

Glossary of financial terms

Annual Fee (for credit cards)

An amount you pay to be a cardholder. Similar to a membership fee.

Annual Percentage Rate (APR)

The cost of credit, expressed as a yearly rate.

Bi-Weekly Income

Income taken in every two weeks (for example, some people get paid every other Friday).

Bond

When you purchase a bond, you are lending money to a government, municipality, corporation, federal agency or other entity, known as the issuer. In return for the loan, the issuer promises to pay you a specified rate of interest during the life of the bond and to repay the face value of the bond (the principal) when it "matures," or comes due. There are many different kinds of bonds, including: U.S. government securities, municipal bonds, corporate bonds, mortgage and asset-backed securities, federal agency securities and foreign government bonds.

Budget

A written plan that helps people manage their money. Tool commonly used to measure expenses against income.

Capacity

Your ability to pay your debts as they come due.

Charge-Off

When a creditor writes off the account balance as a "bad debt."

Collateral

An asset pledged to the provider of credit until the credit obligation is paid. Example: A home or car may be used as collateral to secure a loan for that home or car.

Co-Signer (co-buyer/co-lessee)

A person who assumes equal responsibility for a contract or lease agreement.

Credit

1. Credit for a consumer is a process involving a consumer and a provider of credit allowing a consumer to buy now and pay later. You may be looking to buy something that you really need, but don't have the cash to pay for the purchase at that time.
2. Credit also refers to a person's record relating to paying bills when they are due. This is also referred to as "creditworthiness."

Creditor

In general terms, a creditor is a person or organization that extends credit.

Credit Report

A report about you and your payment history, prepared and maintained by a credit reporting agency.

Credit Reporting Agency

A firm that collects, sorts and sells information about an individual's credit history.

Credit Score

A numerical score that reflects – at a point in time – what your past and current credit usage predicts about your future credit performance. The better your history of credit, the higher your score.

Credit Union

A not-for-profit financial institution owned by its members. Savings are federally insured by the NCUA (National Credit Union Association) for up to \$250,000 per depositor.

Direct Bank

Often called an Internet or Online bank. Deposit accounts in this type of bank are FDIC-insured up to \$250,000 per depositor, but the bank may not have a physical (brick-and-mortar) location. Because Internet banks don't have many of the costs associated with running physical locations, they may be able to offer better terms or rates on deposits and loans. Although most banks are not Internet-only banks, most do offer the convenience of online banking.

Down Payment

An initial payment, usually a large amount, used to reduce the amount financed or borrowed from a bank or credit union.

Fees

Charges for various services or activities. For example, some credit cards charge you a fee when you get a cash advance, make a late payment or go over your credit limit.

Finance Charge

The cost of consumer credit as a dollar amount.

Fixed Expenses

Expenses that are due at a particular time or on a regular schedule. The amounts remain the same (such as your rent, car payment or health insurance).

continued on next page



Glossary of financial terms (cont.)

Flexible Expenses

Expenses that are incurred by choice and are subject to change (such as hobbies and entertainment).

Grace Period (for credit cards)

This is the number of days you have to pay your credit card bill before the creditor imposes finance charges.

Gross Income

The total amount of money you have earned before any taxes and payroll deductions are taken from your paycheck or income source.

Lien

A legal claim on ownership stemming from a credit obligation.

Money Market Deposit Account

A bank account that allows you to earn interest on your money but limits the number of transactions you're permitted each month (such as check writing, debit card transactions or online transfers). You may or may not be required to keep a minimum balance.

Online Savings Account

This bank account is similar to a traditional bank savings account, but is offered through the Internet by a direct or online bank that does not have physical bank locations. Such accounts sometimes bear higher interest rates than traditional bank savings accounts.

Periodic Rate (for credit cards)

The rate you are charged each billing period. For many credit card plans, the periodic rate is a monthly rate, calculated by dividing the APR by twelve. For example, a credit card with a 24 percent APR has a monthly periodic rate of 2 percent.

Permissible Purpose

The legally acceptable purpose(s) a creditor or organization has to obtain a person's credit report. Example: When you apply for credit, you are giving your potential creditor the legal right to obtain your credit report.

Repossess

In the event of non-payment of a credit obligation, a creditor's legal right to take the asset you have pledged as collateral and sell it to pay off the credit obligation.

Retail Bank

A financial institution that offers a variety of banking services to the public, including accepting deposits and lending. At FDIC-insured banks, accounts are federally insured by the FDIC for up to \$250,000, per depositor, per insured bank.

Roth Individual Retirement Account (IRA)

A Roth IRA is a type of IRA. Unlike a traditional IRA, you cannot deduct contributions to a Roth IRA. But, if you satisfy the requirements, qualified distributions are tax-free.

Savings and Loan (sometimes called a "Thrift")

A bank that specializes in savings accounts and mortgage loans. At insured savings and loan institutions, accounts are federally insured by the FDIC for up to \$250,000 per depositor per insured bank.

Semi-Monthly Income

Income received twice a month, such as on the 15th and the 30th.

Simplified Employee Pension (SEP) Individual Retirement Account (IRA)

An SEP plan allows employers to contribute to traditional IRAs set up for employees. A business of any size, can establish a SEP.

Traditional Individual Retirement Account (IRA)

An IRA, or individual retirement account, is a personal savings plan that allows you to set aside money for retirement, while offering you tax advantages. Contributions you make to a traditional IRA may be fully or partially deductible, depending on your circumstances. Generally, a traditional IRA's investment earnings are not taxed until distributed.

Traditional Savings Account

A bank account that gives you easy access to your money. Typically, traditional savings accounts provide the lowest interest rates of any savings account. There may also be a limit on the number of withdrawals you can take from the account each month.

Unexpected Expenses

This type of expense includes items that we spend money on that occur only once in a while and by surprise, but can wreak havoc on our budgets, such as home or apartment repairs, car repairs, necessary trips or medical expenses.

Variable Expenses

This type of expense occurs on a regular basis but the amounts can change (like your phone or water bill).