

Financial Terms

Introduction: In order to manage your personal finances you need to know some financial terms. Some of the terms listed in this unit will be familiar to you and some will be new. Take the time to get a good basic understanding of some financial terms. This is not an “all-inclusive” list, but it will provide you with a good basis for learning other terms on your own.

APR (annual percentage rate) - the fee charged by the credit card company for letting you use their money, expressed as an annual rate.

Asset - something you own or possess that has value or is useful to you personally or monetarily (i.e., education is a personal asset, your savings account is a monetary asset).

ATM (Automatic Teller Machine) Card - a plastic card which contains a code number (called a PIN-- personal identification number) which allows you to withdraw cash from your account by inserting the card into an ATM machine. There may be a charge for this service.

Automatic Savings Deposit - an arrangement made by you between your bank/credit union and employer to automatically deduct whatever amount you decide to deposit into your savings account; it may be done by electronic transfer.

Bank - a business establishment authorized to perform one or more of the following services: receive and safeguard money and other valuables; lend money at interest; execute bills of exchange, such as checks and drafts; purchase and exchange foreign currency; and issue notes of circulation or currency.

Bankruptcy - a financial condition that may result when expenses and obligations consistently exceed income and the ability to make payments. Often used as a term for persons or companies who have been judged legally insolvent and whose remaining property is thereafter administered for his creditors or distributed among them in accordance with the law.

Bonds - certificates of debt; issued by corporations or government agencies that promise payment of interest on specific dates, with payment of the original investment amount at maturity.

Budget - a plan for managing income and spending.

Certificate of Deposit (CD) - a savings certificate in a specific amount of money, time and rate of interest.

Certified Check - a check issued and guaranteed by a bank based on funds in your account.

Checking Account - deposits in banks, savings and loan associations and credit unions upon which checks may be written, or money drawn with an ATM or debit card. At credit unions, may be known as share draft account.

Check Register - a book or electronic file in which the customer records the amounts of checks written, deposits made, and debits or withdrawals made.

Collectibles - may be coins, stamps, baseball cards, Beanie Babies, or any of a number of other items that can be bought, held and sold, depending on supply and demand.

Commodities - life's basics, such as food, wood, and metals, that can be purchased in contract form to speculate on future world demands, or to hedge against present investments.

Co-Signor - an additional person required to assume liability for a loan. Usually required for persons who have not established a credit record or who have established a poor credit record.

Credit - a loan that must be repaid at a future time, usually with a fee.

Credit Card - a card issued by business concerns authorizing the holder to buy goods or services on credit. There may be a charge for use of the card (annual service fee) as well as interest paid for unpaid balances, charges for late payment and debt limits. Includes bank cards, travel cards, department stores, telephone cards, gas cards and mail order accounts.

Credit Record (credit rating) - your personal record for paying your bills on time; developed by banks, merchants, landlords, and credit card companies regularly sending reports on their customers to credit bureaus.

Credit Union - a non-profit bank run by its members.

Debit Card - a card which allows you to make purchases just like a credit card, but the amount of your purchase is automatically deducted from your bank account through electronic transfer of funds.

Debt - something owed, such as money, goods or services, with an obligation to pay back, such as credit card balance, automobile loan, school loan.

Deductible - an amount you must pay before an insurance company pays toward your loss.

Default - in relation to loans, not paying bills on time.

Direct Deposit - an arrangement made by you between your bank and employer or other financial agency whereby your paycheck or other funds will be deposited in your bank by electronic transfer.

Earned Interest - the payment you receive for allowing a financial institution or another to use your money.

Expenses - money paid out to secure goods and services, i.e., groceries, car payment, housing, etc. Fixed expenses are those expenses which do not vary from month to month.

Federal Deposit Insurance Corporation (FDIC) - a federal government agency which insures your deposit at a bank or credit union so if the bank goes out of business, you will still get your money back.

Finance Charge - a fee for using credit; may include the finance charge and other charges, such as the cost of setting up a credit account.

Financial Plan - a plan developed to manage and achieve financial goals.

Grace Period - the time, usually about 25 days, in which you can pay your credit card bill without paying a finance charge.

Income - money coming in, including net wages, allowances, gifts, interest, etc.

Insurance - a contract binding a company to compensate an insured party against specified loss in return for premiums paid. The main types are automobile, property, life, health and liability.

Insured Savings Account - a savings account available through banks, savings and loan associations and other financial institutions which is insured by a government agency.

Interest Paid - money you pay a financial institution for use of their depositor's money.

Investment - allocating money or other resources for future income or benefit.

Investment Alternatives - ways to make investments, including insured savings accounts, U.S. Savings Bonds, certificates of deposit, bonds, stocks, collectibles and other commodities.

Loan - a sum of money lent on interest. In a secured loan, the lender has a lien that gives him part ownership until the loan is paid off.

Mutual Fund - an alternative investment where individual investors pool dollars that are professionally managed to meet various investment objectives.

Paid Interest - the money a lender charges to loan you money, usually a percentage of the amount of the loan for a specific period of time.

Postal Money Order - a check issued by the post office in exchange for cash or money.

Premium - the amount you pay over a period of time for the cost of insurance coverage.

Principle - the sum of money you borrow, apart from the interest charged for borrowing it.

Risk - an uncertainty about the future value of an asset.

Risk Management - the use of various ways to deal with potential personal or financial loss.

Savings Account - deposits in a bank, savings and loan association, or credit union on which interest is received.

Stock - an investment that represents a share of ownership of a company.

Stock Market - a general term referring to the organized trading of securities through the various stock exchanges and over-the-counter market.

Time Value of Money - the relationship of money, interest and time, and its impact on savings growth (also known as the dynamics of compounding).

Treasury Issues - bills, notes, or bonds, in denominations of \$1,000 to \$1 million, mature from 30 days to more than five years after issue by the Treasury Department.