

GLOSSARY OF TERMS

A

acceptance: a promise to pay created when a drawee of a time draft stamps or writes the word “accepted” above his signature and payment date. See banker’s acceptance and trade acceptance.

acceptor: person or party (normally the drawee), who accepts a bill of exchange or draft.

account: an account receivable.

account party: in letter of credit financing, references the applicant (usually the importer) or the party that applies for the letter of credit.

accounts receivable: the amount unpaid and due from a buyer of goods or services.

accounts receivable financing: a form of secured lending to a business utilizing trade receivables as collateral for a loan or purchasing receivables (factoring).

act of bankruptcy: failure to pay obligations when due and which is deemed an admission of bankruptcy.

advance: in factoring and asset-based lending, the amount initially forwarded for purchased or financed invoices and inventory. See prepayment.

advising bank: or notifying bank, in letter of credit financing, the bank charged with the collection of payment upon an LC by the opening bank

agency factoring: a European form of factoring where the debt is openly assigned to the factor but the seller retains the obligation to collect the monies owed from buyers.

amortization: the payment of a loan by periodic blended payments of principal and interest.

angel investor: a person who provides financial backing to a very early-stage business.

annual percentage rate (APR): the effective cost of credit as expressed in percentage to include interest, points, and origination fees.

annual percentage yield (APY): interest expressed as a percentage rate that a deposit account would yield.

asset: anything owned by a person or organization having monetary value.

asset-based lending (ABL): financing secured by a company’s balance sheet assets such as accounts receivable, inventory, or collateral other than real estate.

assignment: signing over rights, title or interests to another person or entity.

attachment: a creditor’s lien placed against a borrower’s personal property. A writ authorizing seizure of personal assets such as bank accounts in a jurisdiction in which the borrower resides.

audit: examination and verification of a company’s books and records.

authority to purchase: in Far East trade, an instrument authorizing a bank to purchase drafts of an importer and in lieu of a letter of credit.

aval: European term for a third party guarantee on bill of exchange or promissory note endorsed by the guarantor’s signature.

B

back-to-back factoring: a term used in international transactions where an Import Factor signs a contract with a buyer in its country to obtain greater security over purchased receivables and to enable the Import Factor to approve the credit risk on behalf of an Export Factor.

back-to-back letter of credit: two letters of credit, one in favor of a buyer’s agent and one in favor of the seller. A back-to-back letter of credit is created when an exporter holding an LC convinces the advising bank of the buyer to open a second letter of credit in favor of the merchandise supplier.

backup line: an alternate source of credit for the issuer of commercial paper in the event that issuer is unable to perform.

balance sheet: statement of financial position including assets, liabilities and owner’s equity as of a specific date.

balance sheet ratios: ratios used in examining the financial condition of a business based on data from the company’s balance sheet.

balloon maturity: a loan (usually a mortgage) requiring a lump sum payment at the maturity of the balloon.

balloon payment: final lump sum payment of an unpaid balance of a loan (usually a mortgage) and in certain types of leases.

bank: the Bank Holding Company Act of 1956 defines a bank as any depository financial institution that accepts checking accounts, makes commercial loans and whose deposits are insured by a federal deposit insurance agency.

bank draft: a check drawn by a bank against its own funds deposited in another bank. used for convenience rather than using a customer’s check.

banker’s acceptance: a negotiable time draft used in financing international trade and guaranteed by an accepting bank. By “accepting” the draft, the bank agrees to pay if the issuer fails to pay. Also termed “two name paper”.

bank line: a bank’s moral commitment to lend and an alternate name for line of credit. A bank line evidences aq bank’s willingness to lend up to a predetermined amount.

bankruptcy: a legal proceeding for the adjustment of debt pertaining to an individual or business unable to meet its obligations to creditors. The debtor is placed under control of a “trustee” who manages the debtor’s affairs for the benefit of the creditors.

GLOSSARY OF TERMS

bankruptcy trustee: a person appointed by a bankruptcy judge with consent of the creditors to manage the affairs of the debtor.

bank wire: electronic transfer of generally large dollar amounts between banks where immediate payment is essential.

ban on assignment: a clause within a buyer's purchase contract which prohibits the assignment or sale of payment proceeds for goods or services.

base rate: an index interest rate used in pricing a bank loan or line of credit, for example the prime rate or LIBOR rate.

basis point: smallest measure in quoting yield on bonds, mortgage, and notes and equal to one hundredth of one percent (.01%).

beneficiary: in letter of credit financing, the party authorized to demand payment upon a letter of credit and whose favor the letter of credit is issued. (usually the exporter or factory)

bias: the Fed's view of interest rate movement.

bill and hold: where a seller holds goods at the request of the buyer. Under bill and hold, goods are invoiced but not yet delivered.

bill of exchange (BOE): an important international trade document, bills of exchange are payment orders issued by one party (the drawer) directing another party (the drawee) to pay an amount to a third party at some future date. Bills of Exchange are bank drafts (when drawn on a bank) or trade drafts when drawn on another party,

bill of lading: a receipt from a common carrier for transporting trade goods from one point to another.

bills payable: trade obligations of a firm such as trade acceptances or banker's acceptances payable at maturity.

blanket lien: a lien covering all assets of an individual or business.

boiler plate: a slang term for standard terms in a contract or document.

bond: an interest-bearing or discounted evidence of indebtedness paying a rate of interest (fixed or variable) for a set period of time.

borrowing base: in asset-based lending, an amount a lender is willing to advance against the dollar value of a pledged collateral. The based is determined by multiplying the total of collateral (accounts, inventory, and equipment) by a discount factor (known as margining)

bridge financing: financing which is used to temporarily finance a venture while more permanent financing is put in place.

bridge loan: in corporate finance, a short term loan covering the time lag between refinancing. Typically a temporary loan used when refinancing short-term debt with long term during restructuring.

bullet loan: a loan that has a one time payment of principal and interest, much like a balloon note). Bullet notes, unlike a balloon, have no obvious source of repayment.

business credit: loans made to corporations and corporations as distinct from consumer loans or personal loans.

buy-sell agreement: an agreement which states under what circumstances one party to an investment must buy out another.

C

CAMELS RATING: measure of the relative soundness of a bank. CAMEL stands for Capital, Assets, Management, Earnings, Liquidity, and Sensitivity (to market risk).

cap: in interest rates, a fixed maximum rate which can be charged on a floating rate loan.

capital lease: a finance lease.

capital ratio: a key financial ratio in lending measuring total capital to total assets.

certificate of conformity: usually associated with import-export trade financing, this certificate certifies that goods conform to the requirements and specifications of the buyer (importer)

certificates of origin: in international trade, a certificate that certifies the country or origin of goods.

charge-back: any amount, contractually agreed between a factor and client (seller) which is unpaid by the customer (buyer) and may be charged back to the seller.

carrying charge: a portion of a total finance charge covering the lender's costs of booking the loan and collecting payments with a portion for bad debt expense.

cash collateral: negotiable instruments, documents of title, bank deposits, and other short term assets which can be quickly converted to cash.

cash flow: cash available to a business from daily operations with a positive cash flow meaning net operating income sufficient to cover expenses.

cash ratio: ratio of total cash plus short term investment securities to total assets.

chargeback: in factoring, the charging back of an unpaid account to the client.

clean paper: refers to all documentation relating to a specific forfaiting deal being unconditional and irrevocable.

client: in factoring, the seller of invoices to the factor.

GLOSSARY OF TERMS

collateral: an asset pledged as security to ensure payment upon a loan or other obligation.

collateralized loan: a loan secured by a pledge of assets.

collection only factoring: a factoring arrangement without finance.

commercial paper: a short term promissory note issued by prime rated commercial business and finance companies with maturities of 2 days to 270 days. Commercial paper is non-interest bearing and purchased at a discount to face value.

commission: a fee earned by brokering a trade, selling property or performing a service.

commitment: a lender's agreement to make a loan at a quoted rate for some specific time.

commitment fee: a lender's charge for making a commitment to lend.

commitment letter: a form letter from a lender advising their willingness to lend funds to a named borrower for a specific period of time at a quoted rate.

community development corporation (CDC): a bank-sponsored financial institution making business loans in economically distressed communities.

compound interest: interest added to interest previously earned on a principal loan balance.

conditional commitment: a lender's agreement to provide financing to a borrower provided the borrower satisfies certain requirements.

confirmed letter of credit: in international trade, a letter of credit guaranteed by a second bank in addition to the issuing bank.

confirming bank: in letter of credit finance, a bank which adds its own commitment to a letter of credit at the request of the issuing bank. A confirming bank will be obligated to pay under the terms of the LC.

consignment sales: goods provided to a customer in which payment is only expected once they have been sold.

consolidation loan: a loan which enables a borrower to combine several existing loans under one loan often with a lower monthly payment.

consortium bank: in Europe, a merchant bank owned by banks from different countries and primarily engaged in international trade and transactions.

contra: a purchase and sales transaction in which both buyer and seller supply each other and which can lead to a "set off" of amounts owed.

contractual sales: sales which are made according to a formal contract.

control: owning or controlling the majority of a company's voting stock.

convertible debt: a loan that can be converted into equity or stock.

country risk: a risk that economic or political changes in a foreign country will jeopardize payment upon a loan or obligation. Country risk is greater than sovereign risk which is only governmental.

covenant: conditions in a legal contract stating what will and will not be done in a business.

credit: from the Latin *credito*, an agreement whereby something of value is given in exchange for a promise to pay in the future.

credit bureau: an organization which gathers credit information for banks and lenders.

credit insurance: insurance purchased by a business or lender to hedge against abnormal losses in credit and usually associated with accounts receivable.

credit line: the maximum amount of credit available in a revolving or open-end credit arrangement.

creditor: a lender who in the normal course of business, extends credit to borrowers.

credit note: the opposite of an invoice. A document issued by the seller reflecting amounts owed to the buyer for returned goods.

credit rating: the evaluation of a borrower's ability (creditworthiness) to repay an obligation usually provided by a credit bureau.

credit report: in asset-based lending, a periodic report listing merchandise returns, credit memos, etc. which assists a lender in monitoring collateral.

credit risk coverage: as applied in non-recourse factoring, the amount to which a factor will assume the credit risk of an individual account debtor.

cross-collateral: collateral assigned to several loans under a single security agreement.

currency translation: the process of converting amounts owed in one country's currency to amounts owned in that of another country.

cut-off score: the minimum number of points needed in credit scoring to qualify for a loan.

D

debenture: an unsecured debt instrument such as a bond, loan, or promissory note backed only by the promise to repay by the creditor.

debt dilution: the percentage (amount) by which any debt must be written down to accurately reflect the true amount available for collection.

GLOSSARY OF TERMS

debt instrument: a written promise to repay a debt evidenced by an acceptance, promissory note, or bill of exchange.

debtor in possession: (DIP) legal terminology for a business filing for protection under Chapter 11 Bankruptcy and acting as its own bankruptcy trustee.

debt service: the amount of funds required to pay periodic debt.

debt service ratio: a financial ratio which measures a borrower's ability to meet payments on a loan after expenses.

default: when a loan or obligation goes unpaid or a loan covenant is broken.

delivery: the moment when possession of goods passes from the seller to the buyer or when services are rendered **to the buyer.**

debenture: an unsecured promise to pay backed only by the general credit of the issuer. Debentures, like corporate bonds are issued under a deed of trust or indenture.

default: failure to meet a financial or contractual obligation.

delinquency: failure to pay an obligation when due.

demand draft: a written order directing payment to be made on sight to a third party. The entity writing the draft is the drawee. The bank paying the draft is the drawer. The beneficiary of the draft is the payee.

demand loan: a loan with no specific maturity date and payable on demand by the lender.

depository: an agent authorized to place funds in a safe keeping institution.

deposits: any monies taken from the buyer by the seller in advance of goods or services being delivered.

direct payment: when payment is made by the buyer to a factor or asset-based lender as a result of a notification of assignment.

discount: the price difference between the face value of a financial obligation or debt instrument and the price received by the seller or debtor.

discounting charge: in Europe, the charge paid by the seller to the factor as a percentage of the invoices purchased and for services rendered. See factoring fee.

discount rate: the rate charged by the Federal Reserve for overnight loans to banks and made at the Fed's Discount Window.

documentary collection: a transaction in which an exporter authorizes its remitting bank to collect payment upon sale of goods by sending documentation along with instructions for payment to a collecting bank.

documentary draft: in international trade, a draft with documents, such as a bill of lading, attached. The draft is delivered to the drawee when the party takes title to the goods and the draft is then paid.

documents against acceptance (D/A): the terms under which the documents attached to a Bill of Exchange (BOE) will be released to the buyer by the holder of the documents (usually a bank) Only when the conditions are met may the buyer obtain release of the goods.

documents against payment (D/P): the terms under which the documents attached to a Bill of Exchange (BOE) will be released to the buyer by the holder of the documents (usually a bank). Only when the conditions are met may the buyer obtain release of the goods.

domestic factoring: a form of factoring where both the seller and buyer (client and customer) are domiciled in the same country as the factor.

downside risk: risk of loss under worst case conditions.

drawee: the person or organization expected to make payment upon a check or a draft when the instrument is presented for payment.

drawer: the person or organization that authorizes the drawee to write a check or draft to pay a third party. (the payee)

due date: the date at which payment is due from the buyer.

due diligence: the process of investigation of a company, its principals, and its business often during underwriting and credit evaluation.

E

earnest money: money given as a "good faith" deposit or commitment fee to secure financing.

encumbrance: a right or claim to an asset that passes with title.

endorsement: signature on the back of a negotiable instrument such as a check which legally transfers ownership to another party.

equity: a portion of ownership usually characterized by shares of common stock.

exact interest: interest computed on a 365 day year as opposed to ordinary interest which is computed on a 360 day year.

exit strategy: the plan upon which an investor sells ownership of a business.

export bulk factoring: where the factor provides similar services to non-notification factoring but with full notification.

GLOSSARY OF TERMS

export factor: the factor with whom an exporter has entered into an arrangement to purchase invoices. The export factor is usually domiciled in the same country as the exporter.

export trading company (ETC): a trading organization which supplies support services required for export trade such as warehousing, shipping and insuring goods.

extended terms: sales on terms allowing a buyer.

F

factoring: short term financing of accounts by selling those accounts on a non-recourse basis to a finance company known as a factor.

factoring agreement: the contract between the factor and the seller of invoices which sets forth the terms and conditions of the factoring arrangement.

fed funds rate: an inter-bank rate of interest charged by banks to other banks for purchases of overnight reserve balances.

Federal Reserve Bank: one of the 12 regional banks in the Federal Reserve System.

fictitious invoicing: any invoice(s) knowingly submitted by a seller for financing where the goods or services have not been delivered.

field warehouse: See warehouse.

finance charge: a borrower's total cost of credit.

finance lease: or full-payout lease, is a fixed-term lease, usually non-cancellable, used by businesses to finance capital equipment. The lease is fully paid out (amortized) over its life.

financing statement: a document filed by the lender evidencing collateral taken for a loan and filed with the Secretary of State of the debtor under the Uniform Commercial Code.

finder's fee: a fee paid by either a borrower or lender (or both) to a broker or intermediary for sourcing a loan or referring business.

firm commitment: a lender's agreement to fund a loan at a specific rate for a specific period of time.

fixed asset: tangible property used in the operation of a business to include plant, equipment, machinery fixtures, and leasehold improvements.

fixed rate loan: a loan with an interest rate that does not vary over the life of the loan.

floater: a variable rate debt instrument indexed to a money market rate such as LIBOR or Prime.

floating interest rate: a loan interest rate that changes whenever a base rate such as the Prime rate or LIBOR rate) changes.

floating lien: an asset-based loan secured by accounts and inventory where the lender has a lien on assets acquired after the loan is made.

floor: the minimum rate a bank can charge on a floating rate or variable rate loan.

floor planning: a loan made to finance a dealer's inventory. The dealer issues a trust receipt to the bank which is repaid when the inventory is sold.

forbearance: a lender's decision not to enforce a legally enforceable right against a borrower in default.

foreclosure: a legal proceeding taken by a lender to take possession of collateral secured by a defaulted loan.

forfeiter: the buyer of forfeiting paper.

foreign draft: a check drawn in a foreign currency.

forward dating: any invoice dated later than the delivery of goods. This procedure is sometimes used to give a buyer longer credit terms without the necessity of amending the standard terms.

free issue material: any material which is supplied by a buyer to a seller free of charge for incorporation into goods detailed in a purchase order. Free issue material will not be identified as a potential contra and may remain the property of a potential buyer.

full service factoring: See non-recourse factoring.

fully amortizing loan: a loan in which the blended monthly payments are sufficient to pay off the loan at maturity.

G

general lien: a lien against a borrower's personal assets rather than real property.

good faith loan: a loan made on the character and community reputation of the borrower.

grace period: the amount of time available to make payment on a loan beyond the due date or to cure a default.

GRIF: the General Rules for International Factoring governing the relationship between the export factor and the import factor as set forth by both Factors Chain International and International Factors Group.

Group of Seven (G-7): an international group comprised of finance ministers from seven leading industrialized democracies and comprised of the United States, Japan, West Germany, Britain, Italy, Canada and France

guaranteed loan: a loan guaranteed as to repayment of principal and interest by a Federal Agency such as the small Business Administration.

guarantor: a person or corporation that guarantees the payment of another.

GLOSSARY OF TERMS

H

holdback: the portion of a construction loan that is not funded until the project is nearing completion.

holder in due course: party who becomes the good faith holder of a negotiable instrument (such as a draft, check, or note) for value received having no knowledge of claims against it. A holder of a third party check, for example, is a holder in due course.

honor: payment of a check when presented or a time draft at some future date.

I

illiquid: an asset not easily sold for cash.

import factor: the factor with whom the export factor has entered into an arrangement to provide a combination of credit risk cover, collection, and A/R administration services in relation to buyers in the country of the import factor.

import factor funding: an option for the import factor to provide payments to the export factor up to an agreed percentage of the A/R. This option is most commonly requested when there is exchange control in the export factor's country which requires that payment made for foreign receivables must be made from an offshore account.

import factoring: a form of factoring where the buyer is domiciled in the country of the factor and the seller is domiciled in another country.

income statement: a profit and loss statement evidencing a company's financial operations for a specific period. Along with a company's balance sheet, it comprises a company's basic financial statements.

inconvertible currency: a currency which cannot be converted to another.

incubator: an entity designed to nurture a business or new technology to a point they become attractive to a lender or other investor.

indenture: a written agreement specifying the terms and conditions for issuing bonds or a mortgage or deed of trust securing property and setting forth covenants and conditions.

indicative rate: a non-binding quotation made by a forfaiter to an exporter and subject to change.

indirect loan: a loan sold by a retailer or dealer to a third party financial institution that then owns the loan contract as a holder in due course.

indorsement: See endorsement

initial public offering (IPO): the initial offering of shares to the public of a previously privately held company.

insolvency: inability to pay obligations as they mature and come due.

installment contract: a written agreement to pay for goods purchased in regularly scheduled payments of principal and interest.

instrument: a legally enforceable agreement between two or more parties expressing a contractual right to payments of money.

interest: money paid for the use of money and usually expressed as a percentage rate for the period of time used.

interest only loan: a non-amortized commercial loan or line of credit in which periodic payments are made up of interest only and the entire principal balance of the loan is due at the loan's maturity.

interest rate cap: a contractual agreement that protects a borrower from a rise in interest rates.

inventory financing: a working capital loan used to finance the purchase of inventory.

investment bank: a financial intermediary which offers and sells new offerings of securities.

invoice: a document issued to the buyer by the seller giving full details of the goods or services provided, the total amount owed, and the date by which the invoice must be paid.

invoice discounting: European terminology. an arrangement whereby a company's A/R are sold to a factor on the basis that the seller does not need to notify the account debtors of the factor's interest in the receivables. Such arrangements become purely a method of finance with the client processing all collections and providing accounting functions. See also non-notification factoring.

involuntary bankruptcy: a petition by a significant number of creditors claiming a debtor has committed an act of bankruptcy and asking a bankruptcy court to distribute assets.

involuntary lien: in contrast to a mortgage lien, which is voluntary, a judgment lien or lien for unpaid taxes or special assessment which attached to real property.

irrevocable letter of credit: a valid letter of credit for a specific period of time which may only be cancelled by agreement of all parties. An issuing bank may not revoke the letter of credit prior to its expiration date without consent of the beneficiary.

issuer: in letter of credit terminology, the bank that approves a letter of credit, valid for a stated period of time, on behalf of a particular customer

issuing bank: a bank that issues a letter of credit.

J

joint endorsement: endorsement by two or more person needed to negotiate a draft, check, or other financial instrument.

GLOSSARY OF TERMS

judgment lien: a court order placing a lien on a debtor's real property as security owed to a judgment creditor. A lien against personal property is an attachment.

junior mortgage: a mortgage that is subordinate to previously filed mortgages.

junior security interest: a security interest in assets of a borrower which is subordinate to that of other lenders.

jurisdiction: typically used in many contracts, the legally recognized authority to hear cases and decide issues submitted for review.

K

key currency: a currency used in international trade settlement or as a reference currency in setting international exchange rates. Key currency is any currency issued by the Group of Seven countries.

key rate: an interest rate, such as the discount rate, that directly or indirectly controls bank lending rates and rates charged to borrowers.

kicker: an extra feature in a loan, beyond ordinary interest, required by a lender as a condition to extend credit.

L

late charge: a fee charged for delinquency on a loan after the grace period.

lease: a contract giving the right of possession and use of an asset for a specific period of time in exchange for payments. The party owning the property is the lessor and the party using the property is the lessee. The payments are rentals. A tax oriented lease which gives the lessor tax benefits such as depreciation in exchange for a lower lease rate is sometimes called a true lease. Others, including finance leases, are treated as conditional sales contracts.

letter of advice: a letter of instructions from one bank to another directing that a payment be made at some future date.

letter of credit: a contractual agreement between a bank, known as the issuing bank, on behalf of one of its customers, which authorizes another bank, known as the advising bank or confirming bank to make payment to a beneficiary. L/Cs are used most commonly in intercontinental trade.

level payment amortization: a fixed term loan where payments remain constant over the term of the loan.

leverage: money borrowed to increase the return on invested capital.

leveraged buyout (LBO): the acquisition of a company which is leveraged through loan financing (borrowed funds) rather than with equity financing.

leveraged lease: a long term lease in which the lessor borrows the funds to acquire the equipment or other asset financed from a third party (usually a bank).

LIBOR: See London Interbank Offered Rate

liability: a legally enforceable claim on the assets of a company.

lien: a creditor's claim on property to secure payment upon a debt.

line of credit: a commitment by a bank or other funding source to extend credit to a borrower up to a defined limit for a specific length of time. When the borrower is notified as to the credit limit it is an advised line. When the maximum of the line is not disclosed, it is a *guidance line*.

liquid asset: cash or equivalents. Any asset which is readily convertible to cash.

liquidated damages: contained in the terms of a contract whereby a buyer accrues a monetary claim in the event of non-performance by a seller.

liquidation: the conversion of assets into cash or inventory to accounts receivable to satisfy a debt obligation.

lis pendens: Latin for "pending suit". A legal notice warning all parties a lawsuit is pending.

loan: money which is advanced to a borrower to be repaid at a later date and most often to include interest.

loan cap: See payment cap.

loan fee: a lender's fee for making a loan.

loan-to-value ratio: a relationship (expressed as a percentage) between the principal value of a loan and the appraised value of an asset securing it.

lock box: a post office box used by an organization to collect payments upon receivables. Lock boxes are typically used by factors and asset-based lenders as remittance addresses for to collect upon the accounts receivable of their clients.

London Interbank Bid Rate (LIBID): key European interest rate at which major banks in the London Interbank Market are willing to borrow surplus Eurodollars from each other as opposed to the London Interbank Offered Rate.

London Interbank Median Average Rate (LIMEAN): the midpoint between the LIBID and the LIBOR.

London Interbank Offered Rate (LIBOR): key European interest rate at which major banks in the London Interbank Market are willing to lend surplus Eurodollars to each other. It is used to determine interest rates charged to creditworthy borrowers.

long term loan: a loan with an original maturity in excess of 10 years.

GLOSSARY OF TERMS

long term debt: debt which has at least 5 years until maturity.

M

macroeconomics: analysis of a nation's economy as a whole examining data such as inflation, industrial production, price levels and unemployment.

maker: the person who signs a check or promissory note or other obligation and assumes primary responsibility for payment. The maker of a check is also known as the drawer.

managed currency: the currency of a nation whose exchange rate in the currency markets is influenced by intervention of a central bank as opposed to normal supply and demand in the free markets.

market value: the highest price an asset will bring in an open and competitive market.

mark to market: a periodic adjustment of the value of an asset to reflect its actual market value.

maturity date: the actual date that a loan or debt instrument is payable to the holder.

maturity factoring: a form of factoring where the factor provides the seller with services associated with full factoring with the exception of the advance or pre-payment facility. Payment for the A/R is made either at an agreed maturity date of the invoices purchased or upon the insolvency of an account debtor.

mechanic's lien: an enforceable claim supported by law securing payment to contractors, sub-contractors, and suppliers for work or goods supplied in the building trades. Such liens give contractors a priority over other creditors.

medium of exchange: any monetary instrument or money accepted as payment for goods, services or settlements of debts such as checks, drafts, or notes.

merchant bank: a credit card processing bank that purchases sales drafts from retail merchants. The bank converts the drafts to deposits and charges a fee called a merchant discount for its service.

merchant banking: a fee-based form of banking where a bank arranges credit financing but subsequently sells the loans, not holding them in its investment portfolio thus avoiding long term credit risk.

merchant discount rate: a fee charged by a merchant bank for processing credit card sales.

mezzanine financing: in corporate finance, a restructuring financing usually utilizing corporate or preferred debt. Popular in merger and acquisition. In venture capital financing, a second or third level of financing usually prior to an initial public offering of stock.

microloan: a small development loan often to startup business usually through a Community Development Bank. Microloans provide start up capital in disadvantaged communities.

money: anything accepted as legal tender for the payment of debt.

mortgage: a debt instrument giving conditional ownership of an asset, secured by the asset being financed.

mortgage banker: a banker that originates mortgages for resale to investors. Mortgage bankers generate fees for services much like Merchant Bankers.

mortgagee: a lender who arranges mortgage financing, collects payments, and takes a security interest in the property financed.

mortgage note: a promissory note executed to repay a mortgage loan plus interest.

mortgagor: borrower in a mortgage contract who mortgages the real property in exchange for a loan and gives title to the property to the mortgagee.

N

negative amortization: a loan where the principal increases due to an insufficient periodic blended payment. The shortfall is added to the loan balance so the total loan amount due increases rather than decreases over time.

negotiating bank: in letter of credit financing, a local bank to the exporter which buys the exporter's drafts drawn under the LC.

net worth: owner's equity in a business as computed by computing assets minus liabilities.

non-notification factoring: a form of factoring without notification of assignment to the account debtor. Typically the client (seller of goods) performs the A/R administration and collection of invoices.

non-recourse factoring: a factoring arrangement where the factor provides the seller with A/R administration, collection, credit protection, and pre-payment facilities.

notice of assignment: a written instruction to the buyer (usually on the invoice) that the A/R have been assigned to a factor or lender and payment must be forwarded as indicated.

O

obligation: legally enforceable duty to pay a sum of money. The duty of a borrower to repay a loan.

obligor: the party having the obligation to repay a debt.

open account or open book account: sale of goods internationally without a letter of credit.

GLOSSARY OF TERMS

open end lease: a lease (usually a vehicle) where the lease payments do not fully amortize the obligation.

opening bank (issuing bank): a bank that issues a letter of credit.

operating lease: a lease written for a shorter time than the economic life of the leased asset. Usually on equipment, operating leases are usually cancellable meaning the equipment can be returned to the manufacturer at any time.

option fee: used when an exporter wants a commitment from a forfaiter prior to signing a sales contract with an importer. In exchange for the option fee, the forfaiter will provide a commitment to the exporter prior to having the buyer's contract for purchase.

ordinary interest: interest computed on a 360 day basis (12 month / 30 day per month).

origination fee: a fee charged for the origination and processing of a loan.

owner's paper: mortgages and other debt that is held by the seller of the real property or asset rather than a financial institution. Also called a seller's mortgage or owner carry-back paper.

P

paper: a generic term for short term debt obligations such as banker's acceptances, drafts, and commercial paper.

pay down: partial reduction of a debt.

payee: the party named as the beneficiary of a check, draft, or other negotiable instrument.

payer: the party responsible for making payment on a check, draft, or other negotiable instrument.

paying bank: in letter of credit finance, a bank authorized by the issuing bank to pay the letter of credit upon presentation of documents.

payment cap: clause in an adjustable rate mortgage (ARM) limiting monthly payment adjustments...usually restricting payment increases to a percentage of the previous payment.

payment terms: the terms and conditions under which the seller expects the buyer to pay the invoice. They normally will be stated on each invoice and include the due date, any discount arrangements, payment instructions, and an assignment clause when appropriate.

payment under guarantee: a payment made by a factor to the seller in relation to approved A/R which remains undisputed and unpaid after a fixed period (usually 90 days) between the parties.

pay to bearer: a check, draft, or other negotiable instrument payable to the bearer on delivery and without endorsement.

pegging: in foreign exchange, the process by which a country ties the value of its currency to the currency of another country.

perfected lien: a security interest in a collateral that is protected from claims by a third party. Commercial lenders will file a UCC-1 Financing Statement to perfect liens on collateral.

performance bond: a bond that calls for specific monetary payment to a beneficiary if the purchaser or maker fails to do something or acts in violation of a contract. Also a standby letter of credit issued by a bank that guarantees the issuing bank will pay a third party beneficiary in the event the bank's customer fails to meet its obligation.

pre invoicing: any invoice which is created prior to the delivery of goods or services.

prepayment: in Europe, a payment made by a factor to the seller in advance of the buyer paying for the A/R. (See advance)

pre-shipment finance: a provision of finance by the factor or lender related to the period between the buyer ordering the goods and the physical delivery of the goods. This is usually a service that is accompanied by a post delivery factoring arrangement and the pre-shipment finance is automatically converted to factoring. See purchase order finance.

prime rate: a reference rate of interest that banks use for loans to their most creditworthy customers. Commercial and industrial loans are often priced at prime plus a spread.

principal: face value of a loan evidencing the amount repayable exclusive of interest.

pro-forma invoice: an invoice which is raised legitimately in advance of the supply of goods or services to which it relates. Pro-forma invoices are a form of advance billing for the purpose of obtaining advance payment or down payment.

promissory note: a written promise to pay and legal evidence of debt frequently used in both installment and commercial loans. A promissory note can be transferred to a third party as a negotiable instrument.

public offering: when shares of stock are sold to the public on the open market.

Q

qualified endorsement: endorser's writing on a check limiting his liability in event of nonpayment or non-acceptance of an instrument.

quick assets: the current assets of a business excluding inventories that can be converted to cash if necessary in one year or less.

GLOSSARY OF TERMS

R

re-aging (invoices): any invoice where the original invoice date is subsequently amended.

reassignment: the reassignment of an invoice previously assigned to the factor or lender.

rebate: in factoring, the release of collected reserve to the client.

receivables financing: a form of asset-based lending providing seasonal capital to businesses and secured by accounts receivable.

recourse: the ability to force payment.

recourse factoring: a form of factoring whereby the factor provides the seller with finance, A/R administration, and collection but without protection against bad debt.

residual value: anticipated or fair market value of an asset at the expiration of a lease.

revolving credit lines: a line of credit extended to a business that is good for a stated period of time but which has no fixed repayment schedule.

right of rescission: right of cancellation given a borrower (usually in real estate) to terminate the loan without penalty for a set period (usually 3 days).

S

sale and leaseback: often real estate, the sale of property and the agreement to lease it back on a long term basis.

seasoned loan: a loan which has been on the books for at least one year.

seasoning: aging of a loan expressed as elapsed time since origination.

seed money: in venture capital, the initial investment in a new company.

settlement discount: an arrangement in which the seller's terms and conditions of sale allow a discount to the amount owed and usually conditioned upon payment being received within a stipulated period of time.

shipment: the sending of goods ordered whether by public carrier or the seller's own transport and usually evidenced by a bill of lading.

sight draft: a bill of exchange or draft which is payable when presented.

signature loan: an unsecured loan backed only by the borrower's signature on the promissory note.

simple interest: interest computed only on the principal balance of a loan and not compounded.

single factor exports: in international factoring, an application where the export factor assumes responsibility for the approval and collection of debt in another country

without seeking the assistance of an import factor in the buyer's country.

sovereign risk: risk of default by a foreign central government or government agency backed by the full faith and credit of the sovereign government.

standby letter of credit: a letter of credit that represents an obligation of the issuing bank on a designated third party (beneficiary) contingent on the bank's failure to perform under the terms of the contract with the beneficiary.

start-up financing: money used to start a business and purchase assets.

stock option: the right to purchase stock in a company usually at a pre-determined price or formula.

subordinated debt: debt having a claim against an issuer's assets that is junior to other claims holders and is paid only after satisfaction of the senior claims.

subordination agreement: an agreement in which the holder of a senior security interest agrees to subordinate that interest to a junior holder.

surety: the guaranty of debt repayment or fulfillment of a contractual obligation.

surety bond: an agreement by an insurance company to take the place of a defaulted contractor in a development project and take corrective action to finish the project if necessary.

T

tax lien: an involuntary lien on real estate or a business for non-payment of income or property taxes.

term: the maturity of a loan expressed in months.

term loan: the most common form of loan provided by commercial banks, a fixed term business loan with a maturity of 1-15 years and used to acquire assets, inventory, or equipment.

time loan: a short term business loan that is payable in full at a specific maturity date such as 30, 60, 90 or 120 days. Interest is usually deducted (discounted) at the time the loan is taken out.

true lease: a lease which meets the Internal Revenue Code's tests allowing the lessor the tax benefits of ownership. The lessor is allowed to depreciate the asset over its life time and claim any unused tax credits. The lessee is allowed to deduct the lease payment as a capital expense from ordinary income.

two factor exports: a form of international factoring where the export factor retains the services of an import factor to administer and provide credit cover in relation to the cross-border A/R purchased from the seller.

turnaround: a company that is in financial or operational trouble but is returned to profitability through a capital infusion.

GLOSSARY OF TERMS

U

UCC-1: See Financing Statement

underwriting: detailed credit analysis prior to granting a loan based on information provided by the borrower and publicly available information.

Uniform Commercial Code (UCC): a body of law governing commercial transactions. The code has 9 separate chapters called “articles”.

unsecured loan: an uncollateralized loan granted on the strength of the borrower’s credit history and reputation in the community.

usury: charging interest rates on a loan higher than that allowed by state law.

V

variable rate loan: a loan carrying an interest rate that fluctuates in relationship to an index. Also called a floating rate loan, variable rate loans are indexed to a base rate such as LIBOR.

W

waiting period: a period of time which is to elapse between the signing of documents and the delivery of goods or services in a forfaiting transaction.

warrant: an option to purchase stock in a company and usually exercised over an extended time frame.

waiver: a voluntary relinquishment of a right to property owned, claim against an other’s property or to any legally enforceable right.

warehouse: a bonded storage facility where commodities, finished goods or works on process are maintained under a warehouse receipt. Also called a field warehouse.

warehouse receipt: a document giving proof of ownership of goods temporarily stored in a field warehouse. A warehouse receipt is a title document for the holder and may be negotiable or non-negotiable although most are in negotiable form and can be used as collateral for working capital loans.

warrant: a short term interest bearing note issued by state or local governments to pay debts and repayable by a defined income source.

working capital or liquid capital: the current assets of a business and especially cash, accounts, and inventory.

working capital loan: a short-term business loan usually granted to finance inventory.

X

x-mark signature: a signature made by a person unable to write his or her own name.

Y

yield: return on a loan or investment and stated as a percentage of price. Yield is often computed by dividing return, by purchase price or fair market value.

Z

zero coupon: a debt security that doesn't pay interest (a *coupon*) but is traded at a deep discount, rendering profit at maturity when the *bond* is redeemed for its full face value