COMMON LOAN TERMS DEFINED

Amortization: Loan amortization is the schedule for paying off a loan over time through regular payments. It is based on the interest rate and term. An amortization table or schedule shows the amount of each payment put towards principal and interest and when a loan will be paid off. Some loans have terms that are shorter than the amortization schedule, which means that when the loan ends (or "matures"), there will still be principal due.

Accounts Payable: The total sum of all outstanding amounts owed by a business to others for services or goods already received. These amounts have not been paid for and are due as short-term obligations that appear on the balance sheet as owed to another business or entity.

Accounts Receivable: The total sum of outstanding amounts that are owed to a business by customers who have not yet paid but have already received a good or service. As payment has not yet been collected, the amount of money due becomes a current asset account for a business since the business is expecting payment to be received.

Asset: An item of positive financial value owned by a person or business. There are many types of assets. Some assets are tangible (for example, land, car, equipment, inventory) and some are non-tangible items (for example, intellectual property). Assets can be used as collateral to secure a loan.

Balance Sheet: A financial statement that summarizes the assets and liabilities of a business or organization at a point in time. The difference between total assets and total liabilities is known as the "equity" or "net worth".

Business Advisor: A person who provides business advice or coaching when someone is working on their business plan, marketing plan, financial projections, and related items. They offer expertise on best practices in financial management methods, techniques, and tools. Business advisors can help both before you apply and after you receive a loan.

Collateral: Assets or property provided by a borrower to a lender as security for a loan, which can be taken by the lender in the event of non-payment.

Credit Card: A card issued by a financial institution which lets you borrow funds from a pre-approved limit to pay for goods and services. The credit limit is decided by the institution issuing the card based on your credit score and history.

Full-time equivalent employee (FTE): One full-time job with at least 30 hours of work in a week equals one FTE.

Gross Revenue: The total amount of income generated by the sale of goods or services related to the business's primary operations before you deduct expenses (cost of goods, overhead, etc.)

Interest Rate: The percentage of a loan balance (or principal) paid to the lender as part of your monthly payment. It is shown as a percentage (%) and is the cost of taking out a loan. VCLF only makes "fixed" rate loans, which means that the interest rate does not change throughout the term of a loan.

Liabilities: A financial obligation or debt that needs to be paid back.

Lien: A legal claim of possession that a lender places on a person's property when debt or obligation is owed. Until the debt is repaid, a lender retains their claim over the property as an asset that is used as collateral which can be seized or sold in the event of a loan default.

Line of Credit: An amount of credit provided by a lender up to a certain preset limit available for a borrower to draw from when needed. The borrower pays interest on what they borrow, and once the total amount is paid, they can borrow up to the preset limit again.

Loan Documentation Fee: A one-time charge to cover the costs associated with preparing and processing the loan documents.

Maturity Date: Date on which any remaining funds owed on a loan or line of credit becomes due.

Mortgage: A legal agreement where a financial institution lends money to a borrower and takes a lien against the property to use it as collateral to secure the loan. The lender provides a certain amount of money to the borrower that is repaid to them with interest and within a set time frame. Typical mortgage terms are 30 years while others range from 10 to 25 years.

Net Revenue: The total amount of income minus expenses.

Origination Fee: A one-time charge by a lender to cover the costs associated with processing a new loan. It is often expressed as a percentage of the loan amount and is collected at closing or "origination" of the loan.

Owner's Draw: When an owner of a business withdraws funds for their own personal use.

Personal Net Worth: A rough measurement of a person's financial wealth. This is calculated by adding everything of monetary value you own and subtracting everything you owe.

Personal Guaranty: A legal promise in the form of a signed agreement between a lender and borrower where if the debt is not paid, the individual providing the personal guaranty will assume responsibility for the remaining balance of money owed. If the borrower fails to pay, the individual that personally guaranteed is responsible for repaying the loan as they have pledged their own personal assets and promised to assume the debt. Lenders may choose to require business owners to provide a personal guarantee to secure funding and ensure debt will be repaid if a business defaults on their loan.

Principal: The original amount of money borrowed through a loan. As a loan is paid back, the principal amount owed (or "balance") decreases.

Profit & Loss Statement: Also known as an income statement, this is the financial statement that summarizes the revenues and expenses during a specified period, usually a year or quarter.

Projected Cash Flow: Estimates of future cash movements for a business during a set period of time. These are provided as forecasted inflows and outflows of cash based on current financial data. Inflows can be described as money that is assumed to be received where outflows can be described as money that a business is predicted to spend. These predictions of money movements also rely on historical data and trends.

Purchase Order Financing: a short-term funding option where a financial institution or lender provides capital to a business to fulfill a specific customer order, allowing the business to pay suppliers and cover production costs until the customer pays for the goods or services.

Restructured Debt refers to changing the terms of an existing debt agreement between a borrower and a lender, often to address financial distress and create a more sustainable repayment plan for the borrower.

Source & Use Budget: A financial tool that is used to describe the income and expenses for a specific project or period of time. The purpose is to describe where resources are expected to come from and how the business will spend the money.

Start Up Business: A company that is in their beginning stage of operations to develop a product or service for customers.

Subordinated Debt: refers to a form of loan or lien that ranks below other debts in terms of priority for repayment in the event of a business liquidation or financial distress.

Subsidiaries/Affiliates: A subsidiary is when another company (a "parent" or "holding" company) owns more than 50% of all the subsidiary company's shares. An affiliate is when the parent company owns a minority (less than 50%) stake in the ownership of the affiliate.

Term and Term Loan: A term is a predetermined time period set by a lender. A term loan is repaid over a preset specified payment schedule and remains at a fixed interest rate.

Working Capital: a lump sum of funds intended to support operational needs such as inventory management, payroll, and other short-term financial obligations.