

# Top Ten Small Business Financing Terms

A guide to help you understand loan language



Small Business Finance

## 1. Debt Service Coverage Ratio (DSCR)

○ The amount of cash flow left over after the business has paid all its expenses. 1:1 means the business has \$1.00 of net cash flow for every \$1.00 of debt (existing and requested). [Click to view DSCR video.](#)

## 2. Loan to Value (LTV)

○ The value of the collateral compared to the value of the loan and usually expressed as a %. Calculated by taking the loan amount divided by the net value of the assets.

## 3. Business Entity

○ This is the legal structure of your business. Common business entities include sole proprietorships, Limited Liability Corporations (LLC) or Corporations among others. Your choice in business entity may dictate what type of tax forms you fill out and what types of legal documents you may need to provide for your loan.

## 4. Distribution

○ Cash funds taken from business paid to owners/shareholders. Many business owners may use this as a way to pay themselves, however this is not to be confused with payroll.

## 5. Debt to Credit or Credit Utilization Ratio

○ Total debt being used as a percentage of the total credit available. [Click to view the 5 C's of Credit video.](#)

## 6. Collateral

○ Assets pledged to lender as security on the loan.

## 7. Personal Guaranty

○ The business owner's individual commitment to pay the business loan.

## 8. Equity Injection

○ Down payment or cash contribution by borrower towards the total project costs.  
[Click to view the Down Payments video](#)

## 9. FICO/ Credit Score

○ A numerical rating of your credit history, typically between 300-850 and based on your credit history. A stronger score is typically 670 or higher.

## 10. Directed Payment/ Controlled Disbursement

○ Loan funds are paid directly to vendors when possible or to the business owner according to the budget.