

Appendix N

Glossary of Terms

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Note: The following definitions are presented as they are defined for the purposes used in this Report. The same word or group of words may have different meanings when used in a different context.

Accrued Interest

Interest income that is earned but not yet received.

Adjustable Interest Rate

Adjustable Interest Rate is an interest rate that can be adjusted with changes in a base rate or reference index. The index generally varies with market interest rates.

Affiliate

Any organization owned or controlled by another organization is usually found to be an affiliated organization. In Public supported programs for SMEs affiliation becomes a very important aspect of determination on whether a certain business meets size standards.

Allowance for Loan Losses

Allowance for Loan Losses is a balance sheet account representing a recognition that some loans will not be repaid. Also referred to as Loan Loss Reserve or Loan Subsidy Account, (usually used in the context of government supported programs).

Appraisal

An appraisal is an assessment of an asset for the purposes of determining its value.

Appreciation

Appreciation is an increase in the market value of an asset. In lending, it is important that any appreciation, (revaluation) shown on balance sheets be supported by very thorough appraisals.

Approving Official

Approving official is a person having delegated authority to take final action on a request of some sort.

Asset Backed Securities

A security with promised principal and interest payments backed or collateralized by cash flows originating from a portfolio of assets that generate the cash flows. In some countries, the unguaranteed portions of loans are securitized and sold on the open market thereby returning capital to the lender for further lending.

Base Rate

An interest rate used as an index to price loans.

Bid Price

Bid Price is the price at which someone has offered to buy an asset.

Capacity

Capacity deals with the ability of the business to do what it says it will do to accomplish its business plan in general and specifically to pay off the borrowed funds in the manner it said it would. This is the most wide-ranging of traditional credit analysis elements and is the area that requires the most evaluation.

Capital

One of the four Cs of credit, Capital addresses the adequacy of invested funds when compared to the amounts of capital contributed by an enterprise's creditors. The general thinking is that the more the owners have at stake in their business, the harder they will work to minimize the risk that they will lose that equity.

Character

Character relates to all of those factors that can be attributed to the individuals who own and manage the business. This includes the honesty and integrity of those individuals and their standing or reputation in their community as being trustworthy and people of their word, who will do their best to deliver what they promise. Character is the most important element to consider when lending to SMEs.

Claim Amount

The net outstanding principal balance that would be remaining after the proposed compromise office is applied to the current principal balance.

Collateral

While not a consideration in evaluating a borrower's ability to repay its obligations through the operations of its business, clearly plays a significant role in assessing the risk of ultimate loan repayment. It plays a major role in a lender's assessment of a secondary means of repayment should the expected cash flows of the business do not materialize.

Compensating Balances

A deposit balance required as compensation for services provided by a lender. (Note: Great care should be taken to prohibit lenders from having compensating balances when making loans with a guaranty. To do so would provide the lender with the ability to cover its exposure in a given loan thereby having no risk on the loan. If compensating balances are allowed, then any offsets should be shared in the same ratio as each party's risk share in the loan.)

Conditions

Conditions represent the terms and covenants imposed on the loan by the lender, a guarantor or re-guarantor. These include, but are not limited to, interest rate, maturity, collateral requirements, periodic financial statement submissions, and varied documentary requirements.

Cram down

An approval of a bankruptcy Court ordered reorganization, over the objection of a creditor, when the courts find that the plan is in the best interest of all other creditors and does not unfairly treat the objecting creditors.

Credit Bureau

A Credit Bureau is an entity that collects and provides information on the credit, (payment) histories of borrowers.

Colpur

Colpur is Collateral Purchased or property acquired by the Agency or its participating lenders through the liquidation of a loan.

Cost of money to the Government

Cost of money to the Government is the interest yield equivalent to that being paid on Government securities for similar maturities.

Credit Rating

Credit Rating is a numeric or sometimes an alphanumeric value developed by Credit Reporting Agencies to reflect the manner in which an individual debtor has paid past debts.

Credit Reporting Agency

An enterprise established for the purpose of assembling information about pay habits and other information on an individual or business that is used to assist in assessing the overall credit risk being taken in an extension of credit to that individual or business.

Credit Scoring

The process of using Credit Ratings and component data to develop a value thought to be of predictive value in determining the likelihood of debt repayment.

Debt Coverage

A ratio that measures the degree to which past and projected cash flows exceed proposed debt service requirements. Cash flow is traditionally defined as Earnings Before Interest and Taxes and is measured against the “pro forma” calculation of the annual payments of principal and interest on all long-term debt. Relates to Capacity in traditional credit analysis.

Delegations of Authority

Delegations of Authority are authorizations, usually made in writing that allows certain individuals to take actions and make decisions on the behalf of organizations. Delegations of Authority are important so that certain actions are limited to those individuals having the experience and knowledge to make sound decisions and to protect an organization and the clients its serves from inappropriate actions.

Drift

Drift is when there is serious delay in managing a loan without good documented reasons for such delay.

Evidence of Debt

References to borrowers' loans and accounts include:

1. Notes
2. Receivables
3. Judgments
4. Other evidence of debt payable to a creditor

Field Office or Satellite Office

The term field office or Satellite office is used to indicate offices outside the headquarters office of an organization. Usually such offices have delegated authorities and responsibilities in carrying out the programs and services of an organization.

Four Cs of Credit

The four Cs of credit is a term used to define the most important elements to consider when assessing the risk of a loan applicant. The four Cs are: **Character, Capital, Capacity, and Collateral.**

Fixed Rate

Fixed Rate refers to an interest rate that does not change during a specified period of time. (See also Adjustable Interest Rate).

Guaranty Organization

An entity that pledges the repayment of an obligation of a third party, (or a portion thereof), to a creditor providing the debt goes into default and the lending party has met the provisions of a guaranty agreement signed by the Guaranty Organization and the lender. (See Re-Guaranty Organization).

Industry Risk Rating

Some countries have well developed industry classification systems that facilitate access to industry-wide statistics. However, even in the absence of such data, knowledgeable professionals in the field of commercial lending will frequently be able to assess risk levels in certain industries.

Liquidation officer

The generic term "liquidation officer" refers to the person who performs the basic tasks of liquidation the assets of a failed business.

Loan Scoring

The process of using Credit Ratings and other selective criteria to develop a value thought to reflect the degree of risk of loss at the point in time when a loan application is being analyzed.

Non-bank Lender

A firm that makes commercial loans that is not considered to be a financial institution since it does not take deposits or engages in business activity usually associated with banks except for commercial lending.

Obligor/debtor

The terms “obligor” or “debtor” include:

1. Borrower
2. Co-borrower
3. Guarantor
4. Assumptor
5. Judgment debtor
6. Any other party who has liability for a loan account

Past Due Loan

A Past Due Loan is a loan with a promised principal and/or interest payment that has not been made by the scheduled payment date.

Performance Goals and Evaluations

A process used to provide management and employees written performance guidance and evaluation process. Usually done on a yearly basis with quarterly assessments on achievements. Many times compensation is based on the attainment of certain goals and the quality of the work product delivered. Performance Goals and Evaluations are done on both management and employees and sometimes, organizational units.

Policies and Procedures

Sometimes referred to as Standard Operating Procedures or Guidance Manuals. They describe the detailed processes, systems, authorities and responsibilities in carrying out the program or service. Policies and Procedures are living documents that should address current conditions and current thinking towards the implementation of a program or service.

Position Description

Position Descriptions are used to describe the expectations of management for a given job. It allows for a greater understanding between management and the employee of what is expected from the holder of the job.

Present value

Present value is the current worth of future sums of money. This concept is used in many phases of liquidation decision-making.

Problem Loans

Loans currently in default or expected to obtain default status.

Recommending official

Recommending official refers to a person who has met the requirements of a delegation of authority to recommend that certain decisions be made. Usually the delegations of authority to recommend are issued in writing.

Re-Guaranty Organization

A unit that shares in the risk taken by a guaranty organization, (or a portion of the risk), of a credit extended to a third party through a participating lender according to written agreements between all parties.

Repository Institution

A centralized system of gathering, storing and issuing credit information including historic pay habits of individuals and businesses. Also gathers other information such as legal suits, court filings and decisions and employment verification information. Usually work with Credit Reporting Agencies.

Risk Rating

A numeric value assigned to an outstanding loan intended to reflect the risk of repayment, i.e. the risk of loss at that moment in time.

Rules and Regulations

Written conditions stating the requirements and benefits of a program and the authorities and responsibilities of those parties participating in a set of programs or services. Rules and Regulations are usually published so that all parties are aware and put on public notice of the conditions under which the program or service is being made available.

SETC

SETC stands for State Economic and Trade Committee.

Supervisory attorney

A supervisory attorney is usually a person that has been designated as a counsel in charge of the legal aspects of a program or organization.

Total Debt to Equity

A Debt to Equity ratio measures the relationship between the owners' capital contributions and capital contributed by creditors. Relates to Capital in traditional analysis.

Variable Rate

Automatic re-pricing of a loan, usually by charging the interest rate as determined at regular intervals.