

## **Financial Terms and Definitions**

### **Account**

Money deposited with a financial institution for investment and/or safekeeping purposes.

### **Affinity Card**

A credit card affiliated with a third party that derives a value-added benefit from each transaction. For example, an alumni association or a museum may be awarded a percentage of all transactions charged to the affinity credit cards of the organization's members.

### **Annual Fee**

The once-a-year cost of owning a credit card. Some credit card providers offer cards with no annual fee. The annual fee, with interest and other fees are part of the total cost of credit.

### **Annual Percentage Rate (APR)**

The yearly interest charge applicable to outstanding credit card balances. It is one part of the total cost of credit.

### **Assets**

Items of monetary value (i.e., house, land, car) owned by an individual or a company.

### **Automatic Payments**

Utility companies, loan payments, and other businesses may use an automatic payment system with bills paid through direct withdrawal from a bank account.

### **Average Daily Balance**

Financial institutions measure and compute how much you owe on an average day of your billing cycle, and use the average amount to calculate how much interest you owe for the month.

### **Balance**

An outstanding amount of money. In banking, balance refers to the amount of money in a particular account. In credit, balance refers to the amount owed.

### **Balance Transfers**

Allow you to take your balance from one credit card and pay off another, ideally with a lower cost.

### **Bankcard**

A credit or debit card issued by a financial institution.

### **Bankruptcy**

A legal declaration of insolvency. It can stop foreclosures, repossessions, garnishments and debt collection activities. While bankruptcy will not clean up a bad credit record, it will

be part of the credit record for up to 10 years. It usually does not wipe out child support, alimony, fines, taxes and some student loan obligations.

### **Bond**

An IOU issued by a corporation, the U.S. Government, or a city and held by the lender as receipt that the business or institution has borrowed a specific amount of money. Most bonds pay interest at least yearly and are payable in full at a specified date written on the bond.

### **Bounced check**

A "bounced" check is one that a financial institution has refused to cash or pay. It might be because the account was closed, or there were insufficient funds to cover the amount of the check. Non-sufficient funds (NSF) are one reason for a bounced check. It is estimated that 90% of bounced checks are due to consumers' math errors in balancing their checkbook.

### **Business Card**

A credit card for small business owners. Business expenses are charged to this card to simplify bookkeeping and tax preparation.

### **Canceled Check**

A "used" check that has been paid and subtracted from the check-writer's account. Canceled checks have writing on them from the financial institution. They are usually mailed to the writer each month with the statement, although many banks keep records that are available upon request. Canceled checks are excellent receipts that should be kept for reference and tax purposes.

### **Capital**

A stock of accumulated wealth used or available for producing more wealth.

### **Cashiers Check**

A check issued by a financial institution on its own funds rather than by one of its depositors.

### **Cash**

Money in the form of paper and coins (i.e., U.S. dollars and cents). In banking, the act of paying a check.

### **Certificate of Deposit**

A savings account in which an individual promises to deposit the money for a set period of time, for which the financial institution pays higher interest than a regular savings account.

### **Chapter 7**

Commonly referred to as a "straight bankruptcy." In Chapter 7 bankruptcy all unsecured debt, such as credit card debt, is canceled. Secured debts must be paid or the collateral (a

car, for example) is surrendered to the financial institution. In some states, it may be possible to retain such possessions as work-related tools and basic household goods.

### **Chapter 11**

This chapter is a reorganization chapter where a debtor seeks to rehabilitate and reorganize its financial structure. This plan is normally used by businesses but can be filed by an individual debtor. A company can "remain in possession of their business". In other words, the company can continue to run, but must have a court-approved repayment plan for all non-exempt debt.

### **Chapter 13**

"Reorganization" bankruptcy. This procedure involves an adjustment of debt for a person or business with a regular income. Levels of secured and unsecured debt must be below certain limits. All debts are consolidated and reduced to one monthly payment based on disposable income. The filer may keep property such as a car, home or business.

### **Charge Card**

A plastic card that gives access to a line of credit. Charge cards usually must be paid in full at the end of each billing cycle.

### **Check**

A written document instructing a financial institution to pay money from the writer's account.

### **Check Card**

A card enhanced with ATM and point-of-sale features that can be used to purchase goods and services electronically. The card replaces cash or checks. Transactions are deducted from the cardholder's checking account either immediately or within one to three days. Depending upon the type of card, a check card may require a signature or entering a PIN number into special equipment.

### **Checking Account**

An account for which the holder can write checks. Sometimes fees are charged if minimum requirements aren't met.

### **Chip Card/Smart Card**

A card issued by a financial institution with an electronic chip embedded in it that can be loaded with multiple programs such as credit or debit card functions and frequent buyer or reward programs.

### **Clear**

A check "clears" when its amount is debited (subtracted) from the payer's account and credited (added) to the payee's account.

### **Collateral**

Anything that a financial institution accepts as security against the debtor's not repaying a loan. If the debtor fails to repay the loan, the financial institution is allowed to take the

collateral. Collateral is most commonly in the form of real estate (i.e. a home) or property, like a car.

### **Commercial Bank**

Non-governmental financial institutions. Sometimes called full-service banks because they provide a wide range of services, such as checking and savings accounts, credit and loan arrangements, and safety deposit box rentals. Commercial banks often sell and redeem U.S. Savings bonds.

### **Compound Interest**

Interest calculated not only on the original principal but also on the interest already accrued.

### **Co-Branded Card**

A credit card linked with a third party - a retailer or an airline, for example, that offers rebates, discounts or other value-added benefits to the user, based on the dollar value of purchases charged within a certain time frame. Also called rebate cards.

### **Credit**

In business, buying or borrowing on the promise to repay at a later date. In any credit arrangement, there is a creditor (a person, financial institution, store, or company to whom money is owed) and a debtor (the person who owes the money). In bookkeeping, a sum of money due to an individual or institution.

### **Credit Bureau**

A credit reporting agency that checks credit information and keeps files on people who apply for and use credit.

### **Credit Card**

A plastic card that gives access to a line of credit. Users are limited in how much they can charge, but they are not required to repay the full amount each month. Instead the balance (or "revolve") accrues interest with only a minimum payment due.

### **Credit Line**

The maximum dollar amount that can be charged on a specific card account.

### **Credit Rating**

A financial institution's evaluation of whether a person is suitable to receive credit. Credit ratings are based on an individual's character, capacity to repay and capital.

### **Credit Report**

A report on a consumer's level of indebtedness and bill paying behavior. Information for the report is submitted to credit reporting agencies (or credit bureaus) from an individual's creditors. The agencies compile the report and release it to lenders and others with the consumer's permission.

**Credit Union**

A member-owned financial institution, either state or federally chartered.

**Currency**

Money - anything used as a common medium of exchange. In practice, currency means cash, particularly paper money. Bankers often use the phrase "coin and currency" to refer to cents and dollars.

**Cyberbanking**

Banking through online services. Financial institutions with Website "cyber" branches allow customers to check balances, pay bills, transfer funds, compare savings plans, and apply for loans on the Internet.

**Debit**

A bookkeeping term for a sum of money owed by an individual or institution; a charge deducted from an account.

**Direct Deposit**

Earnings (or government payments) automatically deposited into accounts, saving time, effort and money.

**Demand Deposit Account**

A type of checking account.

**Deposit Slip**

An itemized slip showing the exact amount of paper money, coin, and checks being deposited to a particular account.

**Depositor**

An individual or company who puts money in an account.

**Electronic Cash**

Companies are developing electronic replicas of all existing payment systems - cash, check, credit cards, and coins.

**Endorse**

To write the payee's own signature on the back of a check before cashing, depositing, or giving it to someone else. The first endorsement must be made by the payee to authorize the transaction. Later endorsements may be made by whoever receives the check.

**Fair Credit Billing Act**

A federal act that applies to credit and charge card accounts to protect a borrower's right to dispute billing errors, unauthorized use of the account, and charges for goods and services charged but not delivered satisfactorily.

**Federal Reserve System**

A governmental agency established by Congress to organize and regulate banking throughout the United States. The twelve reserve banks keep paper and currency reserves for affiliated banks.

**Finance Charge**

This term covers the total cost of credit. It includes interest, and all other charges established by the issuing financial institution as a condition of credit. Charges may include: service fees, late fees, transaction fees and other miscellaneous charges.

**Financial Institution**

An establishment where you can deposit, borrow or exchange money.

**Fixed Rates**

An interest rate that doesn't change. The APR is usually a fixed rate.

**Grace Period**

The period before interest begins to accrue on new purchases.

**Identity Theft**

A form of fraud in which a consumer's financial information is illegally acquired for the purpose of making unauthorized purchases and transactions with their credit cards, or with funds from their checking or savings accounts.

**Interest**

The fee paid for the use of money. Interest may be paid, for example, by an individual to a financial institution for credit card use, or by a financial institution to an individual for credit card use, or by a financial institution to an individual for holding a savings account; interest is expressed in terms of annual percentage rate (APR).

**Interest Computation Method**

The way interest is calculated on a credit card balance. It can be charged by the day or month and includes interest on the unpaid balance.

**Interest Rate**

The percent, per unit of time, of the total sum borrowed that is charged by a bank or financial institution for the use of their money, 15 percent per year, for example. Credit card interest may be computed by the year, by the month, or by the day.

**Introductory Rates**

Credit cards use the introductory rate as a special promotional offer. After a period of time, the rate usually returns to the standard rate.

**Joint Account**

A savings or checking account established in the names of more than one person (e.g., parent/child, wife/husband).

**Liabilities**

In a financial sense, money owed to individuals, businesses or institutions.

**Line of Credit**

An authorized amount of credit given to an individual, business or institution.

**Magnetic Stripe**

The black strip on a credit card, debit or ATM card. It contains, in computer code, basic account information such as the holder's name and account number.

**Market Economy**

An economic system permitting an open exchange of goods and services between producers and consumers, such as is found in the United States.

**Minimum Payment Principal**

The minimum dollar amount that must be paid each month, usually 2 to 3 percent of the amount owed, based on average daily balance.

**Money**

Anything generally recognized as a medium of exchange.

**Mortgage**

A long-term loan obtained by individuals to buy a home that legally transfers ownership from the debtor to the creditor until the debt is paid.

**Overdraft**

A check written for more money than is currently in the account. If the financial institution refuses to cash the check, it is said to have "bounced".

**Passbook**

A booklet given by the financial institution to the depositor to record deposits, withdrawals, and interest earned on a savings account.

**Payee**

An individual or company to whom a check is written; one who receives money as payment.

**Payer**

An individual or company who writes a check; one who gives money as payment.

**Payment Schedule**

Credit cards often have a choice between partial payments with a minimum due, or full payment, where the full balance is expected.

**Periodic Rate**

A variable interest rate that may increase or decrease during each calendar quarter and affect both the finance charges and the minimum payment due on a credit card.

**Point-of-Sale Transactions**

Acceptance of ATM/check cards at retail stores and restaurants for payment of goods and services.

**Prime Rate**

The interest rate that the Federal Reserve Bank charges other banks to borrow money. It is often used as an index for credit card rates. For example, a rate may be set at prime plus 2 percentage points.

**Principal**

The original amount of money borrowed, deposited, or invested before interest accrues.

**Purchasing Card**

A credit card used by companies to make purchases of \$5,000 or less. It eliminates the need for purchase orders. Orders are placed directly with a participating supplier and charged to the purchasing card.

**Refinance**

To revise a loan agreement to make the terms of payment more suitable to a borrower's present income and ability to repay. Refinancing usually provides a lower interest rate and lower monthly payments.

**Rewards**

Some credit cards offer air miles, free gasoline, or other rewards as they are used.

**Savings Account**

An account that accrues interest in exchange for its use of the money on deposit. The depositor is usually allowed an unlimited number of deposits and withdrawals.

**Savings and Loan Association**

State-chartered or federally-chartered financial institution that accepts deposits from the public and invests those funds primarily in residential mortgage loans.

**Secured Card**

A credit card that is secured by an amount deposited into a designated savings account. The credit limit usually equals the amount of the security deposit. If balances are not paid, the deposit will be used to cover the debt.

**Service Charge**

A monthly fee a financial institution charges for handling a checking account.

**Stored Value Card**

A smart card (or chip card) that stores a dollar value. The card can be used for purchases up to the dollar amount stored before it is disposed of or reloaded.

**Stop Payment**

A request made to a financial institution not to pay a specific check. If requested soon enough, the check will not be debited from the payer's account. Normally there is a charge for this service.

**Terms**

The period of time and the interest rate arranged between creditor and debtor to repay a loan.

**Truth-In-Lending Act**

A federal law that requires lenders to disclose the costs and terms of borrowing money for a loan or credit card.

**Variable Rate**

An interest rate that can change periodically.

**Withdrawal**

An amount of money taken out of an account.