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

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.

Online banking – Access by personal computer to your financial accounts, along with the ability to perform certain transactions via a financial institution's Web site.

Payday loan – A short-term cash advance or loan made in exchange for a customer's post-dated check in the amount of the advance plus a fee that is to be repaid at a designated future date. Payday loans are typically an expensive way to borrow money.

Points – In reference to a loan, the lump sum payment made by the borrower at the outset of the loan period. Generally, each point equals one percent of the loan amount.

Prime Rate – The lowest interest rate on loans which may be offered to preferred borrowers.

Principal – The unpaid balance on a loan, not including interest.

Roth IRA (Individual Retirement Account) – An individual retirement account featuring non-tax-deductible contributions and tax-free growth. Qualified distributions are also tax-free.

Share Certificate (Certificate of Deposit) – A form of time deposit at a financial institution; a time deposit cannot be withdrawn before a specified maturity date without being subject to an interest penalty for early withdrawal.

Simple interest – A loan on which interest is computed and charged on the actual balance each day instead of on a monthly accrual where interest is charged from one scheduled payment due date to the next, without regard to the date on which the borrower actually pays. The interest paid on simple interest loans will be higher if the borrower's payments are made later than scheduled and lower if the borrower's payments are made earlier than scheduled.

Stock – A security that signifies ownership in a corporation and represents a claim on part of the corporation's assets and earnings.

Tax-deferred – Money that is not subject to income tax until it is withdrawn from an account.

Traditional IRA (Individual Retirement Account) – A tax-advantaged arrangement that allows earnings and qualifying deductible contributions to grow tax-deferred.

Unsecured credit – Credit extended to a borrower for which no collateral is required.

Variable rate – A rate of interest that may fluctuate over the life of the loan.

Variable-rate mortgage – A type of mortgage that has an interest rate that changes with the market; also known as an adjustable-rate mortgage.

Yield – The return on a loan or investment.

United States
SENATE
Federal Credit Union

National Capitol Station
P.O. Box 77920
Washington, DC 20013-8920

(202) 224-2967
(800) 374-2758

www.ussfcu.org

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FINANCIAL TERMS YOU SHOULD KNOW

Financial Literacy Series

One of the most important keys to good money management is to know the financial terms that go along with managing money. To help you continue on your path to a financially secure future, your credit union has compiled a list of terms you should know.

Adjustable-Rate Mortgage (ARM) – A type of mortgage that has an interest rate that changes with the market; also known as a variable-rate mortgage.

Amortization period – The number of years it will take to fully repay a loan. The longer the period of time, the more interest that will be paid on the loan.

Annual Percentage Rate (APR) – The cost of credit on a yearly basis, expressed as a percentage.

Annual Percentage Yield (APY) – The return on a loan or investment, stated as a percentage.

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

Appraisal fee – The charge for estimating the value of the property which is offered as collateral.

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

Balloon payment – A large extra payment that may be charged at the end of a loan or lease.

Bankruptcy – A legal proceeding declaring that an individual is unable to pay debts. Chapters 7, 11 and 13 of the federal bankruptcy code govern personal bankruptcy.

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

Capital – A person's savings and other assets, which can be used as collateral for loans.

Capital gain – An increase in the value of a capital asset (investment or real estate) that gives it a higher worth than the purchase price. The gain is not realized until the asset is sold.

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

Check – A written order to a financial institution to pay the amount specified from funds on deposit.

Collateral – Property that is offered to secure a loan or other credit. The property may be seized if the borrower defaults.

Compound interest – Interest that is calculated on the original principal plus all interest accrued to that point in time.

Conventional mortgage – A type of mortgage that is not insured or guaranteed by the government, thus it's available to anyone meeting the qualification requirements. These criteria are determined by the Federal National Mortgage Association or Fannie Mae.

Co-signer – An individual who signs a loan agreement and assumes responsibility to repay the loan if the primary borrower fails to do so.

Coverdell ESA (Education Savings Account) – An account created as an incentive to help parents and students save for education expenses. Contributions are not deductible, but amounts deposited in the account grow tax-free until distributed.

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

Credit score – A statistical summary used to determine whether to grant credit by assigning numerical scores to various characteristics related to creditworthiness.

Credit union – A financial cooperative of individuals who have a common bond, such as place of employment, residence or membership in a union, club or other organization. Credit unions accept deposits, pay their members interest in the form of dividends on deposits and use their funds to provide consumer loans.

Debit card – A card that resembles a credit card but debits an account directly when the transaction or purchase is made.

Debt – Money owed; also known as a liability.

Default – Failure to meet the terms of a credit agreement.

Delinquency – The failure of a borrower to make timely payments under a loan or credit agreement.

Direct Deposit – A method of payment which electronically credits your checking or savings account.

Diversification – The distribution of investments among several financial instruments to lessen the risk of loss.

Equity – Ownership interest in an asset after liabilities are deducted.

Escrow – An arrangement where a third party holds money or documents and distributes them according to instructions from both parties.

Finance charge – The total dollar amount paid to get credit.

Fixed rate – A predetermined and set rate of interest payable on an extension of credit.

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

Garnishment – A notice to an employer or other asset holder requiring that monies, wages or property due to the debtor be withheld and given to a creditor to be applied to an unpaid debt.

Home equity loan – A consumer loan secured by a second mortgage, allowing home owners to borrow against their equity in the home. The loan is based on the difference between the homeowner's equity and the home's current market value.

IRA (Individual Retirement Account) – A tax-advantaged retirement account that permits individuals to set aside money each year for retirement.

Inflation – A sustained increase in the general price level, or a decline in the value or purchasing power of money.

Installment credit – A loan to be repaid along with interest charged in fixed or variable periodic payments.

Liability – Money an individual owes; also known as debt.

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 ability to turn an asset into cash quickly and with relatively little loss of value in the conversion process.

Loan – A sum of money lent at interest which the borrower promises to repay.

Loan-to-value (LTV) – A lending risk assessment ratio used by financial institutions, which is the difference between the loan amount and the value of the property.