Rhode Island Child Care Early Learning Facilities Fund ***Fast Facts***

Lending Terms

LISC LENDING TERMS

When pursuing a small business loan, the vocabulary can be overwhelming. Here are some terms and definitions that are helpful to have on hand through the process.

Working Capital: Working Capital is a measure of a business's liquidity (i.e., cash available to pay for operating expenses). Working Capital is determined by subtracting a business's Current Liabilities (debts due within 12 months) from its Current Assets (cash and all other items that can be converted to cash within 12 months). A lack of Working Capital can prevent a business from investing in new equipment or technology, hiring new employees, or expanding its physical footprint.

Cash Flow: Cash Flow measures the cash received and spent by a business over a given period as a result of that business's core activities. This is used to determine profitability. For example, a quarterly cash flow for a typical ELC would measure tuition and food aid revenue received during a 3-month period against the cost of operations (employee pay, rent, utilities, insurance, etc.) over that same period.

Equity: Equity typically refers to an investment in a business that results in the investor taking an ownership stake. Equity can also refer to the difference between a business's value and its outstanding debt.

Debt Schedule: A debt schedule is a detailed list of all loans made to a business and includes items such as loan term, interest rate, monthly / annual payment, etc.

Leasehold improvements: Also known as tenant improvements, leasehold improvements are changes made to a leased space that are paid for by the business renting the space in question (as opposed to the landlord). These changes are often referred to as "build outs" and are typically temporary / removable alterations to the space being leased.

Global Debt Service Coverage Ratio (DSCR): Debt Service Coverage Ratio measures a business's Net Income (i.e. income minus expenses) against the debt service requirements of a proposed loan. The formula used is: (Gross Income – Operating Expenses) divided by (Debt Service Payment). Typically, a lender will want to see this calculation yield a number no smaller than 1.20. In other words, a lender will want to see that a business's Net Income is 120% of the required debt payment. Global Debt Service Coverage Ratios are calculated across all businesses controlled by a single owner.

CLEAR Score: CLEAR is a 3rd-party package used by LISC to conduct credit / background checks on potential borrowers. CLEAR accesses multiple databases of public records to look for items such as past bankruptcies, delinquencies, charge-offs, outstanding tax liens, pending litigation, debarments, etc.

Credit Enhancements: Credit Enhancements are strategies used to induce a lender to make a loan to a business when the business in question fails to meet that lender's underwriting criteria. A Loan Guarantee from a third party is the most obvious example of a Credit Enhancement.

Revenue diversity / Revenue concentration: Revenue diversity describes a situation in which a business relies on multiple sources of income to meet its operating expenses. Revenue concentration describes a situation in which a business relies on a single source (or very few sources) of income to meet its operating expenses. Generally speaking, lenders consider businesses displaying revenue diversity to be more stable / less risky than those displaying revenue concentration.

Leasehold mortgage: In the event that a borrower is using loan proceeds to improve a leased space, a lender may secure its loan by taking a Leasehold Mortgage. A Leasehold Mortgage allows a lender to assume the borrower's lease in the event of a default on the loan in question. Use of a Leasehold mortgage is typical when the lease in question is long term (i.e. 10-15 years or more)

Lien: A lien is recorded document that allows a lender (or a contractor) to secure payment from a business for a loan that has been made (or a construction project that has been completed) by enabling that lender (or contractor) to take an ownership interest in the business's property in the event of a default. A residential mortgage is a type of lien.