



Helpful Financial Definitions

Amortized Loan - A loan with a series of regularly scheduled payments that include both interest and partial repayment of principal.

- **Equal Payments** – Payments are of equal size with declining interest and increasing principal
- **Equal Principal Payments** – Equal principal payment with declining interest payments. Because interest decreases, total payment decreases.

Assets- Anything tangible or intangible that can be owned and produce value to the owner.

Appraisal – An estimate of the value of property by a qualified professional called an appraiser

Balance Sheet – A listing of all assets and liabilities at a given point in time. The amount in which assets exceed liabilities is called owner's equity or net worth; also called a net worth statement or financial statement.

Basis Points- one hundredth of one percent, used in expressing differences of interest rates

Bridge Loan – A temporary, single payment loan used by creditors during the time period between the retirement of one loan and the issuance of another. An example is a loan used for the down payment on a real estate purchase.

Capacity - The amount of money a company or individual is capable of borrowing and repaying based on their current financial state.

Capital Asset Replacement – A calculation that determines how much additional capital will be required to replace machinery and equipment if the producer is not updating their line as fast as it is depreciating.

Cash Flow – A projection that summarizes cash inflows and outflows over a given period.

Chattels – Tangible personal property (i.e. crops, livestock, vehicles, equipment)

Collateral – Property pledged to assure repayment of debt.

Co-signer - An individual in addition to the primary borrower who signs a note and assumes liability and responsibility for repayment of the loan.

Depreciation – A reduction in the value of an asset over time, due to wear and tear

Earned Net Worth Change (ENWC) – The amount of net worth increase in a given timeframe that can be directly attributed to earnings made by the operation or operations

Fixed Rate – An interest rate that does not fluctuate during the fixed rate period of the loan.

Interest - The amount charged, expressed as a percentage, by a lender to borrow money. Interest rates are typically noted on an annual basis.

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Income Statement – A summary of income and expenses over a given time period. In addition to cash income and expenses, it include non-cash expenses like depreciation.

- **Accrual Income Statement** – An income statement that, in addition to including cash income and expenses, takes into account all changes in the value of inventories to arrive at net income.

Liabilities – financial debts or obligations a person owes. Example include loans, accounts payable, mortgages, etc.

Line of Credit - Commitment by a lender to provide up to a set amount of funds during a specific period of time.

Lock-Out Period - Period in which a loan cannot be paid-off earlier than scheduled without incurring penalties.

Liquidity – The ability of a business to generate cash to meet its financial obligations as they become due.

- Liquidity Definitions and Ratios
 - **Working Capital**: Current Assets – Current Liabilities (found on balance sheet)
 - **Current Ratio**: Current Assets/Current Liabilities (found on balance sheet)

Market Value – The value of an asset based off of current market prices

Maturity – The amount of time until the loan is fully due and payable. For example, a 5-year intermediate-term loan has a maturity of 5 years.

Net Worth (Owner's Equity) - The financial claim by owners on the total assets of a business, calculated as total assets minus total liabilities.

Principal – The dollar amount of a loan outstanding at a point in time, or the portion of a payment that represents a reduction in the loan balance.

Security Agreement - A legal instrument signed by a debtor granting security interest in specified personal property pledged as collateral.

- **Blanket Security Agreement** – A security interest covering all chattels.

Solvency – The possession of assets in excess of liabilities; the ability to pay one's debts.

- Solvency Definitions and Ratios
 - **Debt – to – Equity Ratio**: Liabilities/Owner's Equity (found on balance sheet)
 - **Debt – to – Asset Ratio**: Liabilities/Assets (found on balance sheet)
 - **Equity – to – Asset Ratio**: Owner's Equity/Assets (found on balance sheet)
 - **Leverage Ratio**: Total Liabilities/Net Worth (found on balance sheet)
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Variable Interest Rate – An interest rate that varies as market interest rates change.