CHESSIE
FEDERAL CREDIT UNION

Business Loan Glossary

• **Accounts Receivable**: Amounts due to a company for goods or services sold on credit. These are short-term assets

• **Aging**: A procedure by which accounts are classified to determine collection time or delinquency (for example, current, 30 days past due, 60 days past due, etc.)

• **Amortization**: (1) The gradual reduction of a debt by periodic payments large enough to meet current interest payments and to repay the principal by maturity. (2) A method of gradually decreasing an asset's book value by spreading its depreciation over time.

• **Annual Percentage Rate**: The total financing cost expressed on an annual basis as a percentage of the amount of the loan outstanding at all times. The APR is computed by a standardized method required by the Federal Reserve's Regulation Z.

• **Capital**: The funds invested in a company on a long-term basis. These funds are obtained by issuing preferred or common stock, retained earnings, and long-term borrowing.

• **Clean Up**: Used to describe a loan payout or out-of-debt period by the borrower.

• **Collateral**: Specific property, securities, or other assets pledged by a borrower to a lender as a backup source of loan repayment.

• **Compensating Balances**: A demand deposit collected balance, kept on deposit by a customer, designed to offset the expenses of the bank for activity or lines of credit.

• **Contingent Liability**: Any obligation for which a party is not directly or immediately responsible for payment, but that party can or will become responsible at some future time.

• **Corporate Borrowing Resolution**: A formal document expressing the intention of a corporation's board of directors.

• **Covenant**: A promise by one party to another regarding the performance or nonperformance of certain acts, or a promise that certain conditions do or do not exist.

• **Depreciate**: (1) In accounting, the process of periodically reducing a fixed asset's book value by charging a portion of the asset's cost as an expense to the period in which it provides a service. (2) To decrease in service capacity or usefulness.

• **Fixed Assets**: Those items of a permanent nature required for the normal conduct of a business and not converted into cash during a normal fiscal period. Fixed assets include furniture, buildings, and machinery.

• **Guaranty**: A pledge to make good a note or security in case of default by the borrower. Although the original debtor is responsible for the debt, a guarantor becomes liable in the event of a default.

• **Interest**: (1) The amount paid by a borrower to a lender in exchange for the use of the lender's money for a certain period. (2) A share, right, or title in property. (3) A charge levied by the bank on cardholder account according to the terms of the cardholder agreement.

• **Key Man Insurance**: Insurance for people considered crucial to the effective operation of a business.

• **Letter of Credit (L/C)**: A financial instrument, issued to a company or person by a bank that substitutes the bank's credit for the company's credit. A letter of credit is frequently used by companies ordering goods from foreign suppliers with whom they have no credit relationship. As a short-term negotiable security, a letter of credit can then be sold by the foreign recipient.

• **Letter of Credit, Standby**: A letter of credit against which funds can be drawn only if an underlying business transaction is not performed.

• **Letters of Credit, Commercial**: Unconditionally guarantees to pay the beneficiary a specified amount within a certain period of time.

• **Loan Agreement**: Legal contract between the bank and the borrower governing actions affecting the relationships.

• **Mortgage Loan**: A loan used to finance construction of single-family houses, condominiums, cooperatives, homes and business properties. A mortgage loan is collateralized by real property, such as farms, private residences, commercial land and buildings.

• **Pro Forma Statement**: A financial statement that assumes future events in order to project conditions of the company as a result of these events. For example, a pro forma statement may assume future sales to project anticipated income.

• **Secured Loan**: A loan against which a tangible asset has been pledged in case of default on the loan.

• **Security Agreement**: An agreement between a seller and buyer stating that the seller will have a security interest in the goods traded.

• **Working Capital**: Calculated as the excess of current assets over current liabilities, but in effect it represents the portion of the long-term investment in a company which is being used to support current assets.