

## GLOSSARY OF AGRICULTURAL CREDIT TERMS

### A

- **Acceleration Clause:** A common provision of a loan, mortgage, or other debt obligation providing the lender with the right to demand or otherwise require that the entire outstanding balance be immediately due and payable such as in the event of default.
- **Account Payable:** An amount owing to a creditor, usually arising from the purchase of goods or services, that is due to be paid within a short period of time, often less than 12-months, or within the normal operating cycle (where the cycle is longer than a year) to avoid default.
- **Account Receivable:** An amount owed to the business usually arising from the sale of goods or services.
- **Accrual Income:** See net income.
- **Adjustable-Rate Loan:** See Variable Rate Loan.
- **Adjusted Debt Service Capacity:** The amount available for debt servicing calculated as net income (after tax) plus interest plus depreciation minus gains/losses on disposal of assets minus extraordinary income minus deferred income taxes minus dividends minus living expenses plus off farm income.
- **Adjustment Date:** See Interest Adjustment Date.
- **Administrative Costs:** A lender's operating and fixed costs charged for completing and servicing a loan.
- **Advance Payment Program:** An Agriculture and Agri-Food Canada financial loan guarantee program that gives producers access to credit through cash advances on the value of their agricultural products during a specified period. Under this loan program, the Government of Canada guarantees repayment of cash advances issued to farmers by their producer organization. These guarantees are designed to help the producer organization borrow money from financial institutions at lower interest rates and issue producers a cash advance on the anticipated value of their farm product that is being produced and/or that is in storage.
- **Advance:** The payment of money, the provision of credit or the giving of value and includes a liability of the debtor to pay interest, or other charges or costs in the connection with an advance of funds or other value to, or on behalf of, the debtor.
- **AFSC:** See Agriculture Financial Services Corporation.
- **Agriculture Financial Services Corporation:** An Alberta crown corporation that provides farmers, agribusinesses and other small businesses loans, crop insurance, livestock price insurance, farm loans, commercial loans and farm income disaster assistance.
- **Amortization Period:** See Amortization.
- **Amortization:** The paying off of debt with a fixed repayment schedule in regular installments over a period of time.
- **Amortize / Amortizing:** See Amortization.
- **Annual Percentage Rate:** is an annual rate, expressed as a percentage, that relates the amount and timing of value advanced, or to be advanced, to, or on behalf of, the borrower in connection with a loan to the amount and timing of value given or to be given

by the borrower in connection with the loan, disregarding the possibility of prepayment or default. It is an actuarial representation of the total financing cost of credit expressed as a percent per annum. The annual percentage rate (APR) is calculated similarly across different institutions and is designed to allow for easier borrower comparison of loan products.

- **Appraisal:** The written summary by a qualified individual setting forth an estimated value of a specific asset or group of assets, usually used in reference to real estate.
- **Appreciation:** The increase in value of an asset over time.
- **APR:** See Annual Percentage Rate.
- **Arm's Length:** Relationship or transaction between persons who act reasonably in their separate economic interests, not in concert, and without control of one person over the other.
- **Assets:** The items and property owned or controlled by an individual or business that have commercial or exchange value. Items may include claims against others or other intangibles. All assets are reported on a balance sheet at market or cost value less accumulated depreciation.
- **Assignment:** The transfer of title to property or other rights in or related to property (or other assets or liabilities) from one person or entity to another.
- **Average Cost of Funds:** A method of determining the cost of funds at a lending institution. This method uses an average cost of existing funds. In contrast, the marginal cost of funds uses cost of new funds only.

## B

- **Balance Sheet:** The financial statement that reflects the values of an individual or business assets and the financial claims on these assets at a specific point in time.
- **Bank Draft:** See Draft.
- **Bankruptcy:** A legal process governed by the Bankruptcy and Insolvency Act for an individual or corporation who can no longer pay back debts. The debtor assigns all assets—with some exceptions—to an Insolvency Trustee who sells or uses them to help pay the debt to the creditors. The two general types of bankruptcy are voluntary and involuntary. A voluntary bankruptcy is initiated when the debtor voluntarily assigns into bankruptcy. In an involuntary bankruptcy, the creditor forces the debtor into bankruptcy by way of the court process.
- **Base Rate:** An interest rate used as a basis to price loans. A margin reflecting the riskiness of the individual or operation is added to or subtracted from the base rate to determine the loan rate. The lender funding, operating cost and required return are reflected in the base rate. The base rate in Canada is often the Bank or other lender's posted prime rate or prime rate plus a margin.
- **Basis Point:** Usually used in describing interest rate movements or interest costs. One basis point is 1/100 of 1per cent. For example, 50 basis points is 0.5per cent. Sometimes, a basis point is referred to as a *bip* or *bips*.
- **Blanket Mortgage:** A mortgage on more than one parcel of real estate.
- **Bridge Loan:** A temporary, single-payment loan used by creditors to bridge 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 new real estate purchase while awaiting closing of a sale of another parcel of real estate or payment of a short term receivable.

## C

- **CALA:** See Canadian Agricultural Loans Act.
- **Canadian Agricultural Loans Act:** Federal Loan Guarantee Program to increase the availability of loans for the purpose of the establishment, improvement and development of farms. Where a lender may feel that there may be some risk to a loan proposal but with some risk mitigation the proposal has merit, they may apply under the Canadian Agricultural Loans Act for a guarantee. Under the Act the Minister of Agriculture is liable to pay to the lender 95 per cent of the loss sustained on a CALA registered loan provided that the requirements of the Act and regulations have been met.
- **Cap:** Used with variable- or adjustable-rate loans to refer to the maximum allowable interest rate that the variable or adjustable rate loan can attain.
- **Cash Flow Budget:** A financial statement reflecting the projected sources and uses of cash. Items on the statement are usually categorized as business or nonbusiness with subdivisions for funds from business operations and funds from financing.
- **Caveat:** From the Latin word meaning "Let him beware." It is a registered document containing a warning or caution that there are persons, other than the registered owner, claiming an interest in the land and stating the nature of the claim. The interest claimed may or may not be a valid interest in the land but if its validity is disputed and upheld by the courts, any person dealing with the land subsequent to the registration of the caveat is subject to the interest claimed.
- **CCAA:** See Companies' Creditors Arrangement Act.
- **CCT:** See Certified Copy of Title.
- **Certified Copy of Title:** Document that identifies the current registered owner(s) and shows all outstanding registered interests in land, such as mortgages, caveats, easements, surface leases, and builders' liens.
- **Chattel:** Personal property generally (e.g., tractors, grain, livestock, vehicles) that is not a fixture to land or otherwise excluded from the legal definition of a chattel.
- **Clear Title:** A clear title is free of any claims, mortgages, liens and other financial encumbrances and has no financial encumbrances or interests other than that of the owner.
- **Closing Costs:** The costs incurred by borrowers and sellers in completing a loan or land sale transaction. Included are origination fees, inspections, title insurance, appraisals, legal and realtor fees and other costs of the closing.
- **Closing:** Process by which all fees and documents required by a buyer of land or other assets or a lender prior to disbursing loan proceeds are executed, transmitted, and filed (as appropriate) so as to complete the obligations under the relevant agreement. Usually used in reference to the completion of a real estate, loan, or share transaction that transfers rights in exchange for monetary or other consideration.
- **Co-Borrower:** See Co-Signer.
- **Co-Debtor:** See Co-Signer.
- **Collateral:** Property pledged to assure repayment of debt.

- **Commitment Fee:** The fee associated with the establishment of a loan commitment. The fee may be expressed as a percentage of the loan commitment or a flat fee amount and is often due and payable upon the commitment issuing.
- **Commitment:** An agreement between a lender and borrower to lend up to a specified amount of money at a specified future date subject to specific performance criteria and terms (including repayment). A commitment will often include the commercial terms of the loan agreement.
- **Companies' Creditors Arrangement Act:** Federal law allowing insolvent corporations that owe their creditors in excess of \$5 million to restructure their business and financial affairs under court supervision.
- **Compensating Deposit Balance:** A minimum deposit balance that is sometimes required by a bank or other lender from a borrower. The balance is usually expressed as a percentage of the total loan commitment and/or a stipulated percentage of the amount of commitment actually used by the borrower.
- **Compound Interest:** Compound interest is interest added to the principal of a deposit or loan so that the added interest also earns interest from then on. Each time interest is payable it is added to the principal and thereafter also incurs interest. For example, a new deposit balance is estimated each day for daily compounding. Common compounding periods are daily, monthly, quarterly, annually and continuously. The more frequent the compounding, the higher the effective rate of interest.
- **Conditional Surrender of Lease:** a type of security granted as against a leasehold interest in Crown land, such as a grazing lease, where the lease is 'mortgaged' to a lender as security for a loan allowing the lender, on default, to assign the leasehold rights to a qualified third party for value (with consent of the Crown as to the transferee).
- **Consideration** - The amount actually paid for something (not necessarily the same as its value).
- **Consolidation Order:** A method, in Alberta, and some other provinces where a debtor can voluntarily seek out a legal proceeding (also known as an orderly payment of debt program) to help make their payments. The order will consolidate all unsecured debts and determine an amount that the debtor must pay to the agency or Court on a periodic basis. Upon receipt of the payments, the agency or Court will make payments to the creditors on behalf of the debtor.
- **Conveyance** - A document which transfers property from one person to another.
- **Cooperative:** An organization that is owned by and operated for the benefit of its patrons.
- **Co-Signer:** An individual in addition to the borrower who signs a note or loan agreement and thus assumes responsibility and liability for repayment as a principal debtor.
- **Cost of Funds:** Refers to the interest and non-interest cost of obtaining equity and debt funds. See, for example, commitment fee. See also Marginal Cost of Funds and Average Cost of Funds.
- **Covenant:** A legal promise in a note, loan agreement, security agreement or mortgage to do or not to do specific acts; or a promise that certain conditions do or do not exist. A breach of a covenant can lead to the injured party pursuing legal remedies and can be a basis for foreclosure in a mortgage secured loan, or trigger an acceleration clause.

- **Credit Scoring:** A quantitative approach used to measure and evaluate the creditworthiness of a loan applicant. A measure of profitability, solvency, management ability and liquidity are commonly included in a credit scoring model.
- **Credit Union:** A member-owned financial cooperative, democratically controlled by its members, and operated for the purpose of promoting thrift, providing credit at competitive rates, and providing other financial services to its members.
- **Credit Verification:** The process involved in confirming the creditworthiness of a borrower.
- **Creditor:** A creditor is a person who is owed money, goods or services.
- **Creditworthiness:** The ability, willingness, and financial capability of a borrower to repay debt.
- **Current Ratio:** A liquidity ratio calculated as current assets divided by current liabilities.

## D

- **Debt-to-Asset Ratio:** A solvency ratio calculated as total liabilities divided by total assets.
- **Default:** The failure of a borrower to meet the financial obligations of a loan or a breach of any of the other terms or covenants of a loan or related security documents (ex: General Security Agreement or Mortgage).
- **Delinquency:** The status of a loan where the principal and/or interest payments on a loan are overdue. The borrower, in a delinquent loan, is in default.
- **Demand Loan:** A loan with no specific maturity date. The lender may demand payment on the loan at any time subject to its terms.
- **Depreciation:** A decrease in value of an asset, such as buildings or chattels, caused by age, use, obsolescence and physical deterioration. A non-cash accounting expense that reflects the allowable deduction in book value of assets such as machinery, buildings or breeding livestock.
- **Down Payment:** The equity amount invested in an asset purchase usually at time of entering into the agreement or closing. The down payment plus the amount borrowed generally equals the total value of the asset purchased.
- **Draft:** An order for the payment of money drawn by one person or bank on another. Often used in the dispersal of an operating loan to a borrower for payment of bills.
- **Due and Payable:** A term referring to the time when any account payable, debt, or payment on a debt, must be paid or has become payable.

## E

- **Easement:** A right acquired by one person from another, permitting use of the other's land for a purpose such as a right-of-way across it.
- **Effective Interest Rate:** The calculated interest rate that may take account of fees and compounding, in contrast to a quoted rate of interest.
- **Employment Verification:** The confirmation of status and conditions of employment of a potential borrower as part of the underwriting process.
- **Encumbrance:** Any charge on land or claim or interest that limits the right of property. Examples include liens, mortgages, leases, easements and caveats.

- **Equity Capital:** See net worth.
- **Execution of Instruments** - The signing and delivery of documents by the parties as their own acts and deeds, usually in the presence of witnesses, and sometimes under seal.

## F

- **Fair Market Value:** the highest price an asset might reasonably be expected to bring if sold by the owner in the normal method applicable to the asset in question in the ordinary course of business in an open and unrestricted market not exposed to any undue stresses and composed of willing buyers and sellers dealing at arm's length and under no compulsion to buy or sell.
- **Farm Credit Canada:** This is a federal crown corporation, whose purpose is to enhance rural Canada by providing specialized and personalized financial services to farming operations, including family farms. Although once exclusively a farm lender, Farm Credit Canada is now also organized to provide funding to enterprises that are closely related to or dependent on farming. It is Canada's largest agricultural lender.
- **Farm Debt Mediation Act:** Federal Law that provides for a process of mediation between insolvent farmers and their creditors. See also Farm Debt Mediation Service.
- **Farm Debt Mediation Service:** Federal government service that offers financial counselling and mediation services under the Farm Debt Mediation Act to farmers who are having difficulties meeting their financial obligations. It is a free and voluntary service for both farmers and for creditor(s). The service helps bring farmers and their creditor(s) together with a mediator in a neutral forum in an attempt to reach a mutually acceptable solution to the farmer's financial difficulties.
- **FCC:** See Farm Credit Canada.
- **FDMA:** See Farm Debt Mediation Act.
- **FDMS:** See Farm Debt Mediation Service.
- **Fees:** A fixed charge or payment for services due to the lender or third party in association with a loan transaction or other transaction.
- **Financial Statement:** A written report of the financial condition at a given time of a person, corporation, or other entity. Financial statements include balance sheet, income statement, statement of changes in net worth and statement of cash flow.
- **Financing Statement:** A statement filed by a lender with the Personal Property Security Registry. The statement reports the security interest or charge on the borrower's asset(s).
- **First Mortgage:** A real estate mortgage that has priority over all other mortgages on a specified piece of real estate.
- **Fixed-Rate Loan:** A loan that bears the same interest rate until loan maturity.
- **Fixture:** Chattels which are affixed to real property in such a manner that their primary purpose becomes the better use of the land rather than the better use of the chattels.
- **Floating Rate Loan:** See variable-rate loan.
- **Foreclosure:** An action in Court taken after a breach of the conditions of the mortgage, usually the failure to repay the mortgage debt in which the lender seeks to extinguish the borrower's right to redeem and offer the property for sale, or take title and possession, under process of law and supervision of the court.

## G

- **General Security Agreement:** A security interest in favor of the lender charging all of the debtor's personal property. The charge is often referred to as an "All PAAPP" (All Present and after-acquired Personal Property) or a GSA.
- **Grantor:** A person or entity conveying an interest in property, real or personal.
- **GSA:** See General Security Agreement.
- **Guarantee:** generally, a written agreement whereby a person, corporation, or other entity, enters into an obligation to answer for an act or default or omission of another.
- **Guarantor:** A person or entity that takes the financial responsibility of another person's debt or other obligations in the case of default.
- **Guaranty:** alternative spelling of Guarantee, see Guarantee.

## H

## I

- **Income Statement:** Summary of the revenue (receipts or income) and expenses (costs) of a business over a period of time to determine its profit position. The income statement is also referred to as a profit and loss statement, earnings statement or an operating statement.
- **Insolvency / Insolvent:** The inability of an individual, corporation or other entity to pay their liabilities as they become due and/or who has ceased to pay current obligations as they become due and/or whose aggregate property, at fair market value is insufficient to pay all obligations due or becoming due.
- **Interest Adjustment Date:** the date from which your lender first starts accruing interest under a loan. Usually, this is the date that funds are disbursed under the loan. The interest adjustment date is set because the lender is funding, and you have use and benefit from the loan prior to making the first payment under the loan.
- **Interest Only Loan:** A loan that does not amortize. The borrower pays only the interest outstanding and at the expiry of the term the full amount originally borrowed, the principal, becomes due and payable.
- **Intermediate-Term Loan:** A loan to be repaid (or amortized) over a period of 18 months to 10 years, with 3 to 5 years being most common. Intermediate-term loans typically are used to finance machinery, equipment, automobiles, trucks, breeding livestock, improvements, and other durable, yet depreciable, assets.

## J

- **Joint Tenancy:** The type of ownership of land that involves two or more owners where each owner has the right of survivorship such that when one owner dies, that person's interest automatically passes to the other owner(s). When only one survivor remains, the joint tenancy ceases. See, contra, Tenancy-in-Common.

## K

## L

- **Land Titles Act:** An Alberta statute that regulates the creation, priorities, and termination of legal rights in real property in Alberta under the land titles system of ownership.
- **Law of Property Act:** An Alberta statute that deals with, amongst other things, the enforcement of security against land in Alberta.
- **Lease:** Acquiring the control of an asset (e.g., land, machinery) by renting for a specified period of time. A rental payment is made by the lessee (or tenant) to the lessor (or landlord) to cover the lessor's cost of ownership. Examples include operating leases, capital leases, and real estate leases.
- **Lease-Option:** See Lease-Purchase
- **Lease-Purchase:** A financing arrangement in which an asset (ex., a tractor) is leased for a period of time and then may be purchased at a price specified in the lease-purchase contract. Also called a lease-option.
- **Legal Description** - The description of land that for unsubdivided land gives number of section, township, range and meridian and that for subdivided land gives lot, block and plan number or unit and plan number and appears on the Certified Copy of Title. Municipal addresses quoting streets or avenues are not legal descriptions.
- **Legal Lending Limit:** A legal lending limit on the total amount of loans and commitments a financial institution can have outstanding to any one borrower. The limit usually is determined as a specified percentage of the financial institutions own net worth or equity capital. Its purpose is to avoid excessive exposure to the credit risk of an individual borrower.
- **Lien:** A financial claim or charge by a creditor on property or assets of a debtor in which the property may be held as security or sold in satisfaction (full or partial) of a debt. Liens may arise through borrowing transactions where the lender is granted a lien or charge on the borrower's property. Other examples of liens include tax liens against real estate with delinquent taxes or a builder's lien against property on which work has been performed but not paid for.
- **Line-of-Credit:** An arrangement by a lender to make an amount of revolving credit available to a borrower for use over a specified period of time. It is generally characterized by a loan agreement and periodic and partial disbursements and repayments of loan funds throughout the term.
- **Liquidation:** The sale of assets, voluntary or otherwise, to generate cash needed to meet financial obligations, transactions or investment opportunities.
- **Liquidity:** The ability of a business to generate cash, with little risk of loss of principal value, to meet financial obligations, transactions or investment opportunities.
- **Loan Agreement:** Typically refers to a written agreement between a lender and borrower stipulating covenants, terms and conditions associated with a financing transaction and in addition to those included in any accompanying note(s), security agreement(s) and/or other loan documents. The agreement may indicate the obligations of each party, reporting requirements, fees or other charges for lack of borrower performance, and restrictions placed on a borrower.

- **Loan Commitment:** An agreement to lend up to a specified dollar amount during a specified period. Often a loan commitment will contain and set the key commercial terms of the loan ultimately being provided.
- **Loan Committee:** A committee of loan officers, executive personnel and/or directors of a financial institution who establish lending policies and/or approve loan requests that exceed the lending authority of individual loan officers.
- **Loan Conversion Provision:** An option provided by a lender to a borrower to change loan terms at a future date. For example, at loan origination a lender may provide a borrower with an option to convert from a variable to a fixed-rate loan. The lender may charge the borrower a fee for providing and exercising an option.
- **Loan-to-Asset Value:** The ratio of loan balance to the value of assets pledged as collateral to secure a loan.
- **Long-Term Loan:** A loan to be repaid (or amortized) over a period of time exceeding 10 years, with 20- to 30-year loans being common when financing real estate.

## M

- **Marginal Cost of Funds:** A loan pricing method by a financial institution in which interest rates on new loans are based on the cost of new funds acquired in financial markets to fund the loans. This pricing policy contrasts with loan pricing based on the average cost of funds already acquired by the lending institution.
- **Matured Mortgage:** A mortgage secured loan where the term has expired and the full remaining balance is due and payable. See also Maturity.
- **Maturity:** Amount of time until the loan is fully due and payable. For example, a 5-year loan has a maturity of 5 years regardless of the amortization period.
- **Mortgage:** A legal instrument that conveys a security interest in real property to the mortgagee (i.e., a lender) as collateral security for the loan.

## N

- **Net Income:** A measurement of the net return. Also called accrual net income. The primary difference between cash and accrual net income is that accrual income includes adjustments for changes in inventory and changes in accrual items like prepaid expenses, accounts payable and accounts receivable. Accrual net income more accurately reflects the profitability of a business over an accounting period.
- **Net worth:** The financial claim by owners on the total assets of a business, calculated as total assets minus total liabilities equals net worth. Also called equity capital and ownership equity.
- **Non arm's length:** Relationship or transaction between two persons who are related to each other or otherwise acting on less than commercial terms. See also Arm's Length.
- **Non-revolving line-of-credit:** A line-of-credit in which the maximum amount of a loan is the total of loan disbursement(s). Repayments do not make loan funds available again as in a revolving line-of-credit.
- **NOSI:** See Notice of Security Interest.
- **Note:** See Promissory Note.

- **Notice of Security Interest:** A notice, registered against the title to land to which goods will be or are affixed to land, that preserves the priority of the personal property security interest in the goods that become affixed.

## O

- **Off-Farm Income:** Income earned by a farmer operator or member of the operator's family from employment off the farm or from investments made in non-farm activities or ventures.
- **Operating Line of Credit:** A revolving credit facility designed to be used as a short term operating loan. See operating loan.
- **Operating Loan:** A short-term loan (i.e., less than one year) to finance crop production, livestock production, inventories, accounts receivable and other operating or short-term liquidity needs of a business.
- **Origination Fee:** A fee charged by a lender or broker to a borrower at the time a loan is originated to cover the costs of administering the loan, evaluating credit, checking legal records, verifying collateral and other administrative activities.
- **Overdraft / Overdrawn:** a deficit in an account or loan caused by drawing more money than permitted or available.
- **Ownership Equity:** See net worth.

## P

- **Parcel** - A specified area of land.
- **Pari Passu:** Where two or more assets, creditors, or obligations are equally managed without any display of preference as between them. For example, in a Syndicated Loan the lenders may share in equal preference to each other.
- **Partial Release:** Release of a portion of collateral of the borrower that is secured under a secured loan. Often this will occur as part of a refinancing of a loan, renewal, or sale of the secured collateral with the consent of the lender.
- **Per Diem Interest:** The amount of interest added to a loan on a daily basis, often calculated as part of a payout process.
- **Personal Property Security Act:** An Alberta statute that regulates the creation, registration, and priority of security interests in all types of personal property within the province of Alberta. All other provinces have similar statutes.
- **Personal Property:** Any tangible or intangible property that is not designated by law as real property. Personal property is not fixtured or immovable.
- **PMSI:** See Purchase-Money Security Interest.
- **P-Note:** See Promissory Note.
- **PPSA:** See Personal Property Security Act.
- **Preferred Creditor:** a preferred creditor is a creditor that has a claim to any funds that are available in priority to general unsecured creditors.
- **Prepayment Penalty:** An amount charged by a lender on a loan paid prior to its maturity.
- **Prime Rate:** Refers to an individual lender's interest rate charged to its most creditworthy borrowers.

- **Principal:** The non-interest dollar amount of a loan outstanding at a point in time, or the portion of a payment that represents a reduction in loan balance. Principal is distinguished from interest due on a loan or the interest portion of a loan payment.
- **Pro forma statement:** A projection into the future. Examples are a pro forma balance sheet and a pro forma income statement. Often a pro forma statement is used to assess profitability of a proposed venture.
- **Pro Rata:** A proportionate allocation of a loan, asset, or obligation. A method of assigning an amount to a fraction, according to its share of the whole.
- **Profit and Loss Statement:** See income statement.
- **Profitability:** The relative profit performance of a business, enterprise or other operating unit. Profitability comparisons often occur over time, across peer groups, relative to projections, and relative to norms or standards.
- **Promissory Note:** A written promise to pay. A document in which a borrower promises to repay a loan to a lender at a stipulated interest rate, which could be zero percent interest, within a specified time period of time or upon demand by the lender.
- **Purchase-Money Security Interest:** A security interest taken or reserved in collateral to secure payment of all or part of its purchase price or otherwise enabling the debtor to acquire rights in the collateral, to the extent that the value is applied to acquire those rights.

## Q

## R

- **Rate Adjustment:** A change in interest rate on an existing loan. Rate adjustments may occur on variable- or adjustable-rate loans.
- **Rate of Return on Assets:** A profitability measure representing the rate of return on business assets during an accounting period. Rate of Return on Assets is calculated by dividing the dollar return to assets during the accounting period by the value of assets at the beginning of the period or the average value of assets over the period. Often Rate of Return on Assets is used to assess profitability or compare two or more proposed business ventures.
- **Rate of Return on Equity:** A profitability measure representing the rate of return on the equity capital which owners have invested in a business. Rate of Return on Equity is calculated by dividing the dollar return to equity capital during an accounting period by the value of equity capital at the beginning of the period or the average value of equity capital over the period. Often Rate of Return on Equity is used to assess profitability or compare two or more proposed business ventures.
- **Real Property Report:** A legal document that certifies boundary locations of land and the location of all visible public and private improvements relative to property boundaries. A registered Alberta Land Surveyor is the only individual who can legally prepare a Real Property Report.
- **Real Property:** Land, buildings, fixtures, minerals and other kinds of property that are legally classified as real property.

- **Refinancing:** A change in an existing loan designed to extend and/or restructure the repayment obligation or to achieve more favorable loan terms by transferring the financing arrangement to another lender or loan.
- **Renewal:** A form of extending an unpaid loan in which the borrower's remaining unpaid loan balance is carried over (renewed) at maturity into a new term at the beginning of the next financing period.
- **Repayment Ability:** The anticipated ability of a borrower to generate sufficient cash to repay a loan plus interest according to the terms established in the loan contract.
- **Restrictive Covenant** - A contractual restriction on the use of certain land for the benefit of other land.
- **Revolving Line-of-Credit:** A line-of-credit made available to a borrower in which the borrower can usually borrow, repay and re-borrow funds at any time and in any amounts up to the credit limit, but not above, during a specified period of time.
- **Risk Assessment:** The procedures a lender follows in evaluating a borrower's creditworthiness, repayment ability, and collateral position relative to the borrower's intended use of the loan proceeds. Risk assessment is similar to credit scoring and risk rating. See Underwriting.
- **Risk Premium:** The adjustment of a lender's base interest rate in response to the anticipated level of a borrower's credit risk in a loan transaction. Higher risk loans may carry higher interest rates, with the rate differential representing the risk premium.
- **Risk Rating:** The relative amount of credit risk associated with a loan. The lender may use credit scoring or other risk assessment procedures to evaluate loan requests and group borrowers into various risk classes or ratings for purposes of loan acceptance or rejection, loan pricing, loan control, degree of monitoring and level of loan documentation and security required.
- **Risk Tolerance:** The degree of safety a lender wished to have. Also called risk aversion or risk attitude.
- **ROA:** See Rate of Return on Assets.
- **ROE:** See Rate of Return on Equity.
- **RPR:** See Real Property Report.

## S

- **Second Mortgage:** The use of two lenders (or loans from one lender) in real estate mortgage financing in which one lender holds a first mortgage on the real estate and another lender (or the same lender through a second loan) holds a second subordinated mortgage as against the same parcel of land. The first mortgage holder has first claim on the borrower's mortgaged property and assets in the event of loan default, foreclosure or bankruptcy; accordingly, a second mortgage is of higher risk to the lender and often has a higher interest rate to compensate for this higher risk. See Risk Premium.
- **Secured Creditor:** A secured creditor is one who takes collateral for the extension of credit, such as by way of specific mortgage, security interest and/or general security agreement.
- **Secured Loan:** Loans in which specific assets (e.g.: real property, chattels) have been pledged by the borrower as collateral to secure the loan. Security agreements and mortgages serve as evidence of security in secured loans.

- **Security Agreement:** A legal instrument signed by a debtor granting an interest, charge, or lien to a lender in specified, or all, personal property pledged as collateral to secure a loan or loans.
- **Simple Interest:** A method of calculating interest obligations in which no compounding of interest occurs. Interest charges are the product of the loan principal times the annual rate of interest times the number of years or proportion of a year the principal has been outstanding.
- **Sole Ownership:** An individual, corporation or other entity is the only owner of the asset.
- **Solvency:** A condition of financial viability in which net worth is positive and the business is expected to meet its financial obligations as they come due. An insolvent business has a zero or negative net worth and questionable viability. Solvency indicators include the debt-to-asset ratio, debt-to-equity ratio and the equity-to-asset ratio. See also Insolvency / Insolvent.
- **Statement of Farming Activities:** Canada Revenue Agency form T2042 used to report farm income and expenses as a part of filing federal income tax returns.
- **Surety:** Person or entity that has been requested by another (principal) and agrees to be responsible for the performance of some act if the principal fails to perform as promised, such as a Guarantor under a Guarantee.
- **Syndicated Loan:** A loan in which two or more lenders share in providing loan funds to a borrower. Generally, one of the participating lenders originates, services, and documents the loan (the lead bank or lender) on behalf of the syndicate of participating banks or lenders.

## T

- **Tenancy-in-Common:** In this type of ownership there are two or more owners called tenants-in-common who hold title to an asset, often Real Property, without a right of survivorship such that when a tenant-in-common dies, that person's share in the asset goes to his or her estate, not automatically to the other co-owner(s).
- **Tiered Loans:** Loans grouped according to the risk characteristics of borrowers. Higher risk classes generally are charged higher interest rates to compensate the lender for carrying the increased credit risk.
- **Title Insurance:** Insurance which protects a purchaser or mortgage lender against losses arising from a defect in title or certain other matters relating to real estate, other than defects that have been specifically excluded.
- **Title Opinion:** A legal opinion rendered by a lawyer as to the status of the title to an asset (often real estate).
- **Torrens System:** A system of land ownership and transfer where a government office has custody of all original land titles and all original documents registered against them, issues certificates of the state of title, and guarantees accuracy of the certificates of title issued under the system backed up with insurance to compensate for errors if they arise.
- **Total Debt Service Ratio:** A debt service measure that financial lenders use to give a preliminary assessment of whether a potential borrower is already in too much debt, generally calculated as the total cost of debt servicing divided by gross revenue.
- **Tranche:** A piece, portion or slice of a loan or structured financing product.

- **Trend analysis:** The use of financial measures or ratios over several time periods to evaluate business performance over time.

## U

- **Underwriting:** the process that a lender uses to assess the creditworthiness or risk of a potential borrower. Credit verification and employment verification are often parts of the underwriting process.
- **Undivided Interest** - The interest of a tenant in common in land.
- **Unsecured Creditor:** An unsecured creditor is one who gives credit but who does not take any security for the debt owed to them.
- **Unsecured loans:** Loans for which there are no items of security pledged by the borrower as collateral to secure the loan.
- **Usury:** the criminal practice of making monetary loans that unfairly enrich the lender through an effective annual rate of interest in excess of sixty percent per annum, in violation of the Criminal Code of Canada.

## V

- **Variable Rate Loan:** A Variable Rate Loan, also called an adjustable rate or floating rate loan is a loan that has provisions to change the interest rate at pre-specified points in time based on changes in a market index, a lender's cost of funds, prime rate, or other factors as determined by the lender by formula, reference to an outside event or events (for example the Bank of Canada rate), or otherwise. Often a variable rate loan will be expressed as a bank's prime or base rate plus or minus a margin. (e.g.: base + 3per cent). Generally, rate changes occur in response to changes in the lender's cost of funds of a specified index. The frequency and level of rate adjustments may or may not be established in the loan contract.
- **Vendor financing:** A loan provided by the seller of property to a buyer in order to finance the buyer's purchase of the asset. Vendor Financing can be secured or unsecured.

## W

- **Working capital:** The differences between current assets and current liabilities. Often used as a measurement of liquidity of a business.
- **Writ of Enforcement:** a document, filed with the Court, which permits the taking of enforcement steps against a judgment debtor by a judgment creditor and is often registered against the judgment debtor in the Personal Property Registry and against the title to debtor's lands.

## X Y Z

## 5. Acknowledgement

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*University of Illinois at Urbana-Champaign*

*The Center for Farm and Rural Business Finance*

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## 6. Other references

Determining the Type and Source of Financing Required

[http://www1.agric.gov.ab.ca/\\$department/deptdocs.nsf/all/apa2328](http://www1.agric.gov.ab.ca/$department/deptdocs.nsf/all/apa2328)