Glossary

Acceleration clause A stipulation in a loan contract stating that the entire balance becomes due immediately if other contract conditions are not met.

Accrued interest Interest that has been earned but not received or recorded.

Amortization Liquidation of a debt by making periodic payments over a set period, at the end of which the balance is zero.

Annuity A series of equal payments made at regular intervals, with interest compounded at a specified rate.

Appreciation An increase in the value or price.

Asset Anything an individual or business owns that has commercial or exchange value.

Auto debit The deduction from a checking or savings account of funds that are automatically transferred to a creditor each month. Some lenders offer interest rate discounts if loan payments are set up on auto debit at the beginning of the loan.

Balance The amount owed on a loan or credit card or the amount in a savings or investment account.

Balance sheet A financial statement showing a "snapshot" of the assets, liabilities and net worth of an individual or organization on a given date.

Bankruptcy A legal proceeding declaring that an individual is unable to pay debts. Chapters 7 and 13 of the federal bankruptcy code govern personal bankruptcy.

Beneficiary The person designated to receive the proceeds of a life insurance policy.

Budget An itemized summary of probable income and expenses for a given period.

Capital Cash or other resources accumulated and available for use in producing wealth.

Cash flow Money coming to an individual or business less money being paid out during a given period.

Certificate of deposit (CD) A type of savings account that earns a fixed interest rate over a specified period of time.

Collateral Assets pledged to secure a loan.

Common stock A kind of ownership in a corporation that entitles the investor to share any profits remaining after all other obligations have been met.

Compound interest Interest computed on the sum of the original principal and accrued interest.

Credit The granting of money or something else of value in exchange for a promise of future repayment.

Credit card A plastic card from a financial services company that allows cardholders to buy goods and services on credit.

Credit report A loan and bill payment history, kept by a credit reporting company and used by financial institutions and other potential creditors to determine the likelihood a future debt will be repaid.

Credit reporting company An organization that compiles credit information on individuals and businesses and makes it available for a fee.

Credit score A number generated by a statistical model that objectively predicts the likelihood that a debt will be repaid on time.

Credit union A cooperative organization that provides financial services to its members.

Creditor A person, financial institution or other business that lends money.

Debit Charges to an account.

Debit card A plastic card similar to a credit card that allows money to be withdrawn or the cost of purchases paid directly from the holder's bank account.

Debt Money owed; also known as a *liability.*

Debt service Periodic payment of the principal and interest on a loan.

Deductible The amount of loss paid by an insurance policyholder. The deductible may be expressed as a specified dollar amount or a percent of the claim amount.

Delinquency The failure to make timely payments under a loan or other credit agreement.

Direct deposit The electronic transfer of a payment from a company to an individual's checking or savings account. Many employers offer direct deposit of paychecks.

Diversification The distribution of investments among several companies to lessen the risk of loss.

Dividend A share of profits paid to a stockholder.

Equity Ownership interest in an asset after liabilities are deducted.

Face value The principal amount of a bond, which will be paid off at maturity.

Fair market value The price a willing buyer will pay and a willing seller will accept for real or personal property.

Federal Deposit Insurance Corp. (FDIC) A federally chartered corporation that insures bank deposits up to $100,000.

Finance company A company that makes loans to individuals.

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 1 percent.

Flexible spending account An employer-sponsored account that allows employees to save pretax dollars to cover qualified medical or dependent care expenses.

Foreclosure The legal process used to force the payment of debt secured by collateral whereby the property is sold to satisfy the debt.

401(k) plan A tax-deferred investment and savings plan that serves as a personal retirement fund for employees.

Health savings account A tax-advantaged personal savings account, set up to be used exclusively for medical expenses; must be paired with a high-deductible health insurance policy.

High-deductible health plan A health insurance policy that requires the policyholder to pay more out-of-pocket medical expenses but usually has lower premiums than traditional health insurance plans.

Individual development account (IDA) A type of savings account, offered in some communities, for people whose income is below a certain level.

Individual retirement account (IRA) A retirement plan, offered by banks, brokerage firms, mutual funds and insurance companies, to which individuals can contribute each year on a tax-deferred basis.

Inflation A sustained increase in the prices of goods and services.

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

Insurance premium The amount of money required for coverage under a specific insurance policy for a given period of time. Depending on the policy agreement, the premium may be paid monthly, quarterly, semiannually or annually.

Interest A fee for the use of money over time. It is an expense to the borrower and revenue to the lender. Also, money earned on a savings account.

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

Investing The act of using money to make more money.

Investor An organization, corporation, individual or other entity that acquires an ownership position in an investment, assuming risk of loss in exchange for anticipated returns.

Leverage The ability to use a small amount of money to attract other funds, including loans, grants and equity investments.

Liability Money an individual or organization owes; same as *debt*. Also, a kind of insurance for the policyholder's legal obligation to pay for either bodily injury or property damage caused to another party.

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

Liquidity The ease with which an investment can be converted into cash.

Load The fee a brokerage firm charges an investor for handling transactions.

Loan A sum of money lent at interest.

Management fee The fee paid to a company for managing an investment portfolio.

Market value The amount a seller can expect to receive on the open market for merchandise, services or securities.

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

Money market account A type of savings account offered by a financial institution.

Mortgage A temporary and conditional pledge of property to a creditor as security for the repayment of a debt.

Municipal bond A bond issued by cities, counties, states and local governmental agencies to finance public projects, such as construction of bridges, schools and highways.

Mutual fund A pool of money managed by an investment company.

Net worth The difference between the total assets and total liabilities of an individual.

Par value The nominal, or face, value of a stock or bond, expressed as a specific amount on the security.

Predatory lending Targeting loans to seniors, low-income and other people to take advantage of their financial status or lack of financial knowledge.

Pretax A person's salary before state and federal income taxes are calculated.

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

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

Promissory note A written promise on a financial instrument to repay the money plus interest.

Qualified plan A tax-deferred retirement plan for the self-employed.

Return The profit made on an investment.

Revenue bond A type of municipal bond backed by revenue from the project the bond finances.

Risk The possibility of loss on an investment.

Savings account A service depository institutions offer whereby people can deposit their money for future use and earn interest.

Stock option The right to buy or sell a corporation's stock at a predetermined price or calculable formula; sometimes used as part of employee compensation.

Stockholder A person who owns stock in a company and is eligible to share in profits and losses; same as *shareholder*.

Tax-deferred Phrase referring to money that is not subject to income tax until it is withdrawn from an account, such as an individual retirement account or a 401(k) account.

Term The period from when a loan is made until it is fully repaid.

Terms Provisions specified in a loan agreement.

Treasury bill A short-term investment issued by the U.S. government for a year or less.

Treasury bond A government security with a term of more than 10 years; interest is paid semiannually.

Treasury Inflation-Protected Security (TIPS) A Treasury bond or note that is tied to inflation so that the principal amount of the investment increases or decreases according to the annual inflation rate.

Treasury note A government security with a maturity that can range from two to 10 years; interest is paid every six months.

U.S. savings bond A nontransferable, registered bond issued by the U.S. government in denominations of $50 to $10,000.