

# GLOSSARY OF LOAN TERMS/TYPES

## **ANGEL INVESTOR**

An angel investor is an affluent individual or group who provides capital for a business start-up, usually in exchange for convertible debt or ownership equity.

## **BUREAU OF INDIAN AFFAIRS LOAN GUARANTEE PROGRAM**

Guarantee loans made by private lenders to Indian tribes, Alaska Native groups, Indian-owned corporations, partnerships, cooperative associations, and individual members of tribes or Alaska Natives for up to 80% of the unpaid principal and interest due. In addition, payment of an interest subsidy is also authorized on those loans guaranteed. The interest subsidy is based on need and will be limited to a 3-year period.

## **DEBT FINANCING**

You can think of debt financing as being divided into two categories, based on the type of loan you are seeking: long term debt financing and short-term debt financing.

- **Long Term Debt Financing** usually applies to assets your business is purchasing, such as equipment, buildings, land, or machinery. With long term debt financing, the scheduled repayment of the loan and the estimated useful life of the assets extends over more than one year.
- **Short Term Debt Financing** usually applies to money needed for the day-to-day operations of the business, such as purchasing inventory, supplies, or paying the wages of employees. Short term financing is referred to as an operating loan or short-term loan because scheduled repayment takes place in less than one year.

## **EQUITY FINANCING**

The provision of funds for capital or operating expenses in exchange for capital stock, stock purchase warrants and options in the business financed, without any guaranteed return, but with the opportunity to share in the company's profits. Equity financing includes long-term subordinated securities containing stock options and/or warrants.

## **EQUITY PARTNERSHIP**

A limited partnership arrangement for providing start-up and seed capital to businesses.

## **EXPORT WORKING CAPITAL**

The Export Working Capital (EWCP) Program was designed to provide short-term working capital to exporters. The EWCP is a combined effort of the SBA and the Export Import Bank. The two agencies have joined their working capital programs to offer a unified approach to the government's support of export financing.

**GAP FINANCING**

Temporary borrowing to provide needed funds between the termination of one loan and the beginning of permanent financing. For example, a developer might obtain gap financing to provide funds for the period between the end of a construction loan and when permanent financing becomes available.

**GUARANTEED LOAN**

A loan made and serviced by a lending institution under agreement that a governmental agency will purchase the guaranteed portion if the borrower defaults.

**INVENTORY FINANCING**

Money borrowed on the basis of finished inventory. The loan is paid as inventory is sold.

**MICRO LOAN**

Micro Loans provide very small loans to start-up, newly established, or growing small business concerns.

**PERSONAL GUARANTEE**

Pledge by a third party to repay a loan in the event that the borrower cannot.

**SBA LOAN**

The SBA enables its lending partners to provide financing to small businesses when funding is otherwise unavailable on reasonable terms by guaranteeing major portions of loans made to small businesses.

**UNSECURED LOAN**

A loan granted upon the good credit of the borrower. No collateral involved.

**VENTURE CAPITAL**

Fund raising technique for companies who are willing to exchange equity in their company in return for money to grow or expand their business. It can be raised for all types of business, both technology and non-technology businesses. Venture Capital also invests across stages – from the early stage seed venture, to later stage mezzanine financing.

**WORKING CAPITAL**

Cash and short-term assets that can be used for current needs -- bills, etc.