Széchenyi István University
Kautz Gyula Faculty of Economics

Financial Services and Decisions

2 May, 2013

SZÉCHENYI ISTVÁN UNIVERSITY
KAUTZ GYULA FACULTY OF ECONOMICS

Seminar 5

Valuation of Loans (part 2)

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Review

- **Borrowing:**

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

- **Loans**
- **Valuation factors of loans:**

1) Term
2) Collateral
3) Creditor/Debtor
4) Interest rate

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

What determines interest rate?

- **Macroeconomic and microeconomic factors:**
- **1, Country risk**
- **2, Inflationary expectations**
- **3, Creditworthiness**

What determines interest rate?

- **3, Creditworthiness**

= the extent to which a firm can safely be granted credit.

- **Credit rating**
  - Business plan
  - Historical data

Assessing creditworthiness

- **Business plan:**

  = a detailed plan setting out the objectives of a business over a stated period.

- **Financial statements:**
  - Balance sheets
  - Profit and loss account

Assessing creditworthiness

- **Financial ratios:**
  - Leverage ratios
  - Liquidity ratios
  - Efficiency ratios
  - Profitability ratios