Széchenyi István University
Kautz Gyula Faculty of Economics

Financial Services and Decisions

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Széchenyi István University
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Seminar 4

Valuation of Loans

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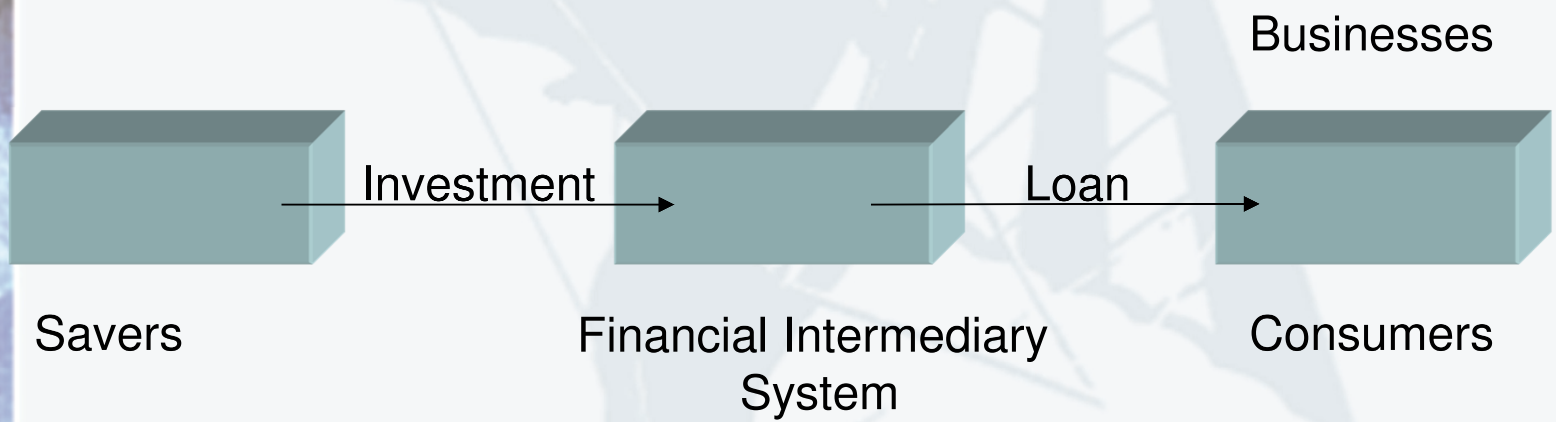
The Concept of Loans



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The Concept of Loans

▪**Borrowing:**

= To obtain or receive money on loan with the promise or understanding that it will be repaid.

▪**Loan**

= Temporary borrowing of a sum of money.

▪**Features:**

- Fixed term
- Interest rate is set

Valuation Factors of Loans

- **Valuation factors:**
  1) Term
  2) Collateral
  3) Creditor/Debtor
  4) Interest rate

1, Classification by term

- Long-term loans
- Short-term loans
- Overdraft

= Account is allowed to go into debit, usually up to a specified limit

- Golden Rule of Corporate Financing

2, Classification by collateral

- **Collateral**

= is a form of insurance to the lender in case the borrower fails to pay back the loan.

- If the company defaults on its debt …
- Secured and unsecured loans
- Most common forms:
  - Asset-backed loans
  - Guaranteed loans

Asset-backed loans

- A loan is collateralized by specific assets
- Types of assets as collateral:
  - Mortgage
  - Equipment
  - Accounts receivables
  - Inventories
  - Securities

Guarantee

- Guarantee

= a promise made by a third party to provide payment on loan in the event of default.

- Consequence

3, Classification by creditor/debtor

- **Commercial credit**

= credit offered to business customers

- **Trade credit**

= supplier allows the customer a period before expecting an invoice to be settled

4, Classification by rate of interest

- **Fixed rate of interest**
- **Floating rate of interest**

= interest payment varies with the general level of interest rates.

- Benchmarks:
  - London interbank offered rate (LIBOR)

    = the rate at which international banks lend to one other
  - Federal funds rate

Thank you for your attention!

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