# Common banking terms

| Bank Terms | Description |
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| **Assumptions** | Estimates on how your business will operate in the future. When determining your assumptions, use realistic targets that you believe are achievable. Start by using your historic financial information and looking for any trends in this information. Any industry information provided by independent reputable companies will give your assumptions credibility. This is particularly useful where you are going to provide your budget to a potential or current lender or investor. |
| **BAS** | Business Activity Statement. Required by the Australian Taxation Office for all businesses that are registered for GST. |
| **Business plan** | A written document that describes the direction of your business and create strategies to achieve your goals. |
| **Business case** | The justification on why a project should be implemented by the business. Usually well documented it is intended to convince decision makers to allocate resources to the proposed project. |
| **Capacity to repay** | The determination made by a lender on whether a borrower can repay a loan after examining financial statements, financial ratios and business operating information. |
| **Capital** | The net worth of a business, including such things as assets, cash and property, which exceeds its liabilities (debts). Also referred to as the amount of money invested in a business to generate income. |
| **Cash flow forecast** | Sets out all expected payments and receipts in a given period. It is different from the projected profit and loss account, and in times of cash shortages may be more important. The cash flow forecast also helps you to get a picture of funding gaps that may be in your business which you may ask a bank to cover i.e. the shortfall that occurs after paying suppliers and creditors, if applicable, turning work in progress or stock into sales and collecting money from customers. Forecasts should include all assumptions used to arrive at the projected cash flow, for example increased sales versus historical actuals +10% and add in the reasons why. |
| **Cash reserves** | Cash put aside that is available on demand for a specific use or emergency situation. |
| **Collateral (security)** | In the legal sense, 'security' is a legal right against a particular asset belonging to another. For example, a bank may hold security over the home of a small business owner as collateral for a loan. |
| **Conditions precedent** | Actions or events that must happen before the bank will provide loan funds. |
| **Conditions subsequent** | Actions or events that must occur after the loan funds have been provided. |
| **Credit bureau history** | A record of an individual's or company's past borrowing and repaying behaviour. Your credit history is contained in a credit file and it will include credit applications and enquiries you have made during the past five years; records of some current credit accounts; overdue accounts (defaults) which may have been listed against your name; bankruptcy information; |

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| | judgements; and public record information such as directorships and proprietorships. There are a number of companies that can assist you in accessing your credit history. |
| **Cost / benefit analysis** | An evaluation of the total anticipated cost of a project compared to the total expected benefits in order to determine whether the proposed project is worthwhile for the business. |
| **Covenants** | A covenant is a contractual agreement between two or more parties that binds them from certain actions and/or to undertake certain actions. For example, a borrower is bound to provide financial information to a lender or has to achieve a minimum level of profitability so as to ensure they meet commitments, or is to refrain from incurring further debt during the life of the loan. |
| **Draw down** | The provision of loan funds. These can be provided in lump sum or as a number of progressive payments. |
| **Debt Service Cover (DSC)** | Measure used by most banks to determine the cash available for debt servicing of interest, principal and lease payments. Most banks have a minimum DSC ratio that businesses must meet to be approved. |
| **Financial statements** | Usually the profit and loss statement, balance sheet and cashflow statement for the business. |
| **GST** | Goods and Services Tax |
| **Interest cover** | A calculation that the bank will use to determine the actual cash available to service the interest payable on the debt taking into account possible fluctuations in interest rates over the life of the loan and the making of full use of the loan facility. |
| **Loan to Value Ratio (LVR)** | This is ratio of the value of the loan you wish to take out compared to the value of the asset you wish to borrow against. For example, if a factory is valued at $1,000,000 and the bank provides a loan/facility of up to $700,000, then the LVR is 70% and the equity 30%. |
| **Personal / directors guarantee** | Banks may require the owners of the business to guarantee the loan which effectively means that the personal assets of the owners will be provided as security to the loan. |
| **Risk** | The meaning of ‘risk’ varies according to whether you are the borrower or the lender/investor. As a small business seeking a loan, risk would be the chance you take in borrowing money and being able to repay it. You may ‘risk’ your business or even your family home to support your business finance opportunity. As a lender or investor, ‘risk’ is associated with assessing the impact potential funding will have on the business’s ability to meet interest expense and repayment obligations. |
| **Working capital** | This term refers to the cash available to fund the day-to-day operations of the business. |