Accounts Payable - A current liability representing the amount owed by an individual or a business to a creditor for merchandise or services purchased on open account or short-term credit.

Accounts Receivable - Money owed a business for merchandise or services bought on open account. Accounts receivable arise from the business practice of providing a customer merchandise or a service with the expectation of receiving payment per specified terms. The terms are included on the seller's invoice to the buyer with no written evidence of debt executed between seller and buyer.

Advance - A drawdown or disbursement of funds according to the terms of an existing loan agreement. Advances are common to revolving credit facilities. The term can also refer to a customer paying its accounts payable prior to the agreed-upon date.

Advance Rate - The maximum percentage that the lender will lend against a type of collateral. The advance rate will vary by the type of collateral, terms, age, and perhaps the financial strength of the obligated party.

Aging (Schedule) - A periodic report listing a borrower's accounts receivable or payable balances, by customer or supplier, detailing the current status or delinquency of the balances owed or owing. The report is usually used in determining the borrower's compliance with the borrowing base requirements in the loan agreement.

Asset-Based Lending (ABL) - A specialized form of secured lending whereby a company uses its current assets (accounts receivable and inventory) as collateral for a loan. The loan is structured so that the amount of credit is limited in relation to the value of the collateral. The product is differentiated from other types of lending secured by accounts receivable and inventory by the lender's use of controls over the borrower's cash receipts and disbursements and the quality of collateral.

Availability - The additional funds that the lender will advance under the terms of the credit facility. The amount is often the difference between the loan commitment amount and the outstanding balance of the credit facility. In most cases, the terms of the credit agreement limit the amount available if the commitment amount is greater than the borrowing base.

Blanket Assignment - An agreement giving the lender a security interest in all of assets owned by the borrower. As used by some lenders, the term is meant as a catch-all security interest covering every anticipated type of asset owned by the borrower. To perfect the lender's security interest in the borrower's personal property, the lender must file a financing statement describing the collateral in all its locations. To perfect the lender's security interest in all real or titled property, the lender must specify the assets in the appropriate documents and must file the documents in the proper jurisdiction. If the assets are already encumbered and the borrower has limited equity in them, the lender may not expend the resources to perfect its security interest in the borrower's real and titled property.

Borrowing Base - A collateral base, agreed to by the borrower and lender, which is used to limit the amount of funds the lender will advance the borrower. The borrowing base specifies the maximum amount that can be borrowed in terms of collateral type, eligibility, and advance rates.

Compliance Certifications - The borrower's statement certifying its adherence to the terms of the loan agreement during the stated period. The certificate is usually completed by the company's principal financial officer. If the borrower is in compliance with the terms of loan agreement (no event of default has occurred), the principal financial officer will attest accordingly. Supporting data is usually required to document the assertion.

Consignment - The physical transfer of goods from a seller or vendor to another legal entity that acts as a selling agent for the seller. The seller is known as the "consignor" or the goods, and title to the goods remains with the seller. The receiver of the goods under consignment is known as the "consignee." The consignee acts as agent for the consignor, sells the goods for a commission, and remits the net proceeds to the consignor. The consignor does not recognize revenue until the consignee sells the goods to a third party.

Contra-Accounts - They arise when a borrower has both accounts receivable and accounts payable with the same entity because the party is both a customer and a supplier of the borrower. These accounts are usually considered ineligible collateral.

Credit Memo - A detailed memorandum forwarded from one party or firm to another granting credit for returned merchandise, some omission, overpayment, or other cause. It may also refer to the posting medium authorizing the credit to a specific account, including details of the transaction and signature or initials of the party authorizing the credit.

Cross-Aging - The practice of making all of the accounts receivable from a single account party (the obligated party for an account receivable) ineligible to be included in the borrowing base if a specified proportion of the total accounts receivable from that party is delinquent. Also, sometimes referred to as the “10 percent rule” since a common delinquency threshold is 10 percent.

Cross-Collateralized - In the event of default, the collateral of cross-collateralized loans is used to satisfy the debts. In most instances the collateral is shared on a pari passu basis. The terms of the agreement can also specify that only the excess collateral of one loan can be shifted to satisfy another.

Cross Default - The right to declare a loan in default if an event of default occurs in another loan.

Debtor-in-Possession (DIP) Financing - Financing provided to a borrower after a chapter 11 (reorganization) bankruptcy filing. A lender provides the DIP post-petition financing to support its working capital needs while the DIP attempts to rehabilitate its financial condition and emerge from bankruptcy protection. In order to encourage lenders to provide DIP financing, the bankruptcy code grants the DIP lender a priority claim on the DIP’s assets. This provides the DIP lender protection in the event the DIP fails to emerge from chapter 11 and liquidates. Liquidation can be accomplished either in chapter 11 or by converting the case to a chapter 7 filing.

Desk Following (Desk-Followed) - A term used to describe less rigorous, informal monitoring of an ARIF loan. Desk following is usually found only in blanket receivables lending and some secured financing.

Eligible Collateral - A defined term in the loan agreement that controls what collateral can be included in the borrowing base.

Factoring - An arrangement in which a company shortens its cash cycle by selling its accounts receivable without recourse to a third party, known as a “factor.” A factor assumes the full risk of collection, including credit losses. There are two basic types of factoring: (1) discount factoring, in which the factor discounts the receivables prior to the maturity date, and (2) maturity factoring, in which the factor pays the client the purchase price of the factored accounts at maturity. Factors frequently perform all accounting functions in connection with the accounts receivable, in which case purchasers are notified to remit payments directly to the factor.

Formula - A calculation to determine the borrowing base in which a margin or advance rate is applied to each type of collateral.

Full Following - A term describing the process ABL lenders use to closely control credit availability and collateral by means of a borrowing base, control of the cash receipts, and field audits.

Ineligible Collateral - Pledged receivables or inventory that does not meet the criteria specified in the loan agreement. Ineligible collateral remains part of the ABL lender’s collateral pool, but does not qualify for inclusion in the borrowing base.

Lien - A legal right granted by the authority of a court to control or to enforce a charge against another’s property until some legal claim is paid or otherwise satisfied.

Liquidation Value - The most likely price an asset will bring if it is sold without reasonable market exposure and when the seller is under duress. Sometimes the liquidation value is based on an orderly liquidation that allows for a brief marketing period as contrasted with a forced liquidation value that is based on an auction sale.

Lock Box - A cash management product offered by financial institutions that accelerates a client’s collection of receivables. The client’s customers are directed to make payments to regionally located post office boxes, where they are picked up several times each day and entered into an automated check processing system. By processing checks by region, the client gains faster access to its funds since it speeds their presentment to the bank they are drawn on. Lenders use lock boxes in ABL financing to control cash receipts.

Margin - The difference between the market value of collateral pledged to secure a loan and the amount the bank will advance against the collateral.

Market Value - The most likely price an asset will bring if it is sold in a competitive, open market, with reasonable market exposure and willing, informed buyers and sellers.

Non-notification - The bank does not notify the borrower's pledged accounts that they are to remit payments directly to the bank. Non-notification often involves a lock box arrangement. The bank may also allow the borrower to collect payments and remit them to the bank for credit against the loan balance.

Notification - The bank notifies a borrower's pledged accounts that they are to remit payments directly to the bank for collection.

Operating Cycle - The period of time it takes a business to convert purchased and manufactured goods and services into sales, plus the time to collect the cash from the associated sales. If the company has sold receivables through factoring arrangements, the calculation will be distorted.

Pari Passu - Credit facilities in which two or more lenders are accorded equal treatment under a loan agreement. Most frequently applied to collateral, but may also refer to loan structure, documentation, maturity, or any other substantive condition

Purchase Money Security Interest (PMSI) - The Uniform Commercial Code (UCC) prescribes that if a creditor provides financing for a debtor to acquire specific goods, the creditor can perfect a security interest in the goods despite the existence of financing statements on similarly described collateral. However, the creditor must adhere to strict rules to perfect a PMSI. If the creditor violates the PMSI requirements, the creditor's lien will be junior to the previously perfected financing statements.

Revolving Credit Facility - A loan agreement that allows the borrower to frequently draw down and repay advances. The proceeds are usually used to support the working capital needs of the borrower. A borrowing base requirement in the loan agreement commonly mitigates the lender's credit risk.

Security Agreement - A document giving a lender a security interest in assets pledged as collateral. This agreement, signed by the borrower, describes the collateral and its location in sufficient detail so the lender can identify it, and assigns to the lender the right to sell or dispose of the assigned collateral if the borrower is unable to pay the obligation.

Set-off (offset) - A common law right of a lender to seize deposits owned by a debtor and deposited in the lender's institution for nonpayment of an obligation. It also occurs in settlement of mutual debt between a debtor in bankruptcy and a creditor, through offsetting claims. Instead of receiving cash payment, debtors credit the amount owed against the other party's obligations to them. This allows creditors to collect more than they otherwise would have collected under a debt repayment plan approved by a bankruptcy court.

Trade Cycle Analysis - A method of computing whether working capital is sufficient to support the working investment need of a business. (See "operating cycle.")

Uniform Commercial Code (UCC) - A model framework of laws that addresses commercial transactions. Each state may modify or exclude provisions of the model framework when adopting the UCC. While the UCC varies from state to state, the spirit of the state-adopted statutes is basically consistent. The UCC was set forth to stimulate interstate commerce by providing a fair measure of consistency among states' commercial laws.

Weighted Average Risk Rating - Statistical measure of the total risk in a portfolio of loans. The weighted average risk rating (WARR) is calculated by multiplying the loan commitment amount (or outstandings) by the risk rating for each loan in the portfolio, aggregating, and dividing by the total portfolio commitment (or outstandings).

Working Investment - The result of calculating the sum of accounts receivable and inventory, minus the sum of accounts payable and accrued expenses (excluding taxes). It represents the amount of financing and trade support that a company needs to fund its trading assets.