KHANDOKAR & CO.

Commercial Lending

KHANDOKAR & CO.
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Commercial Lending

Commercial loans are granted to a variety of business entities, usually to assist with short-term funding needs for operational costs or for the purchase of equipment to facilitate the operating process. In some instances, the loan may be extended to help the business meet more basic operational needs, such as funding for payroll or to purchase smaller supplies that are used in the production and manufacturing process. These loans often require that a business post collateral, cash flows generated from future accounts receivable are used as a loan's collateral.

Renewable Commercial Lending

While a commercial loan is most often thought of as a short-term source of funds for a business, there are some banks or other financial institutions that offer renewable loans that can extend indefinitely. This allows the business to get the funds it needs to maintain ongoing operations and to repay the first loan within its specified time period. But, after this, the loan may then be rolled into an additional or "renewed" loan period. A business will often seek a renewable commercial loan when it must obtain the resources it needs to handle large seasonal orders from certain customers while still being able to provide goods to additional clients.

Securing Commercial Lending

As is true for nearly every type of loan, how creditworthy an applicant is plays a starring role when a financial institution considers giving out a commercial loan. In most cases, the business applying for the loan will be required to present documentation, generally in the form of balance sheets and other similar documents, that prove the company has a favourable and consistent cash flow. This assures the lender that the loan can and will be repaid according to the established terms. If a company is approved for a commercial loan, it can expect to pay a rate of interest that falls in line with the prime lending rate at the time the loan is issued. Banks typically require monthly financial statements from the company through the duration of the loan, and often require the company to take out insurance on any larger items purchased with funds from the loan.

Mezzanine Finance

Mezzanine refers to a layer that falls between two others. In the case of finance, it comes between debt and equity. Essentially, it is debt capital that has been subordinated to that provided by senior lenders (such as banks) and therefore carries a higher rate of interest. It is generally used in management buyouts, and in other cases where a company has difficulty borrowing from a bank – perhaps because it is a new business, or simply because there is a lack of assets against which the bank can obtain security.

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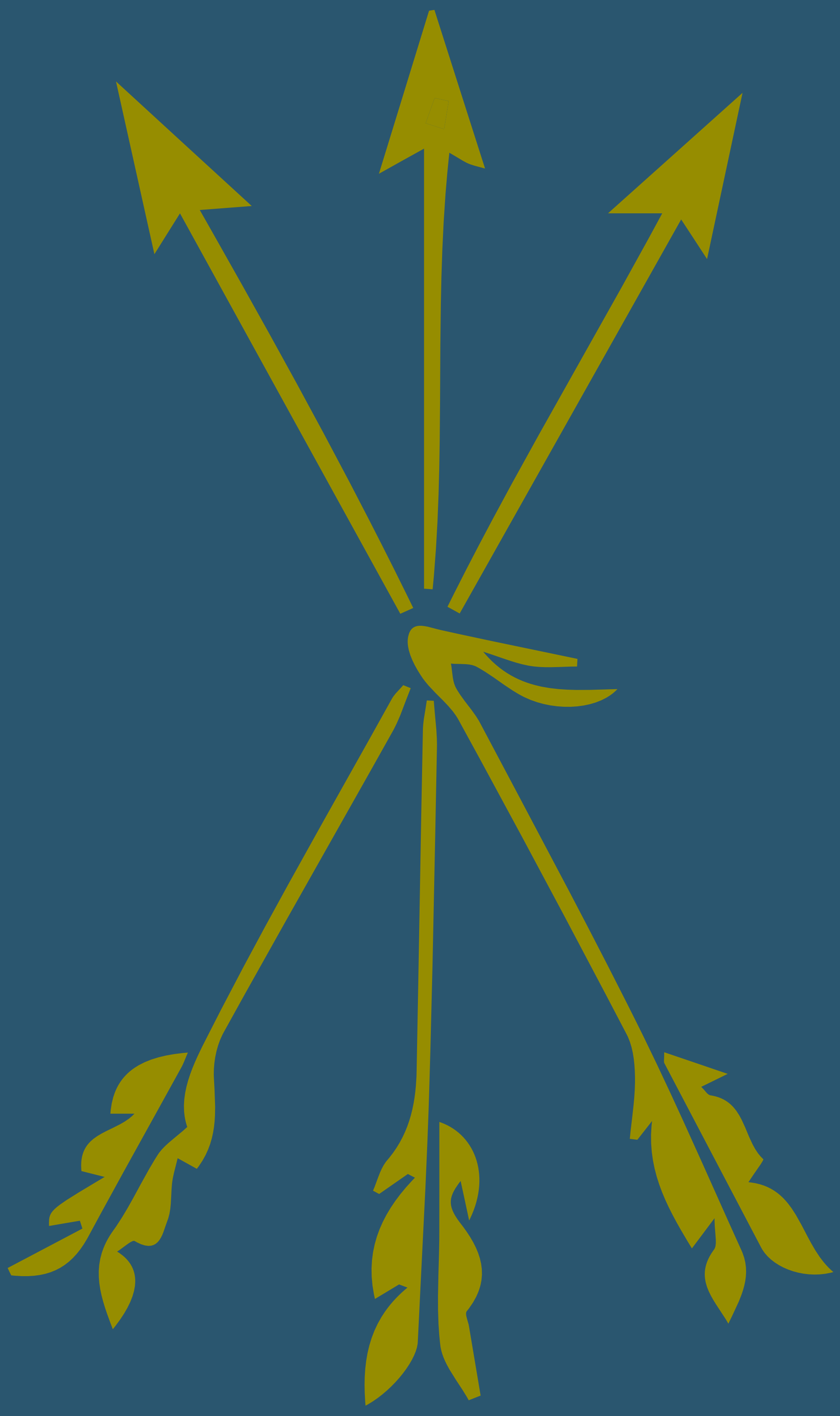

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