

Glossary of Financial Terms

Adjustable Rate Mortgage (ARM)

An interest rate that varies, depending on changes in some outside standard such as prime rate, interest rate on United States Treasury securities, or the rate of inflation. The lender can increase (or decrease) the interest rate at specified intervals based on changing market conditions.

Annuities

Complex life insurance products with widely varying fees, costs, and features, and are designed to give a steady stream of income. Make sure to comparison shop, and that you understand how the annuity works, what fees and charges you will pay, and all terms and conditions.

APR (Annual Percentage Rate)

In the context of credit cards, the periodic rate times the number of periods in a year. For example, a 1.5% monthly rate has an APR of 18%. In the context of consumer lending, the APR takes into account more than the interest rate applied to the principal per period.

APY (Annual Percentage Yield)

The Annual Percentage Yield is the true rate of return of an investment in one year, taking into account the effect of compound interest.

Assets

Objects of value someone owns (i.e. home, car, savings account, etc.). Attributes, such as special skills and higher education may also be included as assets.

ATM (Automatic Teller Machine)

A terminal that allows you to withdraw money from your checking or savings account, to check your balance, to make transfers from accounts, or to make deposits.

Balance Inquiry

A basic home banking function by which consumers can determine their balance of funds in an account via phone or personal computer.

Balloon Payment

An oversized payment due at the end of a loan, because the entire loan amount was not fully amortized, so the remaining balance is due in full.

Bankruptcy

The inability of a person or organization to pay debts. There are two kinds of bankruptcy: involuntary (one or more creditors petition to have a debtor judged insolvent by a court) and voluntary (the debtor brings the petition). In both cases, the objective is an orderly and equitable settlement of obligation.

Bonds

A long-term promissory note. Bonds vary widely in maturity, security, and type of issuer, although most are sold in \$1,000 denominations or, if a municipal bond, \$5,000 denominations. *Wall Street Words: An A to Z Guide to Investment Terms for Today's Investor* by David L. Scott. Copyright © 2003 by Houghton Mifflin Company.

Budget

A plan created to track and control spending and encourage spending.

Capital Gains Tax

A capital gain is when the sale price of an asset is higher than the initial purchase price. The capital gains tax takes a percentage of all realized capital gains. A capital gain is said to be "realized" when the asset is sold. An unrealized capital gain is an asset that has increased in value, but has not been sold.

Capitalization

When interest is capitalized, the outstanding (unpaid) interest on your student loan account is added to the principal balance. When this happens, you are essentially paying interest on top of interest.

CD (Certificate of Deposit)

A type of investment that requires you to invest money for a certain length of time and guarantees the same rate of return (interest) for

the entire time. CDs usually require a minimum deposit and charge penalty fees for early withdrawal.

Certified Check

A check which is guaranteed for payment. When a check is certified, it becomes an obligation of the bank, and the funds are immediately withdrawn from the account.

Check Hold

When a financial institution temporarily blocks your access to all or part of the funds from a check that you have deposited.

Charge-Off

If a loan or credit card is deemed "uncollectable", it may be charged off. This has a very negative affect on your credit score.

Chapter 7

A provision of bankruptcy laws wherein a company is required to liquidate its assets to pay off its creditors.

Chapter 11

A provision of bankruptcy laws allowing a bankrupt company to remain in business while its owners attempt to pay its debts.

Chapter 13

A provision of bankruptcy laws allowing adjustments of debts for an individual with regular income. This enables an individual debtor to repay creditors over an extended period, and usually allows the debtor to retain his/her property.

Check Hold

An asset (such as an automobile or a piece of property) that a person uses to take out a loan, promising to give the asset to the lender if loan payments cannot be met. Collateral also refers to the collection of receivables, such as mortgages, which are used to back the interest and/or principal security.

Compounding

Compounding is interest you earn based on your balance plus the interest that you already accrued. It is basically earning interest on top of interest. Many types of savings accounts compound yearly or quarterly.

Co-Signer

A person, other than the principal borrower, who also signs for a loan. The co-signer(s) assumes liability to repay the loan, if the principal borrower defaults.

Credit

The trust which allows one person (or company) to lend money (or goods or services) to another person, where the second person repays the debt at a later date.

Credit History

A record of one's payment history on current and previous debt. If one makes payments on time and does not acquire an excessive amount of debt, one's credit history is likely to be good. This makes an individual a good risk if he/she wishes to borrow more money. On the other hand, if one has a history of late payments and/or default, the individual is likely to be a bad risk and may be denied credit. *Farlex Financial Dictionary*. © 2009 Farlex, Inc

Credit Rating

A score assigned by three major credit bureaus that indicates how likely you are to pay back a loan on time.

Debit Card

A card that allows you to make automatic withdrawals from your bank account, and to access money in your checking account to make purchases. Even if a debit card has a credit card logo, it does not function as a credit card (where the customer owes the purchase amount later).

Debt

Any money owed to an individual, company, or other organization. Credit card balances, student loans, mortgage loans, and medical bills are examples of common debts.

Debt-to-Income Ratio

This is a percentage figure comparing your total monthly payments on debts to your monthly income.

Default

Failure to meet the terms of a credit agreement.

Deferment

A temporary postponement on federal student loans. Deferments are granted if you meet the specific criteria for each type (i.e. unemployment or economic hardship).

Delinquency

Failure to make timely payments under a loan or other credit agreement.

Diversification

The method of balancing risk by investing in a variety of securities.

Dividend

A portion of company earnings paid to stockholders, usually in cash, but sometimes in the form of additional shares of stock.

Equity

Ownership interest in an asset after liabilities are deducted.

Fair Credit Reporting Act

A federal law that protects consumers from false or deceptive credit reporting.

FDIC

The Federal Deposit Insurance Corporation (FDIC) is backed by the US Government and insures money kept in for-profit banks.

Generally, deposits up to \$100,000 per account are insured, meaning you cannot lose this money even if the bank closes.

Note that money kept in a non-profit credit union is insured by the National Credit Union Share Insurance Fund (NCUSIF), also backed by the US Government.

Federal Student Loans

Loans that are guaranteed by the federal government. Includes Stafford, Parent PLUS, and Grad PLUS loans. These loans have a fixed interest rate, as well as deferment and forbearance options.

Finance Charge

The total dollar amount paid, including fees and interest, for a loan.

Financing Fee

The fee a lender charges to originate a loan. The fee is based on a percentage of the loan amount; one point is equivalent to one percent.

Financial Abuse

A tactic used by abusers to control victims by preventing access to money or other financial resources. *Moving Ahead Through Financial Management* ©, The Allstate Foundation

Financial Literacy

Education of individuals about economics and finances, usually with the goal of assisting low-income families in their efforts to become financially independent.

Fixed Rate

A “traditional” approach to interest charges on a loan. A predetermined and specified interest rate is applied to the principal over the life of the loan.

Forbearance

A temporary postponement or reduction of student loan payments granted at the lender's discretion.

Home Equity

The difference between what you paid for your home and what you get when you sell it. There may be complex tax implications (see Capital Gains).

Individual Development Account (IDA)

A savings account for persons with lower income. The funds put into an IDA are matched by a public or private organization. One may use the funds in an IDA for educational purposes, starting a business, or buying a first house. IDAs are accompanied by programs for credit improvement and other classes to help account holders move up from poverty and into the middle classes.

Individual Retirement Account (IRA)

An investment vehicle for retirement, usually set up through a financial services company or bank.

Inflation

Inflation is the growth in the cost of products and services, also called the cost of living increase. The rate of inflation changes, and can range from 4% to 8% a year.

Installment Plan

A plan requiring a borrower to make regular payments at specified intervals over the life of a loan.

Interest

Interest is the additional amount you will pay to a lending institution to borrow money. In terms of savings, interest is the additional amount you will earn for having your money in a bank account or other savings vehicle.

Simple Interest

Simple interest is interest paid only on the "principal" or the amount originally borrowed, and not on the interest owed on the loan.

Compound Interest

Compound interest is interest calculated, not only on the principal, or the amount originally borrowed, but also on the interest that has accrued, or built up, at the time of the calculation.

Interest Rate

The percentage charged for a loan, usually a percentage of the amount loaned. Also, the percentage paid on a savings account.

Lien

A creditor's claim against a property, which may entitle the creditor to seize the property if a debt is not repaid.

Maturity

The time when a note, bond or other investment option comes due for payment to investors or creditors.

Minimum Payment

The minimum monthly payment required on a credit card or loan. For credit cards, this is typically 2% of your balance (changes month to month).

Money Market Accounts

These accounts tend to offer higher interest rates than savings accounts, but lower rates of return than other savings vehicles (e.g. bonds, mutual funds).

Mortgage

A temporary pledge of property to a creditor as security for the repayment of a loan.

Mutual Funds

A mutual fund is a pool of money (fund) run by a professional or group of professionals who have experience in picking investments.

Net Worth

The difference between an individual's total assets and total liabilities.

Overdraft

A situation in which a bank customer withdraws more from his/her account than he/she had previously deposited. For example, if an account holder has \$1,000 in the account and withdraws \$1,200, this is an overdraft of \$200. The bank may or may not honor the overdraft, depending on its policies and the importance of the customer. Usually, however, an overdraft incurs a relatively steep penalty fee. Farlex Financial Dictionary. © 2009 Farlex, Inc. All Rights Reserved

Prime Rate

The lowest interest rate on bank loans, offered to preferred borrowers.

Principal

The unpaid balance on a loan, not including interest; the total amount of money invested or loaned.

Promissory Note

A document you sign that indicates a promise to repay a loan under agreed-upon terms.

Rate of Return

Another name for this is Return on Investment (ROI). Simply put, the Rate of Return (ROR) is a percentage figure that measures how money grows in any savings vehicle.

Rule of 72

The rule of 72 is a neat trick to calculate how much money you can make off of the interest of an investment. Divide 72 by the interest rate of your account and the result is the number of years it will take to double your investment.

Service Charge

A component of some finance charges, such as the fee for triggering an overdraft checking account into use.

SIMPLE IRA (Individual Retirement Account)

A Savings Incentive Match Plan for Employees (SIMPLE) account is a type of retirement savings account for employees offered by employers. An employer may match employee contributions in a SIMPLE.

Simplified Employee Pension (SEP)

A retirement savings account for small businesses and for self-employed people (people who have their own businesses).

Stocks

When you buy stock in a company, you share in its ownership. Stock is purchased units called "shares." Your share of the company depends on how many shares of the company's stock you own.

Subsidized

The federal government pays the interest that accrues on the subsidized portion of federal loans during the in-school period, grace period, and periods of deferment.

Total Cost of Borrowing

When you take out a loan, it is important to know the Total Cost of Borrowing. This will be the total monetary amount you will pay over the life of the loan and includes principal, fees, and interest.

Truth in Lending

A statement that discloses all of the terms and conditions of a loan. Also called a Disclosure Statement.

Representative Payee

A person or an organization appointed by a government agency, such as the Social Security Administration (SSA) or the Department of Veteran Affairs (VA), to receive and manage public benefits on behalf of someone who is incapable of doing so.

Stock

A share that represents ownership in the company that issues it. The price of a stock goes up and down, depending on how the company performs and how investors think the company will perform in the future.

Term

The period from when a loan (or other contract) is issued until it is fully paid.

Terms

Provisions specified in a loan agreement (or other contract).

401(k)

A 401(k) is an employer-sponsored retirement savings plan that is tax deferred.

403(b)

A 403(b) is an employer-sponsored retirement savings plan very similar to a 401(k) (see above), but this plan is offered by non-profit employers.