TenStep, Inc.

TenStep Supplemental Paper

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Types Of Loans

When an entrepreneur steps out to borrow money for his enterprise, it is important for him to know all about the different types of loans available. Before taking a loan, he has to be clear about the purpose of borrowing and decide on the type of loan accordingly. Broadly, loans are divided into four types:

1. **Line of credit.** This is an arrangement wherein the bank disburses the funds as and when required, up to a predetermined limit. An entrepreneur may borrow and repay repeatedly, without crossing the predetermined limit and within the approved time frame.
2. **Installment loan.** This is an arrangement to provide a lump sum amount. The loan amount will be repaid in equal amounts over a period of time.
3. **Short-term loan.** This loan is usually used for the purposes of financing a seasonal build-up, such as inventory. Lenders usually insist on repayments after the purpose of the loan is served. For instance, if a borrower has taken a short-term loan for inventory, he has to repay the loan immediately after the inventory is sold and the cash is collected.
4. **Long-term loan.** This is a formal arrangement to provide funds for a longer period of time. Most of these loans are taken to fund an improvement that will increase the earnings of the company (for instance, taking a loan to install new machinery or purchase new premises to enhance profits.). Usually, the entrepreneur repays the loan from the profits.

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