Standard Credit Products and Terms

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Commercial banks are for-profit institutions that offer business and consumer banking services such as business loans, cash management, checking, savings and money market accounts, time deposits, trust services and financial planning. They are categorized as federal, state member or state nonmember commercial banks, and all are insured by the FDIC (Federal Deposit Insurance Corporation). Commercial banks in the United States range in size from small single branch institutions to large global financial institutions with billions of dollars in assets.

The breadth of commercial credit products and services offered by U.S.- based commercial banks can vary depending on the size of the bank and its target market. Most banks, however, whether big or small, have a similar set of credit products and lending criteria.

Typical Credit Products and Terms:

- **Long-term Financing (Term Loans)** –Term loans are made available to finance fixed assets (including real estate) or permanent working capital. They have specific maturity dates of one year or more, with set repayment schedules typically derived from earnings or cash flow from operations rather than from the conversion of current assets. Maximum term loan maturities typically do not exceed 10 years and are more often set at 5-7 years depending on the assets being financed. Banks will typically fund up to 90 percent of new fixed assets and 75 – 80 percent of used or existing fixed assets, including commercial real estate. Term loans can be secured by fixed assets, accounts receivable and inventory.

- **Lines of Credit** – Lines of credit are pre-established facilities that a business may use to fund temporary increases in inventory, accounts receivable, or other short-term credit needs. A line will be issued on demand or with an actual maturity date. Lines of credit that are secured by accounts receivable and inventory are often structured to be advanced and repaid according to a formula. The formula permits advances against a certain percentage of accounts receivable, typically up to 80 percent of receivables aged not more than 90 days and up to 50 percent of raw material and saleable finished goods inventory.

- **Leases** – A form of financing fixed assets whereby a bank purchases a fixed asset and retains ownership while a customer uses it. Depending on the terms of the lease, asset ownership may or may not transfer to the customer once the lease ends. As purchaser of the asset, the bank enjoys certain tax advantages (such as depreciation) that come with ownership. For the customer, a lease arrangement has some advantages over a term loan such as 100% financing.

- **Letters of Credit** – Formal documents which state that the bank will provide a defined amount of credit when certain, very specific conditions are met. Letters of credit are typically used in commercial loan transactions for either stand-by or performance purposes. Letters of credit are governed by the Uniform Customs and Practice for Documentary Credits and the Uniform Commercial Code, which transfers risk from one party in a transaction to the issuing bank. The collectability of the letter of credit is based on the financial strength and rating of the issuing bank. Banks will underwrite a letter of credit request similar to how a term loan or line of credit is underwritten.

Commercial banks will lend to qualified corporations, partnerships, sole proprietorships, limited liability companies and professional persons. Typically, banks will require that the sponsors have a minimum of two years of experience in the business line and be of solid character with acceptable personal and business credit histories. There are various governmental agencies such as the U.S. Small Business Administration that have programs providing support through either direct funding, loan guarantees, grants and interest rate subsidies. Depending on the program, governmental assistance can be provided on a stand-alone basis or in conjunction with bank financing.

A commercial relationship manager from a bank that has offices in the community in which your company is doing business or is planning to do business will be a valuable source of information regarding credit qualification requirements, available loan programs and financing options, and potential governmental assistance available in the market.

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