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Labor Costs: consist of the remuneration paid to workers by a company or a factory to the regular staff, casual staff, or staff on contract in the form of wages, salaries, allowances, or overtime; it also includes costs of other benefits such as housing, transportation, provident fund contributions and health care facilities.

Labor Intensive: an industry or a production process where the units of labor used per unit of output is comparatively higher than other factors of production, such as hand-knotted carpet industry in Pakistan.

Lack of Transparency: an activity or transaction undertaken without all facts being disclosed to the parties concerned where public accountability is requested or desired, particularly in the grant of contract, allocations or appropriations; transparency is specially needed in items of public expenditures.

Large Value Transfer System (LVTS): also called High Value Transfer System (HVTS); a central mechanism of any payment system; typically processes credit transactions for which immediate and final payment is required; the users are financial and investment institutions; the operators are central banks, such as Federal Reserve of the US (Fedwire), Bank of Japan (BOJ-NET), private clearing houses (CHAPS, CHIPS); these systems are used for:

- interbank clearing balance transfer for settlement in money market and foreign exchange market.
- corporate fund transfers or bill payments when speed and assurance of transfer is important such as in finalizing large financial contracts.

- retail consumer payments for large purchases such as a house or a car.
- payments for trading in highly time critical securities. *(see Payment System)*

Laundering of Illegal Funds: transferring and channeling funds earned by illegal means through banks or other financial institutions so that it may be turned into legal money; that is, turning black money into white; this is an illegal activity and banks involved in such practices, being a party, expose themselves to punitive action.*(see Money Laundering)*

Lead Bank: in consortium financing when a group of banks join to finance a large loan, one bank acts as the group leader who handles the transaction and manages the debt on behalf of the group and keeps the other participating banks informed; but the terms and conditions of the loan are set jointly by consortium members.

Lease: is a contract whereby the owner of an asset; the lessor, gives the hirer, the lessee, the right to use the asset for a specified period in exchange of rental payments; the ownership of the leased asset during the lease period remains with the lessor.

Leased Assets: are assets such as real estate, machinery, equipment or other fixed assets, leased out as per lease agreement; the lessee acquires these assets through the agreement for use for a specified time in exchange for payment usually in the form of rent or leasing costs; the ownership of leased assets remains with the lessor during the lease period.

Lease Financing: a leasing contract for machinery and equipment or other fixed asset usually has an element of financing as the right to use the asset is received by the lessee without paying the cost of the asset and thus leasing arrangement is tantamount to a source of finance; for the lessor there is risk of non-payment of lease rentals which is covered by a right to repossess the leased asset, further backed by other collateral or guarantee, if any.

Lease Financing Receivables: periodic payments or rent payable by the lessee of a leased asset, under a lease agreement which have not yet been paid but fallen due for payment.

Lease-Hold: if the owner of an asset grants its use and gives its possession to a lessee for a definite period of time under a lease agreement, the asset is held by the lessee as lease-hold; this is in contrast to freehold which refers to ownership of an asset or estate for life usually with a right to bequeath it to one's heirs.

Lease-Hold of Land: if the owner of freehold land or a landlord gives a right to a lessee to possess and use it for a number of years against rental payments as stated in the lease granting document, the right is termed as lease-hold of land.

Lease Payments: periodic payments, installments or rentals paid or payable by the lessee of an asset under a lease agreement.

Leasing Companies: are companies whose business is to provide assets to its customers under lease agreements; their profit is based on the difference between the cost of funds invested, whether borrowed or own equity funds, to acquire the assets and the earnings in the shape of rentals received from the lessees; the lessor gets tax benefit for depreciation as the ownership of assets remains with the leasing company, and the lessee shows the rental payments as expense in his income statement.

Legal Framework: concerning;

- ***Audit System:*** laws, rules, regulations, and relevant provisions of mercantile law governing the audit system in a country.
- ***Banking:*** banking act, laws and ordinances, governing the banking business in a country; for example, in Pakistan, the Banking Companies Ordinance 1962, Banks (Nationalization) Act 1974; Companies Ordinance 1984.
- ***Banking Institutions:*** banking act, laws, ordinances and regulatory directives under which banks are established, owned and managed in a country; for example, National Bank of Pakistan Ordinance 1949, State Bank of Pakistan Act, 1956, Banking Companies Ordinance 1962, and Banks (Nationalization) Act, 1974.
- ***Banking Supervision:*** banking act, laws, ordinances empowering the regulating and supervising agencies such as the central bank to exercise control and supervision of banks and their operations within the country; or to regulate international banking transactions by overseeing adherence to international business laws and embodiments such as Uniform Custom and Practice (UCP). The State Bank of Pakistan is empowered for banking supervision.
- ***Finance:*** consist of laws, acts and ordinances governing finance; together with their extensions and interpretations embodied into rules and regulations which are equally binding on those engaged in finance.
- ***Nonbank Financial Institutions:*** laws, acts, ordinances, rules and regulations of a country governing the formation and business operations of nonbank financial institutions.

Legal Infrastructure: consists of the institutional and organizational structure and administrative system responsible for the enforcement of laws, ordinances, rules and regulations and compliance with court decisions and the outcome of judicial process such as:

- ***the system of courts*** consisting of the hierarchical structure of various courts, together with their supportive administrative and judicial system, to provide a viable mechanism of adjudication of disputes and cases.
- ***the system of access*** to legal remedies and to the courts, their costs and availability, expediency and adherence to the due process.

Legal Lending Limits: the mandatory limit prescribed for maximum bank lending to a single borrower or group, or against a security; for example, in Pakistan, as per prudential regulations, banks can extend credit facilities to a single borrower up to 30 per cent of banks clear equity; however, maximum limit for fund based credit is 20 per cent of clear equity.

Legal Remedy: legal means by which the violation of a right is redressed, or compensated. Legal remedies are of four kinds: by act of party injured; by operation of law; by agreement between the parties such as arbitration; and by judicial process, a legal action, or a law suit.

Lender: a bank, a financial institution, a company or an individual engaged in the business of lending money.

Lender of Last Resort: a central banking function, where the central bank acts as the ultimate source of credit to a bank or financial institution; the central bank of a country, however, acts as a lender of the last resort not only to commercial banks but also the government; in Pakistan, the SBP is the lender of the last resort; the Bank of England acts as lender of the last resort for British banks and London discount houses; in the USA, the Federal Reserve Bank performs this role.

Lender of Last Resort Facility: a credit facility offered by the central bank of a country to the local banks through which financial support, usually in the form of rediscounting of bills, is made available to the bank.

Lender's Rights: consists of claim on the borrower for repayment of debt, and in case of default, a claim on the guarantee provided by the borrower, and eventually a claim on the collateral or security tendered by the borrower to settle the debt, both principal and interest, according to the terms of loan.

Lending Activities: of a bank consist of assessing loan financing needs of the clients, evaluation or assessment of their creditworthiness, preparation of loan, approval, and disbursements of loan; this process may also include providing assistance and advice to the borrower with regard to financing needs, alternative financing options, management of financial operations, and management of a loan secured from the bank.

Lending Limit: for a lending institution, it is maximum amount that the institution may lend; the permissible size of credit portfolio of a bank or a lending institution based on its equity, and gearing ratio; the maximum amount up to which a loan or any other type of credit can be granted to a single borrower by a credit-granting authority; usually called 'credit powers' or 'business powers', such as, business powers of the provincial chief of a commercial bank or powers of the provincial credit committee; the ceiling fixed by a monetary authority for banks and financial institutions to make advances, usually expressed as a percentage of deposits, equity or liabilities. *(see, Limitations of Lending Activities).*

Lending Policies: provides the framework and guidelines for lending operations and activities of a lending institution specifying eligibility of borrowers and types of activities; lending exposure limits on borrowers and on various types of loans; lending charges and lending rates; the type of collateral or guarantees acceptable to the lending institution; these policies may be formulated by a lending institution itself, or may be tailored to rules and requirements of lending as stipulated by authorities concerned or the central bank in terms of ceilings, margins, collateral value and type of collateral, loan pricing, for various types of borrowers.

Lending Procedures: a collection of procedures concerning step-by-step processing of a lending proposal to convert it into a lending transaction including assessment, evaluation and approval of a credit proposal.

Lending Program: credit facilities to be offered to borrowers, to specific sectors or for certain activities by a lending institution; provision of lines of credits to borrowers according to a phased repayment program to finance specified ventures or prospects; self-employment credit scheme and agricultural credit scheme pursued by Pakistani banks are examples of specialized lending programs.

Lending Rate: the rate of interest or mark-up at which loans and advances are extended by lending institutions; the interest rate charged by lending institutions on various types of loans is based on the underlying risks, maturity and cost of lending, and the class of the borrower; for example, consumer credit, personal loans or short-term installments may carry fairly high lending rates, whereas medium to long term loans to prime borrowers may carry lower lending rates.

Lessee: the tenant or user under a lease agreement having a leasehold right; one to whom a lease of movable or immovable property is granted.

Lessor: one who grants a lease; the party to a lease agreement granting lease of property to another.

Letter Bond: bonds which are not registered with the authorities concerned, and can not be sold to the general public in the bonds market; when such a bond is sold to an investor, he signs a letter bond, also called investment letter, declaring that he is buying it for investment and not for resale.

Letter of Comfort: an instrument in writing whereby the issuer without commitment on his own part agrees to make every effort to assist compliance with the contract; a written assurance by a third party for the performance of another party, not to operate as a guarantee or undertaking; a letter of comfort is usually issued by a parent company on behalf of its subsidiary usually in another country.

Letter of Credit (L/C): a credit arrangement whereby a bank, on behalf of a customer makes payment to or to the order of the beneficiary; or the bank pays, accepts or negotiates bills of exchange, drafts, drawn by the beneficiary; or the bank authorizes such payments to be made or such drafts to be paid or accepted or negotiated by another bank. In formal terms, Letter of Credit is defined in the article 2 of the UCP as any arrangement, however named or described, whereby a bank, the issuing bank, acting at the request and on the instructions of a customer, the applicant, or on its own behalf:

- makes a payment to or to the order of a third party, the beneficiary, accepts and pay bills of exchange, drafts drawn by the beneficiary, or
- authorizes another bank to effect such payment, or to accept and pay such bills of exchange or
- authorizes another bank to negotiate, against stipulated documents, provided that the terms and conditions of the credit are complied with.

L/C, Acceptance Credit: a type of credit classified by terms of payment. Under this credit, the beneficiary draws a usuance bill, usually on the nominated bank. On presentation of the bill along with the documents, the nominated bank accepts the bill and returns it to the drawer who then has the option to either hold the banker’s acceptance until maturity or to discount it at finer rate, according to his liquidity position. The nominated bank forwards the documents to the issuing bank, and reimburses itself on the maturity date of the bill in the pre-agreed manner; the issuing bank releases the documents to the applicant against a trust receipt undertaking payment on the due date.

L/C, Back-To-Back Credit: these letters of credit are of two types. The first L/C called prime or master L/C, is issued on behalf of middleman's foreign buyer by buyer's bank, with middleman as beneficiary, and; second credit, called back-to-back L/C, is issued on the security of master credit and on behalf of the middleman by middleman's own bank, with the supplier of goods as beneficiary. The second credit must call for the same documents as required by the prime L/C except for suitable variations in the amount, unit price and period of shipment, validity and document presentation; back-to-back credits are somewhat different from transferable credit. *(see Transferable Credits)*

L/C, Circular: circular letters of credit are of two types: traveler's and guarantee; a traveler's L/C is a request from issuing bank to its foreign agent to honor the beneficiary's drafts drawn on itself, which it undertakes to meet on presentation; customers usually make down payment or have their accounts debited for this kind of L/C; in the case of guarantee L/C, the amount of L/C is not usually paid in cash, rather the banker issuing them claims reimbursement of drafts as and when presented; when issuing such letters, banker obtains a guarantee that reimbursement will be made on demand at agreed rate of interest, or he may require sufficient security for such credit.

L/C, Confirmed, Irrevocable: an exporter may look for added security in the form of a confirmation or additional guarantee by a bank in the exporter's own country, and if such a bank adds its confirmation to a letter of credit, it becomes a confirming bank and the L/C, in turn, becomes a Confirmed, or Irrevocable Letter of Credit; with this credit, the supplier is virtually assured of payment, provided that he complies with the terms and conditions of the credit.

L/C Counter: it is identical to back-to-back credit, except that with a counter credit, issuing bank for the second credit does not take the first credit as security; instead, the bank debits exporter's or middleman's account with payments made under the second credit; first credit is merely seen as a potential source of income to the exporter's account.

L/C, Deferred Payment: a letter of credit that requires the payment to be made on a future determinable date without involving a bill of exchange; nominated bank acknowledges receipt of documents to the beneficiary and forwards them to the issuing bank for payment at maturity; the issuing bank releases documents to the applicant against a trust receipt and instructs nominated bank to make payment on due date.

L/C, Green Clause: a type of credit used in Australian wool trade under which a bank may be asked to arrange for clearance and storage facilities besides pre-shipment advance to exporter.

L/C, Guaranteed Credit: a usual type of L/C in which the principal, the buyer, guarantees payment of the amount of the draft to the credit-issuing bank at its maturity.

L/C, Irrevocable Credit: a credit that can not be amended or canceled only with the agreement of all parties to credit, that is the exporter or beneficiary, buyer, applicant, issuing bank and confirming bank, if any.

L/C, Negotiation Credit: a type of credit classified by terms of payment whereby issuing bank arranges for the beneficiary to obtain from negotiating bank immediate value for his sight or usuance bill accompanied by correct documents; the negotiating bank, after giving value to the beneficiary, forwards the bill and documents to issuing bank who pays the sight bill and reimburses negotiating bank in pre-agreed manner; if the bill is a usuance bill, issuing bank will direct the negotiating bank to reimburse itself at maturity of the bill if it has already not done so immediately upon negotiation as per arrangement; thus, a negotiation credit with usuance bill provides necessary credit period to the applicant, while at the same time provides immediate value to the beneficiary.

L/C, Paid Credit: a credit established against 100 per cent of cash margin deposited by opener of L/C with the application.

L/C, Red Clause Credit: a credit with a special clause written into it which authorizes the advising or confirming bank to make advances not exceeding L/C value to the beneficiary or exporter before presentation of documents; thus, it offers pre-shipment finance to exporter at the request of importer; this is not an advance payment; rather, it is an arrangement whereby supplier obtains an advance from an advising or confirming bank before goods are shipped, with payment of interest and principal by the issuing bank which, in turn, has a right of recourse to the buyer; this clause originally used to be written in red ink to make instructions distinct, hence the name red clause L/C.

L/C, Reinstatement Credit: this type of credit has emerged as an alternative to standby letters of credit, for situations where:

- an importer receives regular shipments over a period of time;
- the supplier insists on payment by means of a L/C;
- the bank is unwilling to issue a L/C for the full value of shipments.

A reinstatement L/C would be established for say 12 months and covers maximum facility that the issuing bank wishes to extend; it would also specify the maximum amount of each shipment; when a shipment has been made and paid for, L/C shall be reinstated for amount of the shipment paid for.

L/C, Revocable Credit: it allows the issuing bank to amend or cancel the credit without giving prior notice to the exporter; the issuing bank can exercise its right to amend or cancel the L/C at any time up to the payment being made to the exporter.

L/C, Revolving Credit: a credit which provides for the amount of credit to be renewed or reinstated without the need to renew the L/C itself; such credits may revolve in relation to time or value; when it revolves in relation to time, the amount of credit is restored at the end of each such time; for example, if the amount of credit is fixed $20,000 per month for the duration of credit, at the end of each month, this amount of credit would become available. This type of credit may be cumulative or non-cumulative; a cumulative revolving credit allows any unused credit of previous month to be carried forward to the next month, while a non-cumulative revolving credit provides for a maximum amount of credit each month; credits that are made to revolve around value, say US $ 25,000 at any one time, within the overall validity of the credit, could allow reinstatement of each drawing immediately after it is made, and there could be no limit to the frequency of such drawings. A credit which provides for partial shipment of a single order by reinstatement, with specific quantities of goods to be shipped at regular intervals, is not a revolving credit but called periodic credit referred to in Article 41 of UCP 500. In contrast to a reinstatement letter of credit, when a bank issues a revolving credit, the bank and its customer takes on a liability for the full amount; for example, a cumulative revolving credit of $ 10,000 per month for 12 months mean that the bank is taking liability up to $ 120,000. In contrast, a reinstatement letter of credit puts a limit on the maximum liability of the bank and its customer.

L/C, Sight Payment Credit: a type of credit classified by terms of payment. Under this type of credit, the beneficiary will obtain payment from the nominated bank as soon as the documents are examined and found in order except where the credit requires the bill of exchange to be drawn on the issuing bank, or the payment to be made at the counter of the issuing bank.

L/C, Standby Credit: this type of credit compensates the beneficiary for nonperformance of certain obligation by the applicant, opener of credit. In countries where banks are prohibited from issuing guarantees and performance bonds, the banks issue L/C instrument called standby L/C.

L/C, Transferable Credit: an L/C is designated as “transferable” by issuing bank, at the request of the applicant, under which the first beneficiary can transfer his rights and obligations to one or more other parties, each transferee is known as second beneficiary, either in the same country or in another country; the second beneficiary, however, may not request further transfer; where partial shipments are permitted, the first beneficiary may request transfer of the credit in parts to separate second beneficiaries; the transferred credit must incorporate same terms and conditions as of the original credit except as permitted under back-to-back credit.

L/C, Transit Credit: a bank may ask an overseas bank to advise and sometimes open a credit in favor of a beneficiary in yet another country; thus, in a transit credit, the applicant bank, the advising bank and the beneficiary are in three different countries.

Letter of Credit Guarantee: is a bank issuing a commercial letter requires the borrower to whom it is issued to tender a guarantee to pay all drafts issued, and to be responsible for the validity, correctness and genuineness of the supporting documents; this guarantee is commonly known as letter of credit guarantee.

Letter of Guarantee: is a letter of contract issued by the surety or the guarantor, who undertakes to pay or compensate the creditor or the beneficiary an agreed amount if the borrower or the debtor defaults on the credit.

Letter Stock: is an un-registered stock issued by a new, small firm to avoid expenses of under-writing; these securities are sold usually at a discount to those interested in speculative purchases through a letter stock signed by the purchaser or investor declaring that the stock is being bought for investment and not for resale.

Level of Reserve: are the reserve funds held against contingencies; for example, reserves of a bank maintained in cash and approved securities to cover deposits and other liabilities in proportionate manner; or total reserves of a business enterprise in comparison to the capital and short term liabilities; or retained earnings of a company to meet contingencies; for a central bank, foreign exchange reserves of a country consisting of holdings of convertible currencies, gold, SDRs and reserve position with the IMF.

Level-Payment Plan: is an amortization plan that provides for equal monthly payments covering both principal and interest during the term of the mortgage.

Leverage: is the use of borrowed funds to increase return on equity and is measured by the proportion of debt to equity in a firm's capitalization, the leverage ratio; leveraging affects the structure of capitalization through the use of senior capital and other assets of the company for borrowings, and it causes a faster growth in the assets of a company relative to equity, and even faster growth in the debt outstanding which ranks ahead of junior equity in claims on returns; leveraging enables a company to enhance its business operations, thus it enhances profitability, return and dividends on originally invested capital, as long as the future rate of return turns out to be higher than the interest cost of borrowed funds; leveraging also enhances company's exposure to financial risk consisting of business and market risks, and specially interest rate risk; if the rate

of returns falters because of a market downturn, or if it is below the average interest cost of borrowed funds, a high degree of leveraging may force the company into bankruptcy.

- ***Financial Leverage:*** is use of borrowed funds to enhance overall return on the original equity of investors, provided funds thus borrowed through issue of long-term bonds or other debt instruments enable the company to earn higher profits and returns relative to interest paid on borrowings; in the process, leveraging exposes the company to a major financial risk consisting of interest rate risk and risks associated with the net income; since the impact of leveraging is on returns to investors on their invested capital, based on increase in the net income relative to increase in operating income, as measured by earnings before interest and taxes (EBIT), the degree of financial leverage (DFL) is measured by the proportionate change in net income (NI) relative to proportional change in operating income:

  $$DFL = [(NI^*) / (NI)] / [(EBIT^*) / (EBIT)]$$

  where NI* = expected net income minus current income (NI)

  EBIT* = expected EBIT minus current EBIT

  The DFL indicates how large a change in earnings per share will result from a given percentage change in EBIT; if DFL is greater than one, there is a positive financial leverage.

- ***Operating Leverage:*** is the extent to which changes in EBIT are caused by changes in sales; when a production process becomes more capital-intensive, becomes more modernized or automated, fixed costs rise whereas variable cost per unit declines; if a high percentage of a firm's total cost are fixed cost, then the firm is said to have a high degree of operating leverage, and other things held constant, this means that a relatively small change in sales results in a large change in operating income; the degree of operating leverage (DOL) is measured by the proportional change in EBIT to proportional change in sales:

  $$DOL = [(EBIT^*) / (EBIT)] / [(Sales^*) / (Sales)]$$

  where, EBIT* = expected EBIT minus current EBIT

  Sales* = expected sales minus current sales.

  The DOL indicates how large a change in operating profit will result from a given percentage change in sales; if the DOL is greater than one, there is a positive operating leverage.

- ***Total Combined Leverage (DTL):*** is the composite of financial and operating leverages, and is measured by:

  DTL= (Percentage Change in Earnings per Share)/(Percentage Change in Sales)

Total combined leverage indicates a firm's ability to use both operating and financial fixed costs to magnify the effect of changes in sales on a firm's earning per share.

Leveraged Buyout: is a takeover of a company by an investor or group of investors, using borrowed money raised mostly on the security of the assets of the taken-over company; a method of acquiring control of a corporation by borrowing against its assets.

Leveraged Lease: is a lease under which lessor invests only a part of cost of asset being leased and the balance is borrowed from another lender; a loan that is without recourse to the borrower; in this case lender's only security will normally be a lien on the equipment and rental payments of the user.

Leveraged Stock: is the junior capital of multiple capital-structured company, generally a common stock; stock financed by credit; this term may also applied to a warrant, or to a preferred stock if it is preceded by funded debt or bank loans.

Liability: is the obligation to pay money, transfer assets or provide services in the present or future as a result of a transaction or a contractual commitment; it is the amount a bank owes to depositors and its lenders; these are debts or pecuniary obligations owed to creditors; it is the amount a debtor is liable for; a liability may contingent, which may or may not become due depending on occurrence or non-occurrence of a specified event.

- ***of banks:*** consists mainly of deposits including demand deposits; time deposits; savings deposits, certificates of deposits; also includes loan and credits outstanding borrowed by the bank from the central bank, the inter-bank market, or money market; or other liabilities assigning from the routine banking business, or from off-balance sheet activities, or cross-guarantees.
- ***of a central bank:*** includes currency notes issued and in circulation; deposits and reserves balances of the banking system; government deposits; deposits of government owned financial institutions; loans and credits outstanding on domestic or foreign borrowing operations; guarantees on bilateral swap arrangements, or on foreign deposits held by the banking system.
- ***of a company or a business*****:** includes loans and credits outstanding; accounts payable; notes payable; debentures and bonds.

Liberalization: in general, it means removal or relaxation of rules, regulations, restrictions, and directives to undertake a business or financial institutions; entry in new markets and expanding participation of new markets players; liberalization signals a major policy departure from restrictive practices and involves substantial changes and restructuring of operations depending on the objectives and purposes of liberalization.

Licensing and Registration Requirements: formalities required to be completed under relevant laws, rules and regulations before a license is issued or a registration is granted; licensing or registration is granting of permission to undertake a specified activity, exercise a certain privilege, or carry on a particular business; for example, a license is needed from the State Bank of Pakistan to open a branch of a bank; or a registration has to be made with the Registrar of joint stock companies, for incorporating a company.

Lien: a right of the creditor to retain property or asset belonging to the debtor pledged as a collateral for a loan and then subject to the lien until the debtor has paid his debt to the creditor called banker's general lien; this right can be exercised in case of a default by the borrower, but only on the assets pledged as collateral to the defaulted loan; that is, lien cannot be exercised on assets or valuables kept with the bank for safe custody.

LIFO: an abbreviation of 'last in first out'; an inventory valuation method according to which the latest inward consignment of an item is assumed to have 'gone out' (sold or used) first; thus inventory on hand is valued on the basis of earlier consignments; the method opposite to LIFO is called FIFO which means 'first in first out'; the inventory on hand in FIFO method is valued on the basis of invoices of later inward consignments; and it is also a method of determining the effect of withdrawals on savings account; with FIFO, withdrawals are made from money that was deposited first, thereby losing interest on the sum last deposited.

Limit: in banking and finance**,** there are several types of limits such as:

- ***Lending Limits:*** *(see Limitations on Lending Activities)*
- ***Loan Limits:*** specified by the lending bank for a single loan, or a line of credit for a borrower.
- ***Exposure Limits:*** to various types of risks in lending or in portfolios management, as prudential guidelines or safeguard.
- ***Foreign Exchange Limits:*** stipulated by the central bank to control or regulate dealings in foreign exchange by banks whereby a bank's open position cannot exceed specified limits; or, foreign exchange trading limits specified by a bank on daily basis to its foreign exchange trading department, or to each foreign exchange trader that cannot be exceeded at a close of the day.

- ***Inter-bank Borrowing Limits:*** stipulated by banks on borrowings from each other for various types of inter-bank loans.
- ***Securities Trading Limits:*** in various layers, stipulated by the institutions concerned to manage exposure in securities portfolio.

Limitations on Lending Activities: arise from several sources and are binding on lending operations of a bank such as:

- general credit ceiling imposed by the central banks part of its annual program for control of monetary and credit expansions.
- sectoral credit ceilings specified by the government or the central bank as part of directed credit program offering sectoral allocation of banking credit.
- self imposed restrictions as part of prudential lending policy to avoid over-exposure to certain type of borrowers.
- the overall limit on lending capacity dictated by asset liability management strategies, or by gearing ratio, or by capital adequacy ratio.

Limited Guarantee: an undertaking of the guarantor, responsible up to a specified amount for the default of the borrower; guarantee for a part of the obligation.

Limited Liability: the legal exemption of stockholders from financial liability for the debts of the company beyond the amount they have individually invested; liability of shareholders towards the debts of the company being limited to the full par value of the shares held by the them, which means that in addition to the amount already subscribed by a shareholder, he shall be further liable only to the extent of the amount remaining unpaid, if any, on his holdings.

Limited-Life Preferred Stock: preferred stock with the provision for partial or total redemption of the issue at some subsequent date by means of a sinking fund and usually at a premium; if the company falls in arrears in the redemption of preferred stock pursuant to mandatory sinking fund requirement, the company shall not pay dividends on common stock.

Limited Partnership: a limited partner is the one who is not liable beyond the amount of capital contributed by him in the firm; a partnership firm where one or more partners are liable for the debts of the firm, called general partners, and one or more partners are limited partners. By law at least one partner must be a general partner, whose liability for the firm’s debts extends beyond his capital contribution. *(see Partnership)*

Line of Credit: a credit line extended under a loan agreement by a bank or by a lender to a borrower of good standing of well established loan performance record with the lender, stipulating a maximum amount that the borrower can draw down as and when needed under terms of variable interest rate and a suitable repayment period. The line of credit may be extended:

- ***by a bank to a customer;*** a credit line extended to a single customer, similar to overdraft facility but under terms of loan which may or may not be similar to over draft, and a separate loan account. (*see Overdraft*)
- ***by a bank to another bank;*** for inter-bank borrowing agreements, either domestic or foreign, providing ready access to liquidity; or in case of foreign bank line of credit, providing foreign currency loans to domestic customers under the protocol approved or authenticated by central bank.
- ***by central bank to a bank;*** a line of credit extended by central bank to participating banks in a credit program managed by the central bank, for onlending on retail basis to designated beneficiary borrowers, under a protocol specifying terms, conditions and procedures of the line of credit between the central bank and participating bank on the one side, and terms and procedures of on-lending to retail borrowers on the other side.
- ***by a central bank to the government;*** extended under the arrangements of central bank as banker to the government on terms and conditions specified for this purpose.

Liquid Assets: assets that can be easily converted into cash; cash on hand as well as cash in a bank account, receivables, government bonds and other marketable securities are considered liquid assets, their liquidity being dependent upon the ease with which they can be encashed with little or no risk of loss.

Liquid Liability: is the amount due and payable over a short period, or within a financial period; various types of cheques outstanding, bills, notes and accounts payable within 90 to 120 days; payments due on short credits within the financial year, or any financial obligation that needs to be paid immediately or within 90 to 120 days.

Liquidation: is closing down of a business, enterprise, or own assets through force and sale; forced or involuntary voluntary winding up of a business by conversion of its assets into cash for distribution, among the claimants with accepted claims; first among the creditors in order of preference; and the remainder, if any, among the owners in proportion to their respective equity holdings or equity contribution; liquidation also means dissolving a business enterprise through the sale of its assets, and thus closing it down.

Liquidation Cost: cost incurred in finalizing liquidation of a business organization.

Liquidation Process: a series of activities leading to liquidation of a business organization; initiation of liquidation petition, appointment of liquidator, selling assets and paying off liabilities are various stages of liquidation process.

Liquidation Value: net proceeds realized on liquidation of a business or a particular asset; the residual proceeds from selling off the firm's assets and paying off the firm's liabilities.

Liquidity: is nearness to cash.; the ease with which an asset can be converted into cash; the more quickly an asset can be encashed, and the smaller the risk of loss in converting it into cash, the greater is liquidity.

- ***for a business company;*** balances with bank, receivables and marketable securities are the liquid assets rated in order of their liquidity, that is, in order of the degree of ease with which these can be converted into cash.
- ***for a bank;*** liquidity consists of vault cash, balances with central bank, inter-bank balances, call money, treasury bills, certificates and marketable securities.

Liquidity Crisis: is a persistent and acute liquidity shortage that cannot be overcome by recourse to routine source of liquidity normally available to the business, the company, or a bank, thus forcing the entity to take extraordinary measures and incurring substantial costs well above the market levels, such as emergency borrowings from other banks. If the liquidity crisis is system-wide, it may lead to a gridlock in the payments system, causing a serious short term credit crunch, and forcing the central bank to pump extra liquidity in the banking and financial system, thereby losing control on monetary and credit expansion. A liquidity crisis of this type may be caused by adversity of market trends, but more often it follows in the wake of anti-inflationary measures in time of high inflation, or to relieve pressures on exchange rate.*(see Illiquidity)*

Liquidity Ratios: provide a measure of liquidity of a company or a business to meet its current obligations from current assets. These ratios are: *Current Ratio, Quick Ratio or Acid Test Ratio.*

In banking, liquidity ratios are:

- ***statutory liquidity ratio*** required by banking regulations or the central bank and defined as the ratio of bank liquidity to current deposit liabilities and a portion of time deposit liabilities.
- ***prudential liquidity ratio*** maintained by banks which consists of statutory liquidity requirements plus additional liquidity held as a safeguard or as a prudential norm, and calculated the same way as above.
- ***ratio of loans to total deposits*** indicates excess liquidity if the ratio is low and shows liquidity risk if the ratio is high.
- ***ratio of total deposits to borrowed funds****,* shows the proportionate share of these liabilities; this ratio is also used in liability management.
- ***ratio of cash,*** marketable assets and securities to total assets showing the proportion of liquid assets to total assets.

In business, for a company or a corporation, liquidity ratios are:

- ***Current ratio****;* defined as the ratio of current assets to current liabilities.
- ***Quick or Acid Test ratio****;* is the ratio of current assets less inventories divided by current liabilities; this is because while inventory is current asset it is typically the least liquid asset for a business firm, and if disposed off prematurely, such stock liquidation may cause most of the business loss.

Liquidity Requirements: needs for liquid funds in order to meet various demands for cash arising from daily business, maturing liabilities, contingencies or statutory liquidity requirements.

Liquidity Risk: a risk that a bank may have to sell assets at a loss to meet liquidity needs such as depositors' withdrawls or demand for funds; a risk to a business company or to a borrower where it may have to sell inventoried stock below costs to meet its payment liabilities, thereby increasing substantial losses.

List of Authorized Signatures: a list or book containing in serial order names and signatures of the officials of a bank authorized to sign on behalf of that bank; each signature is assigned a serial number for the purpose of reference and identification; usually the signature books are in loose-leaf binders to facilitate replacement of pages, and these books are exchanged by the banks to facilitate verification of authorized signatures on important instructions and on financial documents.

Listed Companies: companies listed with a stock exchange; companies who meet the requirements of and are listed on a stock exchange, so that shares and debt securities issued by the listed company can be quoted and traded on the stock exchange.

Listed Securities: bonds or stocks which have been listed and allowed for trading on a stock exchange; quoted securities.

Listing: placing of a share or a bond on the list of securities quoted on a stock exchange; the process of a public quotation on a stock exchange of a share or bond; the listing of a security or share enables its marketability and enhances assets to secondary market.

Loan: is the amount of money borrowed from a lender for a period of time at a rate of interest and at terms of repayments as agreed between the borrower and the lender, backed by a collateral or loan security; the term *loan* in common usage is regarded synonymous to terms like *debt, credit* and *borrowing* but is interpreted somewhat differently depending on the context; that is, a *loan* is usually meant as a self-standing liability, or a single repayment obligation, the same as is meant by the term *credit*; while the term *debt* or *borrowings* is commonly referred to as the *total amount of all loans* outstanding, the aggregate value of all loans in a borrowers' portfolio; loans are of several types classified according to the type of borrower, use of the loan funds, maturity, interest rate, method of repayment; type and quality of collateral; source, origin and currency denomination of the loan; and the overall terms and conditions.
(see Debt, Credit, Borrowing)

Loan, *by Origin and Source*:

- ***Domestic Loan;*** denominated in local currency on terms and conditions prevailing in the local market regardless of the source of loan, like local banks or local branches of foreign bank.
- ***Foreign Loan;*** denominated in a foreign currency such as US dollar, Japanese yen, German mark, or any other foreign currency and extended on interest rates, terms and condition prevailing in the market or country of currency of the loan, by any lender, or a bank located in any country. Since repayment liability is in foreign currency, borrower faces exchange rate risk and has to comply with rules and regulations concerning foreign exchange transactions.

- ***Bank Loan:*** a loan extended by a banking institution; a formal loan.
- ***Informal Loan:*** a loan obtained from informal sources such as money lenders or chit funds, civic associations, unregistered cooperatives, and personal credit sources.

Loan, *by Terms and Conditions*:

- ***Soft loans*** extended on confessional rates of interest, generous grace period and maturity suited to the needs of the borrower. Thus soft loans carry a grant element for the borrower. *(see Grant Element, Grace Period)*
- ***Hard loans*** reflect full market costs of the loan plus a spread or premium depending on the borrower's creditworthiness and competitive terms and conditions prevailing in the market
- ***Term loans***, of medium to long-term maturity at variable interest rates.
- ***Fixed or variable rate loans*** where interest is either fixed or is variable depending on the loan agreement between lender or borrower. In times of volatile interest rates, fixed loans are difficult to obtain and command a premium, a front-end fee in addition to the interest rate.
- ***Guaranteed loans*** issued with a third party guarantee besides the collateral or security furnished by the borrower, such as a bank guarantee, foreign currency deposit guarantee, a government guarantee furnished as a third party guarantee instrument.
- ***Secured or Unsecured Loans*** depending on the credit worthiness of the borrower and the amount borrowed.

Loan, *by Type of Borrower:*

- ***Government*** or sovereign loans borrowed by a government, a government department or an agency or a government enterprise, usually backed by government guarantee, the sovereign guarantee, to cover risk of default; also called public sector loan.
- A ***corporation, a company, or a business,*** borrowing from the banking system to finance their routine business needs, based on their credit-worthiness and tendered collateral.
- Individual or ***personal loans*** borrowed under binding terms and conditions and specific collateral from the banks, also called formal loans, as against amounts borrowed on personal basis, called informal loans.
- ***Small business*** or small and medium enterprise (SMEs) borrowers across various sectors of the economy.

Loan, *by Type of Maturity:*

- ***Short term Loan;*** in trade financing usually up to 90 days for a maximum of 180 days; in established business up to one year; revolving credits and overdrafts usually for 90 days.
- ***Medium term Loan;*** usually for a period of one to two years and a maximum of three years consisting mostly of the institutional loans.
- ***Long term Loan;*** typically for a period of 3 to 5 years or more, depending on the type of borrower.

Loan, *by Type of Use:*

- ***Commercial Loan;*** are extended to cover routine financing needs of businesses, companies and individuals and constitutes bulk of lending business and are a major part of the loan portfolio of commercial banks,.
- ***Sectoral Loan.;*** such as agricultural, industrial, transport loans for a defined line of business or productive activity, often extended by specialized financial institutions for longer maturities and at interest rates that may or may not be full market rates, such as those under directed credit programs.
- ***Consumer Loan;*** mostly extended to households to finance consumer durable, or retail purchases as a line of credit pre-approved by a financial institution or customized loan for a single purchase.
- ***Installment Loans.;*** are of various types like consumer loans, extended for various maturities mostly for consumer durables.
- ***Real Estate Loan;*** mortgage loans for acquisition of residential or commercial property for long term at prevailing rates, the property title being the collateral.
- ***Trade Financing Loans:*** *(see Trade Financing Credits)*

Loan Acquisition Cost: expense incurred in acquiring a loan, such as cost of loan origination, scrutiny of title documents, appraisal of title and appraisal of security, mortgage costs including legal fees for documentation, stamp duty, registration fees, and front-end fees, also called loan points.

Loan Agreement: an agreement between the lender and the borrower covering the terms and conditions of the loan, security or loan collateral, disbursement, and repayment procedures; such an agreement must fulfill the requirements of an enforceable contract.

Loan Amortization: is to pay off a loan by making a series of equal payments at regular intervals, including both interest and principal repayment.

Loan Applicant: an intending borrower making formal request for a loan from a bank, or a lender, legally capable to enter into contractual agreement.

Loan Application: a standard and formal request for a loan by a borrower; a standard process; a form used by a bank to record the loan request of a borrower; this form includes relevant and necessary inform action regarding the assets, liabilities, income, insurance and contingent obligation of the borrower and the purpose of the loan as well.

Loan Classification: *(see Classification of Problem Loans)*

Loan Closing: by the lender means closing the disbursements on an approved line of credit, or canceling the undisbursed amount of the loan as per agreed closing date of the loan.

Loan Committee: a group of officials of the lending institution for jointly considering and approving loan proposals, thereby formally propelling the institution to make these loans.

Loan Commitment: a pledge or engagement for a loan; a commitment by a bank to make the funds available to the borrower when needed; a loan limit approved by a bank in favor of its customer; an assurance to place funds as a loan at the disposal of the borrower.

Loan Costing: for a lending bank loan costing is based on the cost of loanable funds, the main cost component depending on the source of loanable funds; if the loan is funded from deposit, the interest rate on deposit is the main cost as well as the cost of deposit reserves; if the loan is funded from borrowing, by the lender then the cost of the borrowing is the main cost of the loan; loan cost also includes the administrative costs imputed proportionally to the loan amount.

Loan Demand: expressed at several levels;

- by a ***single borrower***; refers to the amount of loan being requested from a lender; also means total amount of loan financing needed by a borrower.
- originating from a ***group of borrowers*** for a particular type of loan facility, tailored to their needs and financial status.

- originating from a ***sector*** of the economy, such as loan demand for agriculture, industry, manufacturing, transport and the like.
- at the ***macro-financial*** level, the total amount of credit needed over a defined period, typically a year, whose demand is assessed on the basis of credit needs of all borrowers in a country.

Loan/Deposit Ratio: loan portfolio of a bank expressed as a ratio of its total deposits; the prescribed ratio of general deposits of a bank up to which it can make advances; a cap on this ratio operates as a check against credit expansion.

Loan Documentation: execution of documents by a borrower to secure a loan; documentation varies according to the type of loan, its terms and conditions, and the nature of security offered by the borrower, which may require registration according to the laws, rules and regulations; meticulous completion of documents is essential for creating a legally enforceable charge on the security.

Loan Documentation Unit: a department of the bank responsible for preparing the loan documents for the loan approval by bank and completion of other required formalities for the loan; the department ensures that the loan documents are maintained and updated till the loan is finally repaid.

Loan Facility: availability of loan funds for specified periods at agreed rates of interest or mark-up for a stated purpose.

Loan Finance: is the amount of funds obtained as a loan for investment in a business, a company, or a venture; or for portfolio investment to buy shares, stocks or securities, depending on the size of investment contemplated, sources and amount of other investment funds available as own finance, such as savings, reserves, or retained earnings.

Loan Foreclosure: occurs after a prolonged period of initial loan default when there is no other option left for the lender to recover from the borrower the repayments overdue on a loan, except to legally compel the defaulter to relinquish the rights on the collateral tendered for the loan, usually tangible assets or property, and force the sale or liquidation of the collateral to recover the loan, if the collateral is still intact and can be accessed by the lender; for example, in the case of a mortgage loan default, the lender may compel the mortgagor to forfeit the right of redemption and initiate legal proceedings to have the mortgaged property or the fixed asset sold or liquidated to recover defaulted loan, even partially; because, in a loan foreclosure, rarely the lender is able to recover the full amount of over dues and principal outstanding, and it is the last resort measure against the borrower, involving losses for both the parties concerned.

Loan Funding: is to finance for lending purposes; it is undertaken by a lender or a bank involving raising funds through arrange deposits and borrowings for on lending to borrowers.

Loan Loss, Bank: occurs to a lender or to a bank when the borrower has defaulted and loan repayments cannot be recovered either because the borrower is bankrupt, or the security tendered is insufficient or cannot be accessed, or has simply vanished in case of a fraud; the loan loss may be in the full amount due or in partial amount after adjustment of collateral value; loan loss has to be entered into the balance sheet of the bank and written off against income or profit of the bank; if the loan loss exceeds income or profits in a given year then it has to be written off against shareholders' funds including bank's capital.

Loan Losses, Banking System: the total amount of loan losses as specified above for the banking system in the aggregate; if the losses in the aggregate, are substantial in a banking system, they may threaten the solvency of the banking system, and involve substantial costs to the central bank and the government, specially if the insolvent banks or financial institutions are owned by the government.

Loan Loss Provision: setting aside a part of bank's income to cover anticipated loan losses; such provisioning may be made as a percentage of various classes of nonperforming loans or may be for specific loans identified as irrecoverable, and is part of banking supervision guidelines and requirements.
(see Banking Supervision)

Loan Loss Reserve: a separate reserve maintained by a bank to finance loan losses for bad debts that must be declared on the balance sheet of a bank; the reserve is gradually built-up over a period by regular provisioning for nonperforming loans of various types, and is based on loan portfolio quality and repayment performance.

Loan Negotiation: the process of negotiating terms, conditions, covenants, fees, and charges of a loan together with draw down and repayment procedures, timing, and recourse in case of nonperformance.

Loan Participation Agreement: an agreement between the lending banks to jointly grant a loan in agreed shares under a participation protocol specifying terms, conditions, costs, covenants and procedures; a commitment between institutional investors to buy or sell partial ownership interest in loans.

Loan Payment Notice: a demand for the repayment of loan; a loan is called back usually when the repayment is not being made as per schedule; a notice issued by a bank to a defaulting borrower to update repayments.

Loan Portfolio: of a bank or a lending institution consists of all loans disbursed and outstanding of different maturities; various types of loans extended to various types of borrowers of the bank; the amounts of loans advanced.

Loan Portfolio Analysis: is undertaken by a bank for various purposes such as to match the maturity structure of funding activities with the maturity structure of loan portfolio; or to assist in the evaluation of banking costs, margins and profitability; or to evaluate concentration of banks' borrowers and their business or lines of activity; or to assess the market niche of a bank to tailor its lending activities accordingly and provide better banking services.

Loan Portfolio Concentration: occurs when a large proportion of the total loan amount is advanced to a few borrowers; or to a category of borrowers delineated along sectoral lines such as agriculture, industry, transport, trade and commerce; or to a category of borrowers delineated by the size of business operation, capitalization, location, or market shares; some concentration in loan portfolio is desirable and may even be unavoidable depending on the size of the bank, its client base and market niche, but excessive concentration may expose the bank to business risks beyond its capacity to absorb and manage in times of adversity; Therefore, loan portfolio diversification may be undertaken to lower the overall risk of the loan portfolio to acceptable levels by enlarging the borrower or client base; This balancing of loan portfolio concentration and its diversification depends on a bank's overall lending strategy and market conditions.

Loan Portfolio Concentration Risks: is concentration in loan portfolio occurs because of predominance of a bank's borrowers belonging to an industry or economic sector or a line of activity thus causing concentration of risk exposure of a bank's loan portfolio; for example lending to agriculture sector borrowers, real-estate loans, retail trading, specialized businesses, or financing of speculative activities; to safeguard against concentration risk, banks stipulate credit limits by customers, or by industry or by sectors; typically, credit limits stipulate that loans to single borrowers or a group of affiliated borrowers will not exceed 20 to 30 per cent of unimpaired capital and reserves.

Loan Portfolio Evaluation: is conducted to determine the financial health and soundness of a bank focusing on: credit risk of loans in the portfolio; as well as portfolio risk which is based on bank's exposure and concentration in specific sectors or lines of lending activities; bank's lending policies and procedures and adherence to prudent lending practices; management of lending risks through monitoring of financial position of clients, or periodic assessment of collateral, or on-site review of borrower activities and loan servicing capacity; and insider lending, if any. Loan portfolio evaluation also involves determining the status of loans outstanding with regard to overdue payments, restructured loans or problem loans and their management, and bank's policies, procedures and practices in this regard.

Loan Portfolio Management: involves improving the risk and return of the portfolio through swaps, securitisation or sale to institutional investors; monitoring the overall quality of the loan portfolio through managing overdues and defaults and tracking repayment streams from borrowers; minimizing loan losses through timely and prompt actions as needed; ensuring compliance with banking rules and regulations of the central bank and compliance with bank's own lending policies and procedures from the perspective of bank's portfolio size and composition.

Loan Portfolio Quality: of a bank's loan portfolio based on risk and return profile underlying the loan portfolio and is principally measured by the proportion of nonperforming loans to total assets or to total loan outstanding indicating the relative size of impaired portfolio, defaults bad loans, and loan losses; credit concentration and overexposure to a group of borrowers, industry, sector or line of activity; their impact on bank; profits, reserves and capital.

Loan Portfolio Risk: is the composite risk of a loan portfolio based on underlying credit risks of loans outstanding, interest rate risks, maturity mismatch risks with loan funding maturity profile, concentration and overexposure risks, foreign exchange risks of foreign currency loans advanced.

Loan Pricing: is determination of an interest rate or mark-up which is to be charged on a loan, considering the lending bank's own cost of funds, cost of processing and operations and a weighted margin for risk and profitability.

Loan Proposal: a loan application containing information about the borrower, amount and purpose of the loan asked for, security offered, sources and schedule of repayment; a loan application scrutinized and processed for formal decision.

Loan Recovery: securing overdue loan repayments from borrowers; the amounts recovered on defaulted loans through various procedures listed below; the repayments on overdue, doubtful or bad loans; for recovery steps and actions are taken by a bank or a lender in a prescribed manner for loan recovery including legal steps to eventually obtain possession of the collateral or security tendered by the borrower; recall of loan guarantees by third parties if any; attaching lien to assets of the borrower other than those tendered on security, if feasible; legally permissible recourse through third party actions to enforce repayment; if all else fails, then proceeding for loan foreclosure and liquidation of collateral.

Loan Reduction: sanctioning of loan for the reduced amount; part adjustment of loans.

Loan Repayment Period: the time period incorporated in the sanction letter for repayment of a loan; repayment installments stated in the sanction letter; tenure of a long term debt; extension of repayment period due to borrower‘s genuine difficulties.

Loan Restructuring: is of two types;

- ***for a single loan,*** restructuring is undertaken by a lending bank when overdues on repayments of a loan have accumulated well beyond the financial capability of borrower, a state of technical default, but the bank has solid reasons to believe that the borrower will eventually be able to regain its financial position and will be able to repay the restructured loan if such a facility is provided; otherwise, the bank may have no choice but to declare the loan non-performing and has to absorb the loan loss against its income or capital; restructuring in such cases amounts to closing down old loan so as to make borrower’s financial position *current*, and to issue a new loan inclusive of remaining balance of principal amount due, interest amount accrued thus far, penalties for delays in repayment, cost of documentation, legal fees and other expenses; the terms of restructured loan are settled between the borrower and the bank, but usually maturity period is longer owing to a grace period before repayments fall due; or, initial repayment amounts may be built into the new loan so that borrower has a reasonable chance to regain financial strength, a restored creditworthiness, solvency, and be able to service the restructured loan.
- ***for a loan portfolio:*** in practice it is debt restructuring of borrower’s loan portfolio which may consist of a variety of loans and credits obtained not only from a bank but also from a number of banks and other creditors; hence, the parties to debt restructuring are a group of creditors on the one

side, and the borrower on the other side, who usually is a large corporation, a public enterprise or a government; the objective of loan portfolio restructuring is to make financial position of the borrower *current*, and restore its creditworthiness; also, to help the borrower regain solvency and financial strength, and to save technical default of the borrower from degenerating into a formal default, which could result in loan losses to all creditors with serious implications for their own profitability and capital; hence, debt restructuring includes some kind of packaged debt relief if it is to succeed, a reasonable grace period, a longer maturity, and an interest rate which may or may not have concessionary element, but no preferential treatment for any one creditor; the outcome depends on these cross-currents underlying debt restructuring exercise since all these elements are negotiated as a part of *restructuring protocol* binding equally on the borrower and all creditors; this process amounts to financial re-floating of the borrower provided creditors are reasonably assured of a turn-around and prospects of borrower's financial survival; this in turn depends on a host of factors such as borrower's management capabilities, a viable or a revamped business plan accompanying loan restructuring.

Loan Review: assessment of the past record of a loan performance usually undertaken while considering a renewal or enhancement proposal, or calling back of an unsatisfactorily operated loan, or routine monitoring of loans through periodic returns.

Loan Security: asset or property pledged as collateral; stocks and bonds or other valuables including marketable commodities placed by a debtor as collateral with a creditor, with authority to sell for the creditor's account if the debt is not paid.

Loan Servicing: is payment of interest and principal in agreed installments on time such as collection of mortgage payments; the steps taken to maintain a loan current on the loan account, meaning that there are no overdue payments or balances to be paid by the borrower.

Loan Shark: an informal money lender who charges excessive interest for instant cash loan, accepting poor credit risks; a racketeer who threatens punishment if repayment is not forthcoming on schedule.

Loan Structuring: is to design a new loan, including its terms and conditions as per lender's policies and guidelines such as the interest rate to be charged, loan fees or points, collateral and its documentation together with guarantees or insurance as applicable, loan maturity, loan effectiveness and availability, a schedule of disbursements and draw-downs, a schedule of repayments and

amounts to be repaid on due dates, terms and mode of repayment, grace period for start of repayments if any, prepayment or balloon payment stipulations and associated charges or penalties, loan performance conditions concerning installment delays, over dues, and their penalties, loan monitoring and loan closing procedures.

Loan-to-Income Ratio: a measure of income per rupee borrowed; income as a percentage of loan as shown by loan to income ratio arrived at by dividing operating income with funded debt; where the funded debt means debt with a maturity of more than one year; the relationship between debt and income may also be ascertained with the help of time-interest-earned ratio which provides a measure of the extent to which the firm is capable of servicing its interest expense from funds available from operations; this ratio is obtained by dividing operating income by interest expense.

Loan-to-Value Ratios: these ratios determine the value of the firm in relation to the debt as seen from different angles such as total debt to total asset ratio; or the funded debt to net working capital ratio, where funded debt is defined as debt with maturity of more than one year; and net working capital is defined as the difference between current assets and current liabilities; this ratio may be interpreted as a measure of firm's ability to retire funded debt by using available liquid assets. *(see Working Capital)*

Loan Value: the net value of the security up to which, a loan can be granted; it may be distinguished from the limit which denotes the maximum amount that may be lent to a borrower subject to the loan value; loan value of a property may be more or less than the limit of the borrower in which case loan amount shall be equal to the limit or the loan value, whichever is less.

Loan Write-Off: is to cancel or remove the loan liability of a borrower; a rare and exceptional step taken by a bank, agreeing to write-off a nonperforming loan with long overdue payments of principal and interest, removing it from its loan portfolio, and absorbing it as a loss item by charging loan loss reserves, but not from the balance sheet; or in rare cases agreeing to absorb it against shareholder's funds, thus reducing bank's capital base.

Loanable Funds: are amounts available for lending by a bank or a financial institution engaged in lending business, as described below:

- ***for a bank;*** loanable funds consists of amounts available for on-lending mainly from the deposit base of the bank and also from borrowings, mostly medium to long term borrowings from the central bank or overseas institutions, and possibly from financial markets if the cost structure of borrowing matches with that of lending; or internally generated funds available for on-lending.

- ***for the banking or financial system;*** at the macro-financial level, loanable funds constitute mainly of savings, both household and corporate, mobilized through the banking system. It also includes foreign savings mobilized as net foreign capital inflow through the banking system.

Local Currency: monetary unit operating as legal lender in a country; currency issued by monetary authority of a country and freely accepted as a store of value, a medium of exchange, or accepted in discharge of financial obligations and liabilities.

Locked Market: if bid and offer prices are the same, the market is said to be 'locked'; a situation where the bid price equals the offer price.

London Inter Bank Offer Rate (LIBOR): a bench-mark interest rate based on interest rates daily quoted by five major London-based banks for interbank Eurodollar loans of specific maturities, usually for short term such as three months or six months; it is a key rate for international lending and is used as an order rate such as LIBOR plus x per cent in loan pricing or the rate in loan rescheduling agreements of external debt.

Long: a financial term, signifying holding of a sizable amount of a security or commodity in anticipation of a price rise or scarcity. "I am long 1000 PIA" means I own 1000 shares of PIA. In foreign exchange, option, stock, and commodity markets, the term is used to denote a net asset position. If I am "long of Yen 50 million", it means my net holdings of Yen is 50 million. Conversely, "short" denotes a net liability.

Long Rate: in foreign exchange, the rate at which long bills drawn at 180 days sight or more and payable in another country will be bought by the quoting bank; in fire insurance, a premium rate that covers a policy for more than a year.

Long term: depends on the time horizon of savers, investors, bankers and financial market participants, and how developed or sophisticated is the banking system or the financial markets; also depends on the type of business a company is engaged in; or the time horizon of borrowers. In developed banking systems and financial markets, long term refers to a period of five years or more.
(various items as listed below)

- ***Banking Credit:*** for a bank primarily engaged in overdraft loans, commercial loans or trade financing, long term credit means loans of more than one year maturity; loans intended to finance seasonal activities if exceed the seasonal cycle of typically one year, may be classified as long term by the bank; banks engaged in working capital finance, or extending loans for and replacement of machinery and equipment if for maturity of more than three years, may classify it as long term finance.
- ***Investment Credit:*** extended by investment banks or specialized financial institutions for more than three years; may be classified as long term finance for establishing new business, or new production facilities; in some case, these maturities may be from 5 years to 8 years.
- ***Finance:*** loan finance obtained for a period of more than three years; equity or bond finance secured for more than three years.
- ***Debt Instruments:*** issued by borrowers such as government bonds, municipal bonds, or corporate bonds to finance investment in plant, machinery, equipment or real estate.
- ***Savings:*** deposits of more than a year with banks; contractual savings with nonbank financial institutions such as pension funds and life insurance companies.
- ***Government Securities:*** government securities of long-range maturities; federal or provincial government loans usually of 10 years maturity.
- ***Industrial Finance:*** debts of long-range maturities secured by industrial organizations or manufacturing units for investment purposes, enhancement of existing capacity or new units; preferred or common stock sold by industrial or business ventures; funds raised to finance projects of long pay-back periods.
- ***Investable Resources:*** resources or funds available for investment on a long term basis, as debt finance, equity or bond finance.
- ***Receivables:*** notes receivable maturing beyond one accounting year of the firm, or after one year from the date of approval.

Long Term Interest Rates: Interest rates on deposits and loans of longer maturity; generally lower than short-term rates on the lending side, but higher than short term rates on the deposit side. This asymmetry in the interests on long term deposits and loan prevails in almost every country and is the source of interest rate risk, and risks arising from a mismatch of maturity structure between loan portfolio and deposit liabilities.

LORO Account: LORO is an Italian word meaning “their”, and LORO account is used to denote the account of a third party; for example, a French bank might pay Yen 10 million to Sumitomo Bank for the credit of LORO account of Barclays Bank held by Sumitomo Bank.

Loss Provision: setting aside a portion of income to cover expected loss in future; for banks, provisions for possible loan losses. *(see Loan Loss Provision, Reserves).*

Losses of Banking System: losses incurred by banks mainly arising from loan losses but also due to unhealthy competition between banks, increase in the number of loss-making branches, lending for speculative activities, expansion in new lines of banking activities or financing new ventures.

Low Interest Rate Currency: a currency designated as low-interest-rate currency by the countries operating the international export credit consensus; exporters may be funded at rates below the consensus minimum if they borrow in low-interest-rate currencies.

Lower of Cost or Market: a basis of reporting inventory and investment in the financial statements; in applying this method, these assets are reported at the purchase or market price, whichever is lower.

Lump Sum Payment: full payment made for the entire amount due and at one time.