#FinanceConfident

A series of five business guides

5. Conversing with funders

Speaking the language of finance

Newable Finance
Finding the right finance for you

Newable

Now is the time for planning to become action as we enter the next phase of the economy.

This series of five guides is aimed at helping business owners and decision-makers to be finance confident as they navigate a changing and uncertain environment. These will guide you through five important aspects of business finance:

1. Confidence to plan
Business planning and cashflow forecasting

2. Cashflow mastery
Maximising cash coming in, controlling it going out

3. Credit checklist
What to do before you approach funders

4. Choices
Overview of the products available for different business requirements

5. Conversing with funders
Speaking the language of finance

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Conversing with funders

Every business sector has its own jargon and shorthand, and finance is no different in that respect.

What makes finance slightly different is that it has a language crammed with maths, accounting and economics terminology. So, there's quite a lot to navigate when you are going through the application process, and as you then progress on your business journey with finance.

At Newable Finance, we take the time to make sure our customers are comfortable and in control when it comes to understanding their finance facilities.

To help you on your way, the following is an introduction to some of the terms and phrases most frequently used in business lending.

A dictionary of business lending

Advance rate
This relates to the percentage of the collateral being loaned against that the lender is willing to extend as a loan. So, if you were taking out an invoice finance facility it would be the agreed percentage of eligible debts available to you.

Approved debt
This links to the above and is the debt an invoice finance company has accepted as being eligible for prepayment.

Amortisation Profile
Amortisation refers to the process of paying off a debt with regular payments over time. The amortisation profile is the loan term to which the payment schedule is set.

Assignment
If you are using invoice finance it is the finance provider's legal right to collect monies from your debtors instead of you being able to do it.

Availability
The money you can draw from your facility during a defined time period.

Company Guarantee
This is an agreement between a company, a lender and a guarantor. The guarantor could be another company, LLP or other lenders who agree to become responsible for handling the debt payments should the company not be able to.

Contra-trading
With invoice finance you may have to take into account a trading relationship that involves buying and selling to and from the same customer. This will need to be offset when examining eligible invoices.

Covenants
These are conditions that the borrower agrees to which restricts them from doing specified actions.

Current assets
These are assets that you could convert into cash within a year, such as debtors and stock.

Debenture
A loan agreement used between a lender and a company. It is registered at Companies House to take security over the company's assets in relation to the loan.

Debtor concentration
The share of your total debtor book taken up by each debtor. So, if you have one large customer and most of your invoices go to them you would have a high debtor concentration.

Debt Service Cover Ratio (DSCR)
This is a ratio of operating income that is available to service the company's debts and therefore a measurement of a company's ability to cover the payments. The higher the ratio, the easier it could be to obtain a loan.

Dilution
These are factors that can reduce the value of the invoices needing paying. The best example of this is a credit note.

Disapprovals
These are invoices that cannot be funded against due to any number of reasons. This could be because they are very old or perhaps relate to factors concerning financial status.

Discount charge
In invoice finance terms, this is the cost of the money that you draw down.

EBITDA
This is an accounting terms which is shorthand for Earnings Before Interest, Tax Depreciation and Amortisation. It is a measure of the operating profitability of a company.

Fixed assets
These are your assets held for business use rather than assets that are to be converted into cash over a period of time (see Current assets). Examples of these are plant & machinery and real estate.

Facility limit
If you have a lending facility this is the maximum amount you can draw upon at any one time.

Ineligibles
These are business assets that a lender will not lend against as collateral.

Loan Contractual Term
The length of time that a borrower and lender are bound by the borrowing contract.

Personal Guarantee
Agreement entered into by individuals to repay a loan to a company in the event that the company defaults.

Reassignment
See Assignment. This is a debt previously assigned to an invoice finance company that is assigned back to you for some reason.

Reconciliation
This is a month end process where your sales ledger is matched to the balance recorded by your invoice finance provider.

Refactoring fee
If an invoice gets over a certain age this is an additional charge to cover the suspected increased cost of collecting the debt.

Service fee
This is the charge made by the lender for providing your facility.

Take-on debts
These are the invoices an invoice finance provider will 'take on' when you start your facility. The total value of these invoices is used to calculate the funds you will have available at the start of the facility to draw upon.

A dictionary of mortgages

1st Charge Mortgage
This is the principal mortgage taken out by the borrower to purchase a property.

2nd Charge Mortgage
A 2nd charge mortgage works in the same way as a 1st charge mortgage but is an additional mortgage which uses the positive equity in a property as security.

Annual Percentage Rate of Charge (APRC)
This is the total cost of credit calculated as an annual percentage of the total amount of credit.

Automated Valuation Model (AVM)
Where the value of a property is established using recent local sales and trends in values.

Bank of England Base Rate
The interest rate set by the Bank of England upon which mortgage providers set their own, always higher, rates.

Base Rate
As opposed to the above, Base Rate is a term used by mortgage lenders to refer to their own internal reference rate.

Capital and interest
This is the industry term for a repayment mortgage where you pay off both interest and capital each month.

Capped Rate
A ceiling where your interest rate over an agreed time period cannot go above.

Compulsories
An industry term for compulsory insurances.

Discounted Rate
Where an interest rate offered to you has a rate that is discounted below an industry rate such as the ‘Base Rate’ (see above).

Distance contract
Where a mortgage has not been been undertaken face to face.

Early Repayment Charges (ERC’s)
A charge applied if you pay off your mortgage earlier than the agreed payment schedule.

Execution-only/Non-advice
A financial service provided based purely on what you ask for. A decision that is not based on any form of advice from the provider.

Gross Development Value (GDV)
This refers to the revenue anticipated from of a completed property development. It provides a measurement of the capital and rental value of their property or development project once works are completed.

Higher Lending Charge
If you only put in a little money yourself to the purchase then this may attract a levy in the form of an enhanced interest rate to cover the increased risk to the lender.

Illustration
An estimate of the monthly payments you would have to make given at the outset to see if you wish to go into more detail and have an offer confirmed to you.

Interest only
A mortgage where you only pay the interest and do not pay off the capital.

Loan to value
The amount to be borrowed divided by the purchase price.

Loan to Gross Development Value (LtGDV)
See GDV. This is the ratio of the proposed amount of money to be lent against the predicted Gross Development Value.

London Interbank Offered Rate (LIBOR)
This is the interest rate that banks use to lend to each other.

Non status loan
This is where a lender has not taken your income into account in providing the loan.

Overpayment
Where you pay off more than the payment schedule requires you to. Usually, you can overpay by a certain amount without attracting a levy.

Payment holiday
Where you are allowed by contract to take a short break from your payment schedule.

Personal Guarantee
Agreement entered into by individuals to repay a mortgage in the event that the mortgagee defaults. It can be found within certain types of mortgage contracts such as Guarantor Mortgages.

Procurement fee
Where the mortgage provider pays a fee for introducing a customer.

Secured
If you default, the mortgage provider can, by contract, repossess your property to recover their money.

Status
A term used to describe your credit record.

Standard variable rate (SVR)
This is the mortgage provider’s core rate which is set according to the prevailing Base Rate (see above).

Tracker
This is where your interest rate ‘tracks’ the Base Rate (see above). It can move up and down as the Base Rate moves.

Term
The time period of your mortgage.

Terms
These are the conditions under which a mortgage is offered.

Underpayment
Where you pay less than agreed in your payment schedule, agreed under your contract with the mortgage provider.

Unsecured
A mortgage that does not require any collateral and is not secured against the property.

Are you feeling #FinanceConfident?

The team at Newable Finance is passionate about helping its customers be finance confident, as we all navigate what is a changing and sometimes uncertain business environment.

It will get better and opportunities are opening up all the time and we are here for anything you need to get your business plans motoring. Keep an eye out for #financeconfident as we will have more help, advice and insights over the months to come.

Newable Finance is a UK finance broker dedicated to finding the right finance solutions for SMEs and property backed businesses across the UK and in every sector.

We help businesses access the finance they need to:

Thrive Expand Grow Innovate Diversify

Being able to access the right funding when it is needed is a critical part of the growth journey of your business. Newable Finance can provide you with the independent perspective, whole of market reach and the depth of experience to secure the fast and flexible finance required to deliver your growth ambitions.

Newable Finance forms a key part of Newable, a leading UK provider of money, advice and workspace to SMEs, established in 1982. Newable Finance is an FCA authorised finance broker.

newable.co.uk/money/finance

- Asset based finance
- Asset finance
- Auction finance
- Bridging loans
- Buy to let mortgages
- Cashflow support
- Commercial mortgages
- Construction finance
- Development finance
- Invoice finance
- Merchant cash
- Recovery Loan Scheme
- Renewable energy finance
- Residential mortgages

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