



Terms and Definitions

Module 10

Angel investors - an individual who provides capital for a business start-up, usually in exchange for convertible debt or ownership equity

Bank to debt ratio - monthly debt payments divided by monthly income; used by the bank to determine if you should receive a loan

Bootstrapping - financing a business through one's own savings, or bartering for professional services based upon your occupational skillset, adding in a temporary revenue stream outside of the core business to fund the primary business, whilst doing as much of the work by oneself to save as much as possible.

Collateral - something that a debtor promises to the bank that they will seize from the said debtor and sell if they fail to make their loan payments

Convertible notes - is a debt instrument often used by angel or seed investors looking to fund an early-stage startup that has not been valued explicitly. The terms and risks of these notes vary widely and should be reviewed by an outside legal counsel

Co-signer - someone who will sign loan agreements with an entrepreneur so that in the event they cannot make their monthly payment, they will be legally bound to pay it for you

Credit union - a nonprofit organization that many entrepreneurs turn to as an alternative to banks because of their lower interest rates; you must be a member to join one and they have the ability to sue you like a bank if you don't pay your debts

Debt financing - borrowing money to finance your company and gaining debt in the process; it includes personal savings, banks, credit unions, microloans, relatives and friends, and credit cards

Emergency fund - the money an entrepreneur sets aside for business emergencies; should be equal to half the start-up cost

Equity financing - selling shares of your business in order to finance it; it includes relatives and friends, angels and venture capitalists, partners, customer financing, and barter financing

Payback - start-up investment divided by the net profit per month; the number of months it takes for a business to earn back the start-up investment

Reserve for fixed expenses - a space to save enough money to keep fixed expenses satisfied for at least three months in the event that a business has a slow start and is unable to earn enough money to cover those necessary costs

Return on investment (ROI) - net profit divided by start-up investment; used to determine the profitability of a business

Start-up costs (start-up expenditures) - the investments an entrepreneur makes in one-time purchases that are necessary for their business

Start-up investment - the money an entrepreneur spends on start-up costs, fixed expenses, and a reserve for fixed expenses; also called seed money and start-up capital

Venture capital - money that is invested into a business by a company whose sole purpose is to invest in businesses