Understanding Common Lending Words

Amortization: The process of paying off a loan with regular payments over time

Annual Percentage Rate: The yearly cost of borrowing money, including interest and fees, shown as a percentage

Assets: Things that a person or business owns that have value, like money, property, equipment, or products

Balance Sheet: A summary that shows what a business owns (assets), what it owes (liabilities), and the value of the company (equity)

Balloon Payment: A large final payment due at the end of a loan term, after making smaller payments

Breakeven: The point where a business's revenue equals its costs, meaning it's not losing or making money

Bridge Loan: A short-term loan used to cover expenses until long-term financing is available

Business Credit Cards: Cards issued to businesses to make purchases or pay bills, with the money being repaid in a shorter amount of time than a loan

Business Line of Credit: A flexible loan that lets a business borrow up to a set limit and only pay interest on what's used

Business Loan Terms and Rates: The conditions and interest rates a business agrees to when taking out a loan

Capital: Money or assets a business uses to operate or invest

Cash Flow: The money coming into and going out of a business, showing how much cash is available

COGS: Cost of Goods Sold; the cost of producing or buying the goods a business sells

Collateral: An asset (like a car or property) that a borrower offers to secure a loan

Credit History: A record of a person or business's borrowing and repayment activities

Credit Limit: The maximum amount you can borrow on a credit card or line of credit

Credit Line: Another term for a line of credit, where a borrower can use up to a set amount

Credit Score: A number that shows how well someone has handled credit in the past

Debt Instruments: Contracts or agreements where one party lends money and the other agrees to repay it, such as bonds or loans

Debt-to-Income Ratio: A comparison of how much money a person or business owes to how much they earn

Equipment Financing: A loan used to buy business equipment, like machinery or vehicles

Equity: The value of ownership in a business, or the difference between what a business owns and owes

Gap Financing: A loan given to fill the gap between what the bank lends and what the business needs

Gross Income: The total money earned by a business before subtracting expenses

Income Statement: A report that shows a business's earnings, expenses, and profits over time

Interest: The cost of borrowing money, usually shown as a percentage

Invoice Financing: A loan where a business borrows money based on its unpaid customer invoices

Lien: A legal claim on an asset (like a car or house) used as security for a loan, until the debt is paid

Loan Agreement: A contract between a borrower and lender outlining the terms of the loan

Loan Covenant: Rules or conditions a borrower must follow as part of a loan agreement

Loan-to-Value: A percentage comparing a loan to the value of an asset being purchased

Maturity: The date when a loan must be fully paid back

Net Income: The amount of money a business has left after subtracting all its expenses

Net Worth: The total value of a business's assets after subtracting its liabilities

Origination Fee: A fee charged by a lender for processing a new loan

Personal Guarantee: A promise made by a person or company to pay back a loan if the business that borrowed the money can't. It's like a backup plan for the lender

Prime Rate: The lowest interest rate banks offer to their most trustworthy customers

Principal: The original amount of money borrowed in a loan, not including interest

Pro Forma: A financial statement that projects future income, expenses, and profits

Profit/Loss Statement: A report that shows how much money a business made or lost over time

Promissory Note: A written promise to repay a loan by a certain date

Revolving Credit: A credit line that allows a business to borrow, repay, and borrow again up to a certain limit

Secured Loan: A loan backed by collateral, like a car or house, to reduce the lender's risk

Underwriting: The process where a lender reviews a loan application to decide if the borrower is credit worthy

Unsecured Loan: A loan where a business borrows money without having to offer anything valuable, like a house or a car, as a guarantee.

Variable Interest Rates: Interest rates that can change over time, depending on market conditions

Working Capital Loan: A loan used to pay for everyday business expenses, like salaries or rent

The 6 C's of Credit

These are 6 things that a lender (like a bank) typically looks at to decide if they should give a business owner a loan.

1. **Character:** This is about the business owner's trustworthiness. Lenders want to know if you've paid back loans before and if you're responsible with money. They might check your credit history to see if you usually pay your bills on time

2. **Capacity:** This is about how much your business makes and if you can afford to pay back the loan. The lender will look at your business income (or projections) to see if you have enough money to make monthly payments.

3. **Capital:** This is the money or assets (like equipment or property) that you already have in your business. Lenders like to see that you've invested your own money because it shows that you're serious about your business.

4. **Collateral:** This is something valuable (like your car, building, or equipment) that you promise to give to the lender if you can't pay back the loan. It gives the lender security because they can take the collateral if things go wrong.

5. **Conditions:** These are about the loan's purpose and the overall state of the economy. Lenders want to know why you need the loan (like to buy new equipment or expand) and if the economy is doing well enough for your business to succeed.

6. **Cash Flow:** This is about ensuring that you have enough money to fund potential growth. If it looks tight, or if there are signs of not having enough cash, lenders may decline new credit or find the need to restructure existing credit.