Glossary of Business Lending Terms

Compliments of Capital Curve, Inc.

Ability to Pay
Ability to pay loans from the business' income.

Accounts Payable (A/P)
Expenses incurred and purchases made, but not paid for.

Accounts Receivable (A/R)
Sales made but not collected.

Accounts Receivable Financing
Short-term financing obtained by pledging receivables to the lender (as collateral for a loan). This enables a business owner to draw against an established line of credit, dictated by a formula (a percentage of accounts receivable).

Accrual Basis
Sales are made and immediately recorded but payments are collected in future months. Your customers pay later, which creates "accounts receivable." Purchases made and expenses incurred are received and recorded, but paid for later, creating "accounts payable," sometimes called "accruals payable."

Adequate Notice
The length of time required to notify your lender of business action such as cancellation of a lease or prepayment of a loan. Adequate notice is predetermined in writing.

Advance
Money withdrawn from a pre-approved line of credit.

Amortization Schedule
A chart or table that breaks a monthly loan payment into two categories; principal and interest. It also reports the balance due.

Annual Percentage Rate (APR)
The cost of credit as a yearly rate.

Articles of Incorporation
Legal document filed by a prospective corporation's owners in a designated state that explains the purpose of the corporation, its directors, and the distributed shares of stock. When approved by the state, the corporation then becomes a legal entity.

Assets
What the company owns. Current assets can be converted into cash in one year. Non-Current Assets take one year or more to turn into cash.

Asset-based Lending
Financing secured by pledging assets (inventory, receivables, or collateral other than real estate).

Available Credit
The unused portion of a line of credit.

Breakeven Point
When a company has neither a profit nor a loss. It's considered to be at the breakeven point. One dollar more and the company has a profit; one dollar less and the company shows a loss.

Business Credit
Loans made to businesses in the form of a term loan or a line of credit.

Business Plan
An overview put together by new companies and existing companies that are trying to obtain a loan. It includes all aspects of a business and financial statements.

Call
If the loan covenants (rules) are broken or if the maturity is reached, "calling" a loan means it must be paid in full.

Cap
A cap limits a loan's interest rate from rising beyond a certain rate. A 10% loan with a 2% cap will only rise to 12%.

Capacity
Borrower's ability to repay a debt.

Capital or Net Worth
Assets less liabilities. The amount of money invested in the business plus the retained earnings. A business can have a negative balance.

Cash Basis
A type of accounting system that recognizes cash when it is received and expenses when they are paid. The cash method means you record a sale when you collect money, and record an expense when you pay for it.

Cash Collateral
Bank deposits and similar assets that can be converted to cash quickly.

Cash Flow
Money available from a business' operations to satisfy cash needs. The primary source for monthly payments on a loan.

Collateral
Assets pledged to support a loan. The money received from liquidating the assets is the secondary source of a loan repayment .

Collateral Value
Value of pledged asset(s) as determined by an appraisal or other methods of valuation. Lenders often discount collateral by a certain percentage. Each lender's formula for discounting collateral will vary. Be sure you understand your lender's method of discounting.

Commercial Mortgage
A loan for a business' real estate. Rates and terms are negotiated and the finance charge is usually related to the prime rate.

Commitment
When a lender agrees to lend a specific amount, with rates, terms, conditions and covenants in writing.

Community Development Bank
Locally-operated commercial bank which lends money to the local community.

Concentration
When a lender's loan portfolio is heavy in a particular industry or type of business.

Corporation
A form of business registered with the state as a legal entity.

Cosigner
A person who signs and guarantees a loan for someone else.

Contingent Liabilities
Money you agreed to repay by signing notes, or by being a co-maker or guarantor of loans. Lenders want to know how much money you are liable for if the loan results in legal actions or contested taxes.

Cost of Goods Sold
Cost to make a product, including materials, labor, and related overhead.

Covenant
Loan agreement rules for the borrower as dictated by the lender.

Credit
Lender's agreement to provide funds or apply money to an account owned by the customer.

Credit Line
Certain amount of money available to a borrower for a predetermined period of time.

Credit Rating
An individual's worthiness for credit as determined by a credit reporting agency. In addition to the information these agencies provide, lenders use tax returns and other financial statements to determine your credit worthiness.

Credit Scoring
A predetermined process of scoring which is used to approve or reject loan applications.

Current Assets
Assets that can be converted into cash in one year. Non-Current Assets take one year or more.

Current Liabilities
Liabilities due within one year.

Delinquency
Failure to make a loan payment when it's due.

Depreciation
Except for land, assets wear out. The value goes down and can be deducted from your business as an expense. Present values of assets are shown as original cost less depreciation. Market value, or the price you could sell it for, could differ from this figure.

Draw Down
Activating a line of credit. For example, when you "draw down" a line of credit, you activate it.

Equity
Difference between the total assets of a business and the total liabilities.

Factoring
Short-term financing from the sale of accounts receivable to a third party.

Financial Statement
Reports showing the financial condition of a business on a particular date or for a period of time (such as one year). Lenders review the Balance Sheets and Income Statements.

Fixed Assets
Assets like furniture, fixtures, equipment, machinery, and real estate.

General Partner
When a business is a partnership, every owner who holds a share (a percentage) of the company shares in the profits and losses. General partners are responsible for total liabilities.

Gross Profit
Gross sales less cost of goods sold. This is your mark-up. Also called gross margin.

Gross Sales
Revenue or income from sales before returns and allowances.

Guaranty (or Guarantee)
Agreement by a third party to pay debt if the borrower does not.

Guarantor
A guarantor has the same responsibilities as a co-signer. If the loan goes into default and is not paid by the signer(s) of the loan, the guarantor is responsible.

Goodwill
The difference between the value of the hard assets and the business' selling price. Also called "blue sky."

Income Statement
Financial statement showing a business' profit and loss over a period of time (usually a month or a year).

Interest
Money paid (cost of credit) for the use of money.

Interest rate
The interest expressed as a percentage rate.

Inventory
Assets held for eventual resale. May be in the form of raw materials, work in progress, or finished goods.

Lease
Contract giving a business owner the right to use an asset for a specified period of time. The asset owner is called the lessor and the owner using the property is called the lessee. Can be used for a building, equipment or machinery.

Leasehold Improvements
Improving your leased business location, at your own expense.

Letter of Credit (L/C)
Payments to a third party by the lender, on the owner's behalf.

Lien
A claim against a business' assets to secure payment of a debt.

Limited Partnership
Partner that invests in a business and receives a share of the profits (or losses). A partner's liability is limited by the amount of his or her investment. A limited partner does not have any management authority in the operation of the business; the role is purely that of an investor.

Limited Liability Company/LLC
A form of business that is a hybrid between a corporation and a partnership. It has the limited liability of a corporation but is taxed as a partnership or corporation (depending on the structure).

Liabilities
How much the company owes. Current liabilities are those due within one year. Long-term liabilities are due after one year.

Line of Credit (LOC)
A short-term loan which is set up before the money is needed. LOCs give you the ability to get money, repay it and redraw the funds again. LOCs are commonly used for seasonal businesses or to carry accounts receivable and/or inventory.

Liquid Asset
Asset that can be turned into cash quickly

Liquidity
A company's ability to pay its expenses. The ability to turn an asset into cash (such as selling a piece of machinery).

Loan Agreement
The document or contract of the parties that reflects the commitment.

Loan Committee
Team that evaluates, approves or denies loan applications. Whether a loan officer or a loan committee decides on a loan request may vary by type of loan and lender.

Loan Package Documentation
Documents for the commercial loan contract including financial statements, a business plan, and a credit report. It includes legal documents that show the debt, notes, mortgages/leases, and loan agreements.

Loan Grading
System of classification that evaluates risk by assigning a number according to risk. Loan grading is used by lenders, and helps lenders to evaluate loan applications and manage loans.

Long-Term Liabilities
Expenses, loans, and payables due after one year.

Marketing
Activities used to sell a product or service to the purchaser.

Market Value
The price an asset, product or service will bring in a current, competitive market.

Merchant Agreement
Written agreement between a credit card processing bank and merchants (who allow clients to use credit cards). The bank turns the credit card sales into deposits for the merchant and charges a processing fee.

Net Profit
Money left after all expenses have been paid. Used to pay loans and to grow the company.

Net Sales
Revenue or income from sales after returns and allowances are deducted.

Net Worth
Assets less liabilities.

Non-Current Assets
Assets that take one year or more to turn into cash.

Notary Public
Person authorized by the state to administer oaths and witness documents. A notary's seal and signature authenticates a document.

Outstanding Checks
Checks that have been sent for payment but are still in the process of being collected by the bank.

Overdraft
An overdraft occurs when you do not have enough available funds in your account to cover a check or other withdrawal, but the bank pays the items and overdraws your account.

Owners' Investment
The money owners have invested in a business.

Prime Rate
The rate of interest per annum announced by the lender from time to time. Most business owners are charged the printed rate plus a percentage (if the prime rate is 6%, the borrower is charged "prime + 2" or 8%).

Pro Forma
Forecasting future income, expenses, or cash flow with projections.

Retained Earnings
Net profits accumulated through the company's life and reported in the net worth or equity section of the balance sheet. Note: Can be negative if losses occur.

Rate of Interest
Fixed: Interest rate remains the same for the length of the loan. Variable: Interest rate depends upon an index and increases or decreases (for example, the prime rate or the Treasury Bill index).

Ratios
Ratios are your business' "scores" that come from your Income Statement and Balance Sheet, not the Cash Flow Statement.

Refinancing

Replacing existing loans with new loans that have differ-ent terms. Often called "refi."

Rescheduling

Extending the length of time required to pay the loan which adjusts the monthly payment.

Release

Releasing collateral when a loan has been paid off or substituted by other collateral.

Secured Loan

Loan secured by collateral (which will be liquidated if the borrower defaults on the loan).

Small Business Administration

The Small Business Administration (SBA) is not involved with direct loans unless there is a natural disaster. Its emphasis is on guaranteeing loans to qualified borrowers, up to 75%. Call the SBA Answer Desk at 800-8-ASK-SBA to find out more about their programs and services, or visit them on the web at: www.sba.gov.

Subchapter S Corporation

A legal form of business that is incorporated but taxed at the business owners' individual rate of return.

Tangible Asset

Real property such as buildings and machinery. Trademarks, goodwill, or accounts receivable are not considered tangible assets.

Term

A loan's maturity, stated in months or years.

Term Loan

Loan, given in one lump sum, is provided at the closing. Repayment is monthly.

Trend Analysis

A process by which lenders examine business statements and financial ratios to determine if the financial strength is improving or weakening.

Working Capital

Difference between current assets and current liabilities. An indication of liquidity and the ability to meet current obligations.

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