80% loan to value ratio, so these examples are optimistic scenarios to be sure. In fact, if this were a loan on inventory, the loan to value ratio typically does not exceed 50%.