

Glossary of Business Lending Words

Term	Definition
Underwriting	the process and criteria lenders use to decide whether to grant a loan
Seasonal cash flows	Periods of cash inflows of a few months followed by periods of cash outflows of a few months. Examples include seasonal businesses like landscapers, ski resorts, and hotels.
Current assets and current liabilities	Assets that will be converted into cash within a year or liabilities that will be paid within a year
Current ratio	Calculated as current assets divided by current liabilities
Assets	Things you own or have rights to. Examples include cash, inventory, and accounts receivable.
Liabilities	Liabilities are things you owe, like payments to your vendors or lenders
Working Capital Ratio	Same as the current ratio. See "Current Ratio"
Permanent Working Capital	Assets classified as current assets that won't actually be received as cash in the next year or will be received but immediately reinvested into the same asset
Quick Ratio	Calculated as current assets (less inventory, prepaid expenses, and supplies) divided by current liabilities.
Acid Test Ratio	Same as the Quick Ratio. See "Quick Ratio"
Seasonality	Periods of cash inflows of a few months followed by periods of cash outflows of a few months. See also "Seasonal Cash Flows"
FASB	Acronym for the "Financial Accounting Standard Board" that makes U.S. financial accounting rules.
Leverage	Using borrowed money to magnify return on equity
OPM	Acronym for "Other People's Money." The idea is to borrow other people's money to increase assets and returns on equity.
Return on Assets	Calculated as net income divided by assets
Return on Equity	Calculated as net income divided by equity.
Merchant Services Providers	Companies that provide debit and credit card processing services
Captive Finance Companies	Companies owned by equipment manufacturers that provide financing to customers for the purchase of that equipment
Trade Finance	When suppliers allow their customers to buy inventory on credit (i.e. receive the inventory and then pay for it later)
Factoring	Selling accounts receivable or purchase order commitments. The company gets immediate cash from the factor in exchange for a fee to the factor

Term	Definition
Hard Money Lenders	Hard money lenders provide short-term real estate loans at much higher fees and rates than banks and at a much lower loan-to-value than banks
Mezzanine Financing	Mezzanine financing is a hybrid of debt and equity. Examples include preferred stock and convertible debt.
Principal	Amount of the loan. Sometime called the “balance” or “outstanding balance”
Commitment Amount	The maximum amount that can be borrowed at any one time
Interest	Part of the cost of the loan. The interest payment is calculated as the interest rate times the principal of a loan.
Index	A rate that’s widely used in financial markets that the loan’s interest rate is based off of.
Spread	The amount added to the index rate to arrive at the loan’s interest rate.
Federal Home Loan Bank (FHLB)	Special banks whose only customers are banks, credit unions, and insurance companies.
Day Count Basis	The way that days can be counted or allocated when calculating how much interest you owe on each periodic payment.
Actual/Actual	A day count basis calculated as the actual number of days in the month divided by the actual days in the year.
Actual/360	A day count basis that’s calculated as the actual number of days in the month divided by 360.
Basis Point	A basis point is 1/100th of a percent. For example, 1% equals 100 basis points, which is abbreviated as “bp” or “bps”.
Term	A period of time in the loan agreement. Common terms are the repricing term, balloon term, and amortization term.
Repricing Term	The repricing term is how frequently your loan rate changes.
Balloon Term	The balloon term is when all remaining principal is due.
Amortization Term	The length of time it would take to pay the loan to zero at your loan payment amount.
Working Capital	Calculated as current assets minus current liabilities.
Collateral	Company or personal assets pledged to the bank in exchange for a loan. If the borrower is unable to pay the loan, the lender can sell the collateral as payment on the loan.
Available Balance	Calculated as the commitment amount less any outstanding principal balance
Revolving Line of Credit	A line of credit in which you can take multiple advances and make multiple payments.

Term	Definition
Advance	Transferring money from your line of credit into your deposit account. More broadly, it's whenever you borrow from a line of credit to receive cash or pay for an item.
"Calling" a Loan	When a lender demands that the full outstanding balance needs to be immediately paid in full.
Commercial Real Estate (CRE)	Loans collateralized by business buildings.
Originating a Loan	Creating a new loan.
Origination Fee	Fee paid for getting a new loan
Commitment Fee	Fee for access to a line of credit.
Prepayment Fee	Fee charged when you pay off a loan before it's balloon term.
"Make Whole" or "Yield Maintenance" Fee	A type of prepayment fee calculated as the difference between what the interest the lender would earn on the remaining life of the loan at the original loan rate and what they would earn based on current loan rates.
Closing	When you sign a set of loan documents to receive your money.
Accounts Receivable Aging Report	The accounts receivable report breaks the cash owed from your customers into buckets based on how many days past due they are.
Accounts Receivable	Amounts due to you from customers for sales you made to them.
Debt Service Coverage Ratio	Calculated as income divide by debt payments. The income number used is EBITDA, which is earnings before interest, taxes, depreciation, and amortization.
EBITDA	Earnings before interest, taxes, depreciation, and amortization.
"Global"	In loan underwriting, this means the analysis or ratio includes numbers from the business and any related owners or companies.
Loan to Value (LTV) Ratio	Calculated as the loan principal divided by the value of the collateral
Loan Covenants	Ongoing requirements of the borrower during the life of the loan.
Guarantor	A person who pledges to pay back the loan if the borrower can't or won't pay it back.
Personal Guarantee	When a person pledges to pay business debts out of their personal assets if the business isn't making it's loan payments.
Default	When the loan is past due or doesn't meet one of the other conditions in the loan agreement.
Right of Offset	The bank's right to take money from the borrower's deposit accounts to pay any amounts due.

Term	Definition
Lien	Legal right to receive payments from the sale of an asset pledged on the loan.
Promissory Note	A loan document of the borrower's legally binding promise to pay on the loan.
Security Agreement	A loan document that details the collateral that's pledged as security for the loan, as well as the rights and responsibilities of both borrower and lender for the collateral
Deed of Trust	A loan document used in some states. In a deed of trust, a trustee is appointed to hold title to the real property and enforces aspects of the loan agreement.
Assignment of Rents	The lender's right to collect the rent or other income from the property if the borrower defaults.
UCC Financing Statement	A form that's filed with the Secretary of state to declare and enforce the lender's interest in personal property that's pledged as collateral on the loan.