# long term loan

A [form](http://www.businessdictionary.com/definition/form.html) of [debt](http://www.businessdictionary.com/definition/debt.html) that is paid off over an extended [time frame](http://www.businessdictionary.com/definition/time-frame.html) that exceeds one year in [duration](http://www.businessdictionary.com/definition/duration.html). Obtaining a long term loan provides a [business](http://www.businessdictionary.com/definition/business.html) with [working capital](http://www.businessdictionary.com/definition/working-capital.html) that it can use to [purchase](http://www.businessdictionary.com/definition/purchase.html) assets, [inventory](http://www.businessdictionary.com/definition/inventory.html) or [equipment](http://www.businessdictionary.com/definition/equipment.html) which can then be used to [create](http://www.businessdictionary.com/definition/create.html) additional [income](http://www.businessdictionary.com/definition/income.html) for the businessA traditional long-term loan is repaid in specific incremental payments over time, typically five- to 10-year terms. These loans may have a fixed interest rate, or a floating rate based upon the prime rate or other benchmarks. To learn more

Long-term loans are loans whose repayment is spread over a long period of time. This definition applies to several types of loans. Long-term loans is just a broad category of loans and is a wide umbrella which has numerous sub-categories of loans under it. Listed below are some of the most prominent examples of long-term loans.

* **Education Loans**

Education loans or student loans are generally granted for a long period of time especially for courses like engineering and medical. These loans offer a longer repayment tenure to applicants. These loans are taken for a period of more than 3 years and this can go up to a period of 30 years. Education loans can be taken by applicants who wish to go for higher studies in India as well as abroad. The loan amount limit and the rate of interest might differ according to the lending entity as well as according to the course for which loan is being sought.

* **Home loans**

Home loans are one of the most suitable examples of long-term loans. The tenure for home loans goes much beyond 3 years and the loan amount is considerable. Collaterals require to be submitted to the bank and a guarantor also is required to sign the loan application. These loans offer pre-closure option to customers and depending upon the lending bank, this option may be charged or not charged. Home loans also give buyers the option of choosing between fixed and floating rate of interest.

* **Car Loans**

Car loans have slowly become the most necessary loan instrument in recent times. Since the time banks eased the process of obtaining credit for purchase of vehicles, taking car or auto loans have been on the rise. Cars are considered as luxurious items and as such rates offered on these loans are higher than those for home loans. However, stiff competition among lending entities have forced banks to lower the rate of interest for car loans. A typical car loan may have a long-term payment tenure of up to 7 years. Pre-payment of loan is available for car loans and is subject to a pre-closure fee in case of certain banks. On the other hand, some banks do not levy any penalty fee on pre-payment of car loan amount.

### Adantages And Disadvantages Of Long-Term Debt Financing

***Advantages Of Long-Term Debt Financing***

From the issuing firm's perspective, the major advantages of long-term debt financing are as follows:

**1.** Debt is least costly source of long-term financing. It is the least costly because:

\* Interest on debt is tax-deductible,

\* Bondholders or creditors consider debt as a relatively less risky investment and require lower return.

**2.** Debt financing provides sufficient flexibility in the financial/capital structure of the company. Flexibility in capital structure of the company can be increased by inserting call provision in the bond indenture. In case of over capitalization, the company can redeem the debt to balance its capitalization.

**3**. Bondholders are creditors and have no interference in business operations because they are not entitled to vote.

**4.** The company can enjoy tax saving on interest on debt.

***Disadvantages Of Long-Term Debt Financing***

Long-term debt financing has some disadvantages from firm's viewpoint as follows:

**1.** Interest on debt is permanent burden to the company. Company has to pay the interest to bondholders or creditors at fixed rate whether it earns profit or not. It is legally liable to pay interest on debt

**2.** Debt usually has a fixed maturity date. Therefore, the financial officer must make provision for repayment of debt.

**3.** Debt is the most risky source of long-term financing. Company must pay interest and principal at specified time. Non-payment of interest and principal on time take the company into bankruptcy.

**4.** Debenture indentures may contain restrictive covenants which may limit the company's operating flexibility in future.

**5**. Only large scale, creditworthy firm, whose assets are good for collateral can raise capital from long-term debt.