



## Glossary of common terms used in business lending

**Version 1.0**

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FinTech Australia's Members have created this glossary in an effort to standardise common (and not so common) terms used in business lending.

The glossary is designed to assist business lenders completing the Small Business Lending survey being conducted by the Australian Small Business and Family Enterprises Ombudsman, Neil Slonim from theBankDoctor.org and FinTech Australia.



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## Pricing conventions

### Annual Percentage Rate (APR)

The interest rate applied to a loan, expressed as an annualised rate.

### Effective Interest Rate (EIR) APR

The nominal rate per annum, adjusting for compounding, and including the cost of all contracted repayments and other fees and charges both upfront and ongoing, on an annualised basis.

Derived by the following formula (expressed as an Excel calculation):

Rate (NPER, -PMT, PV) x Frequency Factor (n)

where,

NPER = the number of periodic repayments required under the loan agreement

PMT = the amount of each periodic payment, including interest, principal and all other fees

PV = the original loan amount

Frequency Factor = varies depending on repayment frequency (see table below):

Repayment Frequency	Frequency Factor
Daily	365.2422
Weekly	52.1775
Fortnightly	26.0887
Monthly	12

To see an example of the above formula in use, please use the below link which will take you to a Google Sheets sample worksheet:

[https://docs.google.com/spreadsheets/d/1aODDwCdV0SMvCt5XBVVhK1IMgs\\_2W4tO9XksYT6Pbc/edit#gid=1458903181](https://docs.google.com/spreadsheets/d/1aODDwCdV0SMvCt5XBVVhK1IMgs_2W4tO9XksYT6Pbc/edit#gid=1458903181) (visual is also included below)



<b>Amount Received By Borrower(\$)</b>	<b>10,000.00</b>	<i>being the amount received by the borrower net of day one fees and charges</i>
Loan Amount (+)	10,000.00	
Establishment Fee (-)	-	
Other Fees (-)	-	
<b>Number of Repayments (#)</b>	<b>13</b>	
<b>Frequency of Repayment</b>	<b>Fortnightly</b>	
<b>Amount of Repayment (\$)</b>	<b>- 824.15</b>	<i>being the total amount of each scheduled periodic payment paid by the borrower</i>
Repayment (-)	- 824.15	
Direct Debit Fees (-)	-	
Other Fees (-)		
<b>Number of Repayments (Annualised)</b>	<b>26.07</b>	<i>being derived from the table below</i>
<b>APR</b>	<b>26.07%</b>	
<b>Total Payback</b>	<b>10,713.95</b>	
<hr/>		
<b>Frequency</b>	<b>Repayments (Annualised)</b>	
Daily	365.25	
Weekly	52.18	
Fortnightly	26.07	
Monthly	12.00	
Quarterly	4.00	
Semi-Annually	2.00	
Annually	1.00	

## Simple Interest Rate

In a given period, the amount of interest paid on a loan divided by the average outstanding loan balance in that period, annualised.

Equivalently, the annualised internal rate of return (IRR) of the cash flows received and paid.

## Flat Interest Rate

The amount of interest paid on a loan divided by the original loan amount, annualised. Derived by the formula:

$$\left( \frac{[\text{\$Total Payback} - \text{Loan Amount}]}{\text{Loan Amount}} \times \left( \frac{12}{\text{Term in Months}} \right) \right)$$

For example, a \$10,000 loan with an \$11,000 payback over 6 months would have a flat rate APR of:

$$\left( \frac{[\text{\$11,000} - \text{\$10,000}]}{\text{\$10,000}} \times \left( \frac{12}{6} \right) \right) = 20\%$$



## **Factor rate**

The multiple applied to the original loan amount that arrives at the total payback on the loan (principal plus interest).

For example, a \$10,000 loan with a \$12,000 payback has a factor rate of 1.20x.

## **Discount rate**

The percentage discount applied to the face value of an invoice.

## **Term of product, conditions & fees**

### **Term**

The contracted period of time over which a loan is due to be repaid.

### **Total repayment**

The contracted amount due to be repaid inclusive of principal, interest & fees.

### **Repayment amount**

The contracted amount (if any) due to be repaid per period for the term of the loan.

### **Repayment frequency**

The regularity with which a scheduled repayment must be made (typically daily, weekly, fortnightly, monthly, quarterly or maturity).

### **Loan amount**

Amount borrowed inclusive of any origination and/or establishment and/or settlement fees.

### **Disbursement amount**

The amount borrowed exclusive of any origination and/or establishment and/or settlement fees.

### **Early repayment (or prepayment)**

A payment made by the borrower to the lender in excess of amounts contractually due under the loan agreement.



## **Early repayment (or prepayment) fees**

An amount charged in relation to an Early Repayment (or Prepayment) including interest and fees applied in excess of the contractual rate for the period ending when the Early Repayment (or Prepayment) is made.

For completeness, where the amount is indeterminant on the date the loan agreement is entered into (i.e. where the date of Early Repayment (or Prepayment) determines the Early Repayment (or Prepayment Fee), then a minimum and maximum fee should be provided.

## **Late payment**

Where a contractual payment is received after the date on which it is due under the loan agreement.

## **Late payment fee**

The fees applied to a Late Payment.

## **Dishonour**

Where a scheduled payment, pursuant to the loan agreement, is not paid by the borrower.

## **Dishonour fee**

The fees applied to a Dishonour.

## **Application fee**

The amount by which the disbursed amount of a loan is less than the notional amount of the loan.

## **Origination / Establishment fee**

The amount by which the disbursed amount of a loan is less than the notional amount of the loan.

## **Drawdown fee**

The amount by which the disbursed amount of a drawing is less than the amount of the drawing under the loan agreement.



## **Settlement fee**

Any fees charged by a lender to disburse funds, that is not an Application Fee, an Origination Fee or an Establishment Fee.

## **Partner / Broker commission / fee**

An amount paid to a broker or referrer in relation to a specific finance agreement, where that finance agreement was entered into by a lender following a referral made or application submitted by the broker or referrer.

This amount is paid by the borrower (typically by capitalising the amount of the fee to the amount of credit) and/or by the lender.

## **Direct debit fee**

An amount paid to a lender by a borrower for each payment made by direct debit.

## **Facility fee**

An amount paid to a lender by a borrower for the continued provision of a line of credit to that borrower. The fee may be paid either at establishment of the line of credit, or periodically after establishment according to an agreed schedule.

## **Products**

### **Fixed term unsecured loan**

An amount of credit that is disbursed to a borrower (or another nominated recipient) in full at establishment, repaid over a fixed term with an agreed number of equal payments comprising principal and interest.

As the loan is unsecured, the lender is not able to exercise an interest in any collateral in the event the borrower fails to make agreed payments.

### **Secured business loan**

An amount of credit that is disbursed to a borrower (or another nominated recipient) in full at establishment, repaid over a fixed term with an agreed number of equal payments comprising principal and interest.



As the loan is secured, the lender may exercise an interest in agreed collateral in the event the borrower fails to make agreed payments.

For business loans, security collateral is typically an asset being purchased with borrowed funds, other business assets, or residential or commercial property owned by a director of the borrowing company.

If security collateral comprises residential or commercial property, a lender may protect their interest in that property by way of a secured mortgage (including second mortgage), or with a caveat against the title of the property that prevents selling or mortgaging that property without the lender's consent.

## **Line of credit / revolving line of credit**

An ongoing credit facility characterised by:

- A pre-approved credit limit, being the maximum amount of credit that may be accessed by a borrower, set at establishment by the lender with reference to the borrower's objectives and borrowing capacity; and
- A balance, being the amount of credit outstanding at a point in time. Amounts of credit may be accessed by the borrower without further approval, so long as the resulting balance is below the credit limit.

Interest is charged on the outstanding balance of the facility, and periodic minimum repayments of principal are required to be made by the borrower. A facility fee may be charged to the borrower at establishment or periodically according to an agreed schedule.

## **Invoice finance / debtor finance / factoring**

An advance of cash from a lender to a borrower, with the right to collect on unpaid invoices provided to the lender as collateral by the borrower.

The amount advanced by the lender to the borrower may differ by lender and product. For example, the face value of the invoices may be discounted or 'factored'; the value of the invoices less this discount is then paid to the borrower. Depending on the invoice finance arrangement, the amount discounted may be paid to the borrower later - typically less a fee - after the lender has collected on a portion of the borrower's invoices.

Similarly, the amount repaid by the borrower to the lender may differ by lender and product. Borrowers may be required to repay an amount exceeding the amount originally borrowed, calculated using either an interest or factor rate.



## **Equipment (operating) lease / finance lease**

A lease is a contract in which the finance provider (lessor) is the legal owner of the leased asset for the duration of the contract. The customer (lessee) is given operating control over the asset in exchange for regular lease payments.

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership from the lessor to the lessee. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

The arrangement of a finance or equipment lease is characterised by:

- The lessee selecting an asset to lease
- The lessor purchasing the asset to be leased
- The lessee being given rights to use the asset for the duration of the contract, and in return making regular payments to the lessor as described by the lease agreement

Depending on the lease arrangement, the lessee may or may not be given the option to acquire the asset during or at the completion of the lease agreement.

## **Vendor / program finance**

An advance of credit by a vendor (or alternatively by a third party lender) to a customer for the purpose of purchasing the goods, services or real estate being sold by the vendor.

The vendor typically offers terms to the purchaser to pay a proportion of the purchase price upfront (a deposit) and the outstanding balance via regular instalments. The provision of vendor finance may or may not attract interest charges on the outstanding balance or fees in relation to the agreement.

## **Interest only loan**

An unsecured or secured loan that is disbursed in full to a borrower (or another nominated recipient) at establishment, with no repayment of principal due until the end of an agreed term.

Periodic payments of interest amounts, typically based on the amount of credit outstanding, are made by the borrower to the lender (or capitalised to the loan balance) throughout the term of the loan according to an agreed schedule.

## **Overdraft**

An amount of credit provided by a bank when the balance of a bank account reaches zero.



## Survey specific

### **Stacking**

Provision of a credit product to a customer who already has an outstanding loan (or loans) with one or more other lenders.

### **Decline rate**

The percentage of full credit applications that are declined for a specific product by a lender.