5 'C's of Small Business Lending

Commonly referred to as the 5 'C's, here is what a lender will want to know about a business owner and their business:

> ***Character*** – If you want a loan for your business, the lender may consider your experience and industry track record in your business and industry to evaluate how trustworthy you are to repay. When the going gets tough, will you help the lender get their monies back? Are you a help or a drain on your business? Lenders need to know the borrower and guarantors are honest and have integrity.
>
> ***Credit Score*** – This is perhaps the most important aspect a banker will look at when considering a loan approval. As history is the best predictor of the future, a lender will examine the personal credit of all borrowers and guarantors involved in the loan. A factoring company puts less emphasis on the Credit Score of the business owner and looks more into the Credit Score of the business' customers (the Account Debtors).
>
> ***Capacity*** – Lenders are going to look at your monthly and annual revenue and base this amount on the company's ability to pay back the loan. A Factor will look at your gross margins and make sure you have a profitable business after the cost of factoring and credit protection.
>
> ***Capital*** – Bankers are risk-averse and need to make sure the business has a means of paying back the loan in the case the capacity or revenue is lower than expected. Factoring companies often work with start-ups and companies with less capital on hand. They can do this based on the credit risk shifting from the business owner to business owner's clients.
>
> ***Collateral*** – Banks and traditional lenders consider assets like real estate or capital equipment as collateral. Banks will also look at accounts receivable or monthly credit card receipts as collateral as well, but an Invoice Factor or Advance Lender will typically assign a higher value.

Account Debtor

An Account Debtor is any person or company that owes a balance on a monetary account to another party. In a factoring transaction, that is the creditworthy B2B or B2G Customer of the factoring company's Client who has been invoiced for the Client's services or goods on open terms.

Accounts Payable (AP)

Accounts Payable is the money that is owed to a company's creditors. An example would be when a company buys goods from a supplier on open terms. That company owes the supplier payment for these goods. Accounts payable represents the money that is owed to the supplier and is a Current Liability on the Balance Sheet.

AP or Accounts Payable Aging

A periodic report that categorizes a company's accounts payable according to the length of time an unpaid invoice has been outstanding. Similar to an accounts receivable aging, it is a critical management tool as well as an analytic tool that helps determine the financial health of a company by its ability to pay its bills on time. Credit memos and partially paid invoices will also be listed in the AP Aging.

Accounts Payable Financing

Accounts Payable Financing allows a company to pay their supplier immediately (cash on delivery or COD) without having to use their own working capital. This is also known as trade credit. This type of financing gives the company a longer term to pay back the creditor or when they sell the inventory.

Accounts Receivable (AR)

Accounts Receivable are monies owed to a company by their customers (another business, a government entity or individual) for goods or services sold on terms. Accounts receivable are a Current Asset on a company's Balance Sheet. In most businesses the "bodies are buried" in the AR and the inventory. For example, AR over 90 days past due or of questionable collectability should be moved to Bad Debt so as not to be counted.

AR or Accounts Receivable Aging

A periodic report that categorizes a company's accounts receivable according to the length of time an invoice has been outstanding. Accounts Receivable Aging is a critical management tool as well as an analytic tool that helps determine the financial health of a company's customers, and therefore the health of their business. Credit memos and partially paid invoices will also be listed in the AR Aging.

Accounts Receivable Financing

Accounts Receivable Financing is when a business finances its AR (accounts receivable) with an Asset Based Lender company and receives short-term business funding in return usually based on a formula of availability (borrowing base). There may be spot verification to determine the quality of the AR.

Accounts Receivable Verification

Accounts Receivable Verification is part of the due diligence process of AR Factoring. The factoring company will verify the accounts receivable of their client's customer (the Account Debtor). The factor is verifying that the Account Debtor is happy with the quality, quantity and timeliness of the service or product provided. The invoice dollar amounts, terms and conditions will also be verified.

Accrual vs Cash Basis Accounting

Accrual and Cash Basis Accounting are two different methods used to record a business's income and expenses. Under the accrual method, transactions are recorded when they happen, without regard to monies being paid or received. With the cash basis, income is recorded when payment is received and expenses are recorded when they are paid.

The accrual basis tends to smooth out a company's earnings versus using the cash basis. However, cash basis accounting can better reflect true cash flow and discount any AR not paid in full for reasons such as slow pay, bad debt and allowances.

Asset Based Lending (ABL)

Asset Based Lending (ABL) is a credit facility based on primarily leveraging a company's assets as collateral. An Asset Based Lender is giving you an Asset Based Loan typically tied to inventory, accounts receivable, intellectual property and/or your machinery & equipment.

Assignee

An Assignee is a person, company or entity who has been assigned and receives the transfer of payments, proceeds, property, title or rights as defined in a legal agreement.

B2B, B2C & B2G Sales

These are the abbreviations for Business to Business, Business to Consumer and Business to Government Sales, respectively. Invoice factoring is for B2B and B2G Sales on open terms.

Balance Sheet

A Balance Sheet is a financial document showing a company's assets, liabilities and shareholders' equity at a specific date; for instance at a month, quarter or year-end. The profit shown on the bottom of the Income or P&L Statement should ALWAYS match the profit on the bottom of the corresponding Balance Sheet. Most importantly, one without the other is near worthless.

Borrowing Base

Borrowing Base is the value assigned to a company's assets, which is then used by lenders as criteria for providing availability under a loan agreement. These assets can sometimes be considered as collateral for the loan. Inventory and Accounts Receivable Asset Based Lending will many times use a Borrowing base to determine the eligible assets that can be borrowed against.

Break-Even Point

The point at which the income from sale of a product or service equals the invested costs, resulting in neither profit nor loss; the stage at which income equals expenditure. Burn Rate

The rate at which an enterprise spends money, especially one venture capital, angel or private equity backed, in excess of income. A company cannot be Negative Cash flow forever and must eventually get to a Break-Even Point.

Client Concentration

Client Concentration is when a business has only one or a few large customers representing the majority of the business' revenue.

Collateral

Collateral is specific asset owned by a borrower that is leveraged against the repayment of a loan. In invoice factoring it would be your contracts, invoices and proceeds.

Consignment Sale

A Consignment Sale is a trading arrangement in which a seller sends goods to a buyer or re-seller who pays the seller only as and when the goods are sold. A consignor who consigns goods to a consignee transfers only possession, not ownership, of the goods to the consignee. The seller typically remains the owner (titleholder) of the goods until they are paid for in full and, can after a certain period, take back the unsold goods. This arrangement is also called a Guaranteed Sale, sale or return, or goods on consignment.

You can see the inherent problem with these Sales Terms if you are a small manufacturer, wholesaler or importer dealing with a large retailer. You don't want the goods back (you want your money) and if they do come back there is a very good chance the product will no longer be of first quality.

On a side note, be careful of a retailer offering you 180 day terms on a trial order. This is a defacto Consignment Sale and not typically financeable. This is also a very risky proposition.

Contra Account

A Contra Account, in terms of AR financing or Invoice Factoring, is when the Factoring Company's Client and their Customer (the Account Debtor) each owe the other monies. For example, slotting or advertising fees in retailing. This must be disclosed immediately to the working capital provider so the borrowing base or availability can be adjusted accordingly.

Contract Financing

Contract Financing is the availability of working capital (sometimes called a mobilization draw) prior to the Government payment to a contractor before the acceptance of goods or services by the Government. You often see these with SME/MBE set-asides.

Credit Insurance

Credit Insurance, Trade Credit Insurance or AR Credit Insurance, is an insurance policy and a risk management product for companies wishing to protect their accounts receivable from loss due to credit risks such as Customer (Account Debtor) bankruptcy.

Current Assets

Current Assets represent the value of all assets within a business that are Cash or expected to be converted into cash within one year and are found in the Asset Section of a Balance Sheet.

Current Liabilities

A company's debts or obligations that are due within one year. Current liabilities appear on the company's Balance Sheet and include short-term debt, accounts payable, accrued liabilities and other current debts.

Current Portion of Long-Term Debt (CPLTD)

Current Portion of Long-Term Debt (CPLTD) represents the amount of a company's long-term debt that must be paid within the next year. This concept is important to help determine the amount of working capital a company needs to service their debts over the next 12 months. This is found in the Current Liabilities in the Balance Sheet.

Days Sales Outstanding (DSO)

Days Sales Outstanding (DSO) is a measure of the average number of days that a company takes to collect revenue after a sale has been made. DSO is often determined on a monthly, quarterly or annual basis and can be calculated by dividing the amount of accounts receivable during a given period by the total value of credit sales during the same period, and multiplying the result by the number of days in the period measured.

A low DSO value means that it takes a company fewer days to collect its accounts receivable. A high DSO number shows that a company is selling its product to customers on credit and taking longer to collect the monies. Historically, large companies take 45 days to pay smaller vendors and suppliers.

Debt Service Coverage Ratio (DSCR)

Debt Service Coverage Ratio (DSCR) is the amount of cash flow a company has to cover its debts over the period of one year. The ratio is the net operating income compared to the amount of debt being serviced including interest, principal and lease payments. It has become a popular benchmark for determining a company's approval for a loan. In smaller companies the owner's salary must be covered too. Lenders typically like to see a DSCR of 1.25 or higher.

Debtor-in-Possession (DIP)

Debtor-in-Possession (DIP) is funding provided to a company that has filed for bankruptcy protection from creditors. It is typically available to companies where lenders believe the company has a credible chance and a viable plan to turn itself around. It is not available to firms that simply want to liquidate the company.

Discount

A Discount is a reduction in the selling price of the merchandise as indicated by the "Terms of the Sale". There are two major types:

An early pay or cash discount is an incentive for quicker payment from your B2B or Government Customer. It is a deduction for paying within a stated shorter period of time. For example, 3% Cash, 2% 10 days or Net 45 days is a typically seen early pay discount. Be careful that your large corporate Customer doesn't take the 2% discount and still takes 60 days to pay you!

A trade discount is not a reduction for early payment. Rather it is a deduction which the customer takes because the discount offered is customary in a particular industry or the customer purchased merchandise in large quantities.

Due Diligence

Due Diligence is researching a business and its owners in preparation for a business transaction. ACH and MCA lenders will have minimal due diligence and conversely be the MOST expensive source of capital. A bank line will have the most expensive and time consuming due diligence and will typically be the cheapest source of monies. Invoice factoring will be somewhere in between but can typically be the safest and offer the highest percent of capital available based on your good, clean AR.

Earnings Before Interest, Tax, Depreciation, and Amortization (EBITDA)

Earnings Before Interest, Tax, Depreciation, and Amortization (EBITDA) is a measurement of a company's financial performance and current operating profitability. It is calculated using a company's net earnings, before interest expenses, taxes, depreciation and amortization are subtracted.

Factoring

Invoice Factoring is a financial transaction and a type of debtor finance in which a business sells its accounts receivable (invoices) to a third party (called a factor) at a discount. A business will sometimes factor its receivable assets to meet its present and immediate cash needs. It might also factor their invoices to mitigate credit risk. Factoring is commonly referred to as accounts receivable factoring, invoice factoring and sometimes erroneously accounts receivable financing. Accounts receivable financing is a term more accurately used to describe a form of asset based lending (ABL) using a company's accounts receivable as collateral.

Factoring Advance

A cash advance to a Client (usually by wire transfer or ACH) for 80-90% of the value of the purchased and verified Invoice.

Factoring Discount Fee or Factoring Rate

The Factoring Discount Fee or Factoring Rate is the cost to you for Invoice Factoring, AR Management and Credit Protection Be very careful when doing a factoring rates comparison as there can be line fees, non-factored fees in addition to the factoring discount fee.

Factoring Reserve

The first payment to your company, the Factoring Advance, is typically 80-90% of the invoice value, and is made once the invoice is received and verified. The remaining 10-20% is held in reserve (The Factoring Reserve) until the invoice is paid. Once the invoice is fully paid, the Factoring Reserve is rebated, less any Factoring Discount Fee.

Financial Statements

The Financial Statements are the Income or Profit & Loss Statement and Balance Sheet of a company, which report the company's sales, expenses and profit (income statement) and its assets, liabilities and net worth (balance sheet). Financial statements can be either Accrual or Cash Based.

Generally Accepted Accounting Principles (GAAP)

Generally Accepted Accounting Principles (GAAP) represents the standard account practice guidelines or the common way financial accounting is reported and recorded for a company (public or private), not-for-profit organization, or state or local government.

Gross Margin

Gross Margin is the difference between revenue and cost of goods sold, or COGS, divided by revenue, expressed as a percentage. Generally, it is calculated as the selling price of an item, less the cost of goods sold (production or acquisition costs, essentially).

Gross Margin is often used interchangeably with Gross Profit, but the terms are different. When speaking about a dollar amount, it is technically correct to use the term Gross Profit; when referring to a percentage or ratio, it is correct to use Gross Margin. In other words, Gross Margin is a % value, while Gross Profit is a $ value. You should know both your Gross Margin and Gross Profit before talking to a funding source. These are also great business management tools.

Income or Profit & Loss Statement (P&L)

An Income or Profit & Loss Statement (P&L) is a Financial Report that shows the total revenue and total expenses over a specific period of time, usually a month, fiscal quarter or an entire year. The profit shown on the bottom of the P&L should ALWAYS match the profit on the bottom of the corresponding Balance Sheet. Most importantly, one without the other is near worthless.

Indemnification

Indemnification is typically an agreement in which one party agrees to protect or to hold harmless another party from financial loss or legal action.

Ineligibles

Ineligibles are negotiable instruments or short terms assets that a company counts as an asset, but that a lender will not count as eligible collateral. Ineligible accounts might include accounts receivable that are more than 90 days past due, contra accounts, foreign accounts, affiliates (inter-company and employee) accounts, consignment sales, retention, change orders, pre-billing, stale inventory, WIP or illiquid investments.

Inventory

Inventory or Stock refers to the goods and materials that a business holds for the ultimate purpose of resale. It is a Current Asset on the Balance Sheet. Most manufacturing organizations usually divide their “goods for sale” inventory into:

> Raw Materials – materials and components scheduled for use in making a product
>
> Work in Process or WIP – materials and components that have begun their transformation to finished goods
>
> Finished Goods – goods ready for sale to customers

Inventory Financing

Inventory Financing is a type of asset based lending that is based on a company’s convertible or saleable inventory assets. To constantly ascertain what is easily convertible and quickly saleable inventory is labor intensive and why Inventory Financing is not easy to obtain.

Invoice

An Invoice is legal document listing a service delivered or merchandise shipped, the ship to name and address, the bill to name and address, the cost and terms of the sale. It is also important that the invoice reflects the proper legal name of the customer or payor. Many times an Invoice will also reference backup materials such as the corresponding purchase order, vendor agreement, proof of delivery, time cards, inspection certificates, etc.

Intercreditor Agreement

An Intercreditor Agreement is an agreement between one or more creditors who have shared interests in a particular borrower. The agreement spells out aspects of their relationship to each other and to the borrower so that, in the event a problem emerges, there will be ground rules in place to handle the situation. The specifics of an intercreditor agreement vary depending on the borrower, the type of debt, and other factors, such as the presence of cosigners.

Letter of Credit (L/C)

A Letter of Credit (L/C) is payment arrangement used typically in International Trade. The issuing bank guarantees that an exporter will receive payment in full as long as certain delivery conditions have been met. In a Standby Letter of Credit, if the importer is unable to make payment on the purchase, the bank will cover the outstanding amount. A Letter of Credit (L/C) is typically more expensive than Cash Against Documents funding but offers more safety and control.

LIBOR Rate

LIBOR or ICE LIBOR (previously BBA LIBOR) is a benchmark rate that some of the world's leading banks charge each other for short-term loans. It stands for Intercontinental Exchange London Interbank Offered Rate and serves as the first step to calculating interest rates on various loans throughout the world.

Line of Credit (LOC)

A Line of Credit (LOC) is a credit facility provided to a government, business or individual by a financial institution or other commercial funder. The borrowing can typically draw down on the account at any time, with a maximum limit which cannot be exceeded. The advantage with a LOC over a term loan is a borrower is typically only charged interest on the amount withdrawn at any given time vs an entire loan amount.

Lock Box Payment Services

Lock Box Payment is a service provided by banks and finance companies to clients for the receipt of payment from customers (Account Debtors). Under the service, the payments made by customers are directed to a special post office box, rather than going to the company. The bank/finance company will then go to the box, retrieve the payments, process them and deposit the funds directly into the client's bank account.

Long-Term Debt (LTD)

Long-Term Debt (LTD) are loans or other financial obligations that are being paid down over the span over more than one year. You will find long term debt in the long term section of the Liabilities on a Balance Sheet.

Merchant Cash Advance (MCA), MCA Loan, Cash Advance, or Revenue Advance

These products are not technically a loan, but is one of the most popular methods used by small business owners. Although often referred to as loans, they are an advance based upon a business' monthly volume of sales. A regular and predictable flow of sales will often help a small business find the funds they need when traditional small business financing is unavailable.

Negative Cash Flow

Negative Cash Flow is when cash flow into a business is less than the cash being spent over a specific time period. You will also hear the term Burn Rate being used in startups.

Net Funds Employed (NFE)

The NFE is the balance of outstanding Advances on a Client's Accounts at any given time. NFE can also refer to a type of pricing factoring companies occasionally offer to clients, whereby the fee charged is based on NFE. However, this type of pricing can be more complex and difficult for a Client to calculate their true cost of working capital.

Notice of Assignment

The Notice of Assignment is a legally binding notice sent to our client's customers advising them to redirect payments on all client accounts to financing company. Under the UCC laws, if a customer pays any other party, they have not relieved their legal obligation to pay the factoring company.

Non Notification or Blind Notification

Non Notification or Blind Notification is a type of factoring agreement that reduces direct communication between a factoring company and the factoring company's client's customer. The fact that the company is using a factoring company is typically not known to their customer. Under a standard factoring agreement, the factoring company deals directly with their client's customer under the verification and AR management process.

However, only the largest most creditworthy companies qualify for non-notification factoring and many of them do it only for the Credit Protection and AR Management (they don't even take the Factoring Advance). For example, many Fortune 1000 companies will sometimes use non or blind notification to offload AR from their Balance Sheet.

Non-Recourse Factoring or Without Recourse Factoring

Non-Recourse Factoring or Factoring Without Recourse is an agreement within a factoring contract where the factors client does not have to pay back the factoring company if an invoice is not specifically paid due to bankruptcy of the client's customer (the Account Debtor) under an invoice with credit protection in place.

Notification

The process of notifying a customer of their obligation to pay 3rd party under the terms of a factoring agreement. Typically formalized by the mailing of a Notice of Assignment.

Paid in Capital

Paid in Capital represents funds raised by the business from equity (investors & owners), and not from revenue or ongoing operations. It is listed in the Equity Section of the Balance Sheet.

Pay when Paid Clause

A Pay when Paid Clause in the vendor agreement requires payment to the subcontractor when the prime contractor gets paid by the project's owner. A prime contractor's obligation to pay is triggered upon receipt of payment. However, what happens if the prime contractor is underpaid or not paid at all? This is why Construction Factoring is a small subset of general factoring.

Personal Guarantee

A Personal Guarantee is an agreement signifying an individual, organization or a company accepts responsibility for a 3rd party debt in the event the debtor fails to pay.

Pre-Billing

Pre-Billing is submitting a request for payment before your product or services have been provided to your customer. If you are pre-billing this should be disclosed to the factoring company immediately.

Principal and Interest (P&I)

The Principal and Interest (P&I) is combined which represents the total scheduled loan payment amount. Principal (P) is the amount of the original loan still owed to the financial institution along with the interest (I) that is being applied to that loan on a monthly basis.

Property, Plant, and Equipment (PP&E)

Property, Plant, and Equipment (PP&E) is part of a company's Balance Sheet representing long-term assets that are crucial for daily operation. PP&E includes a company's property, machinery, office equipment, vehicles, furniture and fixtures, less any depreciation or amortization.

Prime Rate

The Prime Rate is the interest rate that commercial banks charge their most credit-worthy customers, which are typically corporations.

Purchase Order

A Purchase Order (PO) is a commercial document issued by a buyer to a seller, indicating types, quantities, quality, timeliness and agreed to pricing for products or services the seller will provide to the buyer. Sending a PO to a supplier constitutes a legal offer to buy products or services. The offer is accepted by the seller when she supplies the requested items. A contract is formed and the seller can expect payment in return for the delivered goods.

The federal government will sometimes issue blanket purchase agreements (BPA). A blanket purchase agreement is a simplified acquisition method that government agencies use to fill anticipated repetitive needs for supplies or services. Essentially, BPAs are like "charge accounts" set up with trusted suppliers.

Purchase Order Funding or PO Financing

Purchase Order Financing is a funding option for businesses that need cash to fill single or multiple customer orders. In many businesses cash flow problems exist and there will be times when there is not enough monies available to cover the costs of having available product to ship or monies to entice their vendor to release goods for resale.

You typically can have Invoice Factoring or Financing without PO Funding but you cannot have PO Funding without Invoice Factoring as most PO Funders want the protection and safety of being paid by an AR Funder.

Quick Ratio or Acid Test

The Quick Ratio is a financial ratio used to gauge a company's liquidity. The Quick Ratio is also known as the Acid Test. The Quick Ratio compares the total amount of cash + marketable securities + accounts receivable to the amount of current liabilities. i.e. Very liquid assets to bills that need paid soon. A Quick Ratio of less than 1.0 is typically the sign of a company with cash flow issues and 2.0+ is that of a healthy company with good cash flow.

Recourse

Recourse is when a borrower agrees to pledge their own assets against funding from a bank or other lender in case the borrower is unable to meet the debt obligations. Recourse factoring is when the client will repay or replace an unpaid invoice after 90 days or the time frame set in the factoring agreement.

Retention (Contractors)

Retention is the percentage of payments for job in process that is held back to ensure adequate performance. Retention is considered an ineligible AR because it takes a long time to collect and it is common for disputes to arise regarding payment.

Reverse Factoring or Supply Chain Financing

Reverse Factoring or Supply Chain Financing is when a bank or finance company commits to pay a company's invoices to the suppliers at an accelerated rate in exchange for a discount. It is unlike traditional invoice factoring, where a supplier wants to finance his receivables. Reverse factoring or supply chain financing is a financing solution initiated by the ordering party to help his supplier finance their receivables more easily and typically at a lower interest cost than what would normally be offered.

Small & Medium Enterprise (SME) Financing

Small & Medium Enterprise (SME) Finance is the funding of small and medium-sized businesses, and represents a major function of the general business finance market.

Subordination Agreement

A Subordination Agreement is when a creditor is placed in a lower priority for the collection of its debt from its debtor's assets than the priority the creditor previously had. In common parlance, the debt is said to be subordinated but in reality, it is the right of the creditor to collect the debt that has been reduced in priority. The priority of right to collect the debt is important when a debtor owes more than one creditor but has assets of insufficient value to pay them all in full at the time of a default.

Terms of the Sale

Terms of the Sale is an agreement between the buyer and the seller which references the price of goods being sold, the return policy, delivery location, time of shipment and payment terms. The sale's terms may also reference the purchase order and the vendor agreement. The vendor agreement can be many pages long and applies not only to your company but your assignees, i.e. your factoring company.

Trade Financing

Trade Financing is the term used for financing of international trade. Trade finance includes such activities as Cash Against Documents, credit insurance, export credit, bid and performance bonds, lending, trade-related promissory notes, Letters of Credit, purchase order funding, bills of exchange, trade acceptance drafts (TADS), supply chain financing, Vendor Guarantees and invoice factoring.

True Sale

A "True Sale" means that the Big Box Retailer is purchasing the product from you and is obligated to pay you whether they sell it or not; the risk of sale is transferred to Mr. Retailer as soon as they accept delivery. Typically, factoring companies will only fund invoices that are a True Sale versus a Consignment or Guaranteed Sale.

Turnaround

A Turnaround represents a company demonstrating an improving financial situation after it has been performing poorly for an extended time or after a catastrophic event.

Uniform Commercial Code (UCC) Filing

A Uniform Commercial Code (UCC) Filing is a legal public notice that a creditor files (i.e., banks, ABL's and factoring companies) to disclose that it has an interest in the assets of a debtor. A UCC-1 financing statement (an abbreviation for Uniform Commercial Code-1) is a legal form that a creditor files to give notice that it has or may have an interest in the assets of a debtor (an entity who owes a debt to the creditor as typically specified in the agreement creating the debt). This form is filed in order to "perfect" a creditor's security interest by giving public notice.

Upfront Fees

A due diligence fee on execution of the funding proposal from a reputable finance source can be customary to cover some of the costs of underwriting. The due diligence amount will typically vary based on the size and complexity of the funding facility.

Work in Process (WIP) Financing

Work in Process or WIP Financing (not to be confused with work in progress, a term used in construction or the building trade) is the portion of your inventory that is being "worked". Because of its unsalable condition, most lenders value WIP inventory lower than raw or finished (salable) inventory. Production Financing describes the same.

Z Score

The Z-score formula for predicting a company's bankruptcy was first published in 1968 by Edward Altman, who was, at the time, an Assistant Professor of Finance at New York University. The formula predicts the probability that a firm will go into bankruptcy within two years. Z-scores are used to predict corporate defaults and are an easy-to-calculate control measure for the financial distress status of a company.