Financial Dictionary

401(k) Plan A flexible retirement plan for businesses with employees. Investors in the plan don't have to pay taxes on the income they invest until they withdraw the funds at retirement age.
529 Plan A program set up to allow an adult to either prepay, or contribute to an account established for paying, a student's qualified education expenses at an eligible educational institution.
Account (see Bank account)
Account balance The exact amount of money contained in a deposit account according to the bank. This figure may be different than the amount shown in your own records because of checks you have written or deposits you have made that have not yet been processed by the financial institution.
Account fee The amount charged by a financial institution for the services they provide in managing the account. This may also be called the monthly service fee.
Accounting To keep an exact listing or record of financial transactions. Also called bookkeeping.
Adjustable-rate mortgage (ARM) A loan that allows the lender to make changes in the interest rate, and the resulting principal and interest payments charged to the borrower. These rate changes are usually tied to the rise and fall of a financial statistic (called an index), such as the prime rate or Treasury Bill rate. The initial interest rates on ARMs are lower than rates on fixed-rate mortgages, as the borrower is taking the risk of the interest rate rising over time. The borrower is protected by a maximum interest rate, which the lender may reset annually. There may be a limit on the number and amount of increases or decreases to the interest rate at each change date or over the life of the loan.
Annual fee The fee a credit card company charges a credit card holder to use the card for a year. Or, the fee a lender charges a borrower for the use of a line of credit for a year.
Annual percentage rate (APR) A measurement used to compare different loans, the APR takes into account a loan's interest rate, term, and fees to illustrate the total cost of credit expressed as a yearly rate. The lower the APR, the lower the total cost of the loan.
Annual percentage yield (APY) The rate of return on an investment, such as a deposit in an interest-bearing savings account, for a one year period.
Appreciate To increase in value or price over time.
APR (see Annual percentage rate)
APY (see Annual percentage yield)
ARM (see Adjustable rate mortgage)
Appraisal A professional estimate of a property's market value.
Assets Anything of value owned by a person or company. For example, a person's assets might include cash, a house, a car, and stocks. A business's assets might include cash, equipment, and inventory.
ATM (see Automated teller machine)
Automated teller machine (ATM) A specialized computer used by bank customers to manage their money, for example, to get cash, make deposits, or transfer money between accounts.
Bad check A check that is not paid by a bank because the customer's account does not have enough money to pay it. Also known as a bounced or returned check. Banks will charge you service fees for each bad check, and writing bad checks can seriously harm your credit rating.
Bad credit A situation in which lenders believe that, due to a borrower's poor history of repaying his or her debts, further loans to this person would be especially risky.
Balance (see Account balance)
Balance your checkbook The process of comparing your monthly checking account statement with your check register to make sure that your records and the bank's records match. Also called reconciling your account.
Bank A financial institution that handles money, including keeping it for saving or commercial purposes, and exchanging, investing, and supplying it for loans.
Bank account A banking service allowing a customer's money to be handled and tracked. Common bank accounts are savings and checking accounts.
Bank statement A monthly accounting document sent to you by your bank that lists your account balance at the beginning and end of the month, and all of the checks you wrote that your bank has processed during the month. Your statement also lists other deposits, deductions, and fees, such as service charges.
Bankruptcy To legally declare yourself unable to repay your debts. A bankruptcy remains on a person's credit history for up to seven years. Depending on the type of bankruptcy, it could stay on a person's credit history for up to ten years.

Bond An investment offered to the public by a corporation, the U.S. Government, or a city. A bond pays interest annually and is payable in full at a specified date. Bonds are rated, and the rating indicates their probability of default.

Bookkeeping (see Accounting)

Bounced check (see Bad check)

Break-even point The point at which a business has brought in enough money to cover its costs of manufacturing and selling during a specific time period (usually a month, quarter, or year). Money brought in above the breakeven point is profit.

Budget A monthly or yearly spending and savings plan developed by a person, family, or business. A written budget helps people to be better money managers and to prepare for major or unexpected expenses.

Canceled check A customer's check that the bank has paid and charged against the check writer's account. Cancelled checks may be returned to the check writer with the monthly bank statement, or they may be kept on film by the bank.

Capacity A borrower's ability to make monthly loan payments. When reviewing loan applications, lenders look at a borrower's income and debts to determine his or her capacity to repay.

Capital The assets a borrower owns, for example a car, or cash in a savings account. If a borrower is unable to make his or her loan payments, a lender might use these assets to pay the debt. Capital is also known as collateral or assets.

Capital gain The dollar amount by which an asset's selling price exceeds its initial purchase price. For example, if you buy a stock for $4 per share and sell it for $7 per share, your capital gain is $3 per share.

Capital loss The decrease in value of an investment or asset. The opposite of capital gain.

Cash flow A measure of the changes in a company's cash during a specific period of time (usually a month, quarter, or year). Specifically, a company's cash income minus the cash payments it makes.

Cashiers check A check issued by the bank, drawn on the funds of the bank, and signed by an officer of the bank.

Certified check A personal or business check guaranteed by the bank on which it is drawn. A certified check carries an official bank stamp, which guarantees that the funds will be available when the check is presented for payment.

Certificate of deposit (CD) A bank account in which you agree to keep the money for a specified period of time, usually anywhere from three months to several years. As a result, this account usually offers higher rates of return than a savings account. Money removed before the agreed upon date is subject to an early withdrawal penalty. The account pays interest on the deposit and is FDIC-insured. Banks issue an actual certificate for a CD account. If no certificate is issued, the account is known instead as a "time deposit."

Character The financial steadiness and stability of a borrower. For example, when reviewing your loan application, a lender may look at how long you've lived at your current address or worked at your current job.

Charge card Similar to a credit card, except that a charge card requires the card holder to pay off the entire balance monthly. See also Credit card.

Check A written order instructing the bank to pay a specific amount of money to a specific person or entity. The check must contain a date, payee (person, company, or organization to be paid), amount, and an authorized signature.

Check 21 A federal law designed to increase the efficiency and reduce the cost of check processing for financial institutions nationwide. The law makes "substitute checks" the legal equivalent of original checks. Substitute checks are created from electronic images of checks. Financial institutions may present or return substitute checks in lieu of actual checks they receive.

Check register A small notepad you receive when you open a checking account for the purpose of tracking your checks, deposits, and current balance.

Checking account A bank account that allows a customer to deposit and withdraw money and write checks. Using a checking account can be safer and more convenient than handling cash.

Clear When the bank pays a check you have written and then subtracts the amount from your account, your check has "cleared" the bank.

Closing The day and time when all final mortgage documents are signed and all necessary payments are transferred to complete the purchase of a house. Also known as the settlement date.

Closing agent Usually an attorney or title agency representative who oversees a closing and witnesses the signing of the closing documents.

Closing costs Expenses or settlement costs, above the home sales price, charged to both the buyer and seller to complete the transfer of the property and in connection with obtaining a mortgage loan. There are also closing costs on a refinance loan.

COA (see Cost of attendance)

Collateral Any assets of a borrower (for example, a home) that a lender has a right to take ownership of if the borrower doesn't repay the loan as agreed.

Collection agency A business that specializes in collecting past due debts.
Commission The amount a real estate agent earns for negotiating a home sale. The commission amount is often a percentage of the home sale price.
Compound interest, Compounding When a financial institution pays you interest not only on your initial principal (the amount you originally deposited) but also on the interest your deposit has earned over time.
Consumer An individual who buys products or services for personal or household use.
Co-signer A second person who signs your credit or loan application. Just like the borrower, the co-signer on a loan is equally responsible for repaying the debt. Also called a co-borrower.
Cost of attendance (COA) The total amount it will cost to go to school, usually expressed as a yearly figure. For full-time and half-time students, it includes the average cost of instruction, known as tuition; registration fees, books, and supplies; and housing and meals, also called room and board.
Cost of goods sold A company's cost of purchasing raw materials and manufacturing finished products.
Cost of the loan The total amount the borrower pays for a loan, including the amount borrowed (or principal), the total interest paid over the term of the loan, and all loan fees.
Credit When a bank or business allows its customers to purchase goods or services on the promise of future payment. Also used to describe any item that increases the balance in a bank account. Deposits and interest payments are both examples of credits.
Credit bureau An agency that collects and reports information on people who have applied for credit and who have used credit.
Credit card Any card that may be used repeatedly to borrow money or buy products and services on credit. Credit cards are issued by financial institutions, retail stores, and other businesses. A credit card offers the card holder revolving credit that can be paid monthly with as little as the required minimum payment. See also Charge card.
Credit check A lender, landlord, employer, or insurer's inquiry at a credit bureau for the purpose of evaluating the credit history of an applicant.
Credit counselor A professional advisor who specializes in helping people with debt and credit problems.
Credit history A written record of a person's use of credit, including applying for credit, and using credit or loans to make purchases. Also called a credit record.
Credit limit The maximum dollar amount the lender is willing to make available to the borrower according to the agreement between them. For example, if you have a credit card, the credit agreement will usually specify the maximum amount of money you're allowed to charge.
Credit rating An evaluation of an individual's or business's financial history and the ability to pay debts. Lenders use this information to decide whether to approve a loan. The credit rating is usually in the form of a number or letter.
Credit record (See Credit history).
Credit report A report issued by an independent agency that contains information concerning a loan applicant's credit history and current credit standing.
Credit score (see FICO score)
Credit union A non-profit financial institution that is owned and operated entirely by its members. Credit unions provide financial services for their members, including savings and lending. Large organizations may organize credit unions for their members, and some companies establish credit unions for their employees. To join a credit union, a person must ordinarily belong to a participating organization, such as a college alumni association or labor union. When a person deposits money in a credit union, he or she becomes a member of the union because the
deposit is considered partial ownership in the credit union.
Creditor An individual or business that lends money or extends credit.
Creditworthiness A lender's measure of an individual or company's ability to pay debts.
Currency Any form of money that is in public circulation, for example, paper bills and coins.
Database Information that is organized for ease and speed of search and retrieval, often by using computer software.
Debit Any item that reduces the balance in a bank account. A check, bank service fee, and ATM withdrawals are all examples of debits.
Debit card A special card issued by a bank that looks like and is treated like a credit card; however, when used, the amount of the purchase or cash advance is subtracted from the user's deposit account rather than drawing on available credit.
Debt Money, goods, or services you owe to others.
Debt-to-income ratio A percentage that is calculated by dividing a loan applicant's total debt payments to his or her gross income.
Deed A legal document that conveys ownership of a property.
Default Failure to repay a credit agreement according to its terms.

Deferment A limited period of time during which you may postpone your federally guaranteed loan. The interest on unsubsidized loans continues to accrue during deferment and is capitalized (added to the principal balance) when the deferment ends.
Delinquency Failure by a borrower to make timely mortgage or other loan payments as required by the loan agreement.
Deposit To put money into your account.
Deposit envelope A printed envelope provided by a financial institution. Customers place cash and checks for deposit into the envelope and record information about the deposit on the outside of the envelope.
Deposit slip A printed form supplied by a financial institution. Customers list the amounts and types of funds (such as checks and bills) they are depositing and include the slip with their deposit.
Direct deposit A deposit made directly into your account by the payer without the use of a check or deposit slip. Typical direct deposits include Social Security payments and automatic payroll deposits.
Disclosure A document provided by a lender, such as a bank or credit card company, that details the interest rate, fees, and terms of repayment.
Discretionary expense The purchase of goods or services which are not essential to the buyer, or are more expensive than necessary. Examples include entertainment and restaurant meals.
Diversification An investing strategy designed to reduce risk by combining a variety of investments (such as stocks, bonds, and real estate). Having a variety of investments makes it less likely that all of them will move up and down at the same time or at the same rate.
Dividend If a company does well financially, its board of directors may decide to pay a small amount of its profits, called a dividend, directly back to its shareholders. Dividends are usually cash, but may also take the form of stock or other property.
Down payment The first sum of money you pay to a seller for a purchase made over time. For example, when buying a home, the down payment is the part of the home purchase price that a buyer pays in cash and is not included in the mortgage. It is the difference between the sale price and the mortgage amount.
Earning power The amount of money a person is able to make from his or her work.
Earnings (see Income)
Elder financial abuse When older people lose their money or property to family, friends, or strangers who use a variety of criminal activities and schemes.
Economy Activities related to the production of goods and services in a particular geographic region, such as a country, state, or county.
EFC (see Expected family contribution)
Electronic direct deposit (see Direct deposit)
Electronic transfer account (ETA) A low-cost savings account that allows you to receive federal payments through direct deposit. You can take advantage of an ETA if you receive:

- Social Security payments
- Supplemental Security Income, or SSI payments
- Veterans benefits
- A federal employee salary or retirement, or
- Railroad retirement payments

Endorse To sign the back of a check, authorizing the check to be exchanged for cash or credit.
Equal Credit Opportunity Act A federal law to ensure that all consumers are given an equal chance to obtain credit. This doesn't mean all consumers who apply for credit get it; factors such as income, expenses, debt, and credit history are considerations for creditworthiness. (See *The Library* for further information.)
Equity (see Home equity)
Escrow An item of value, money or documents, deposited with a third party, to be delivered upon the fulfillment of a condition. For example, the deposit by a borrower with the lender of funds to pay taxes and insurance premiums when they become due, or the deposit of funds or documents with an attorney or escrow agent to be disbursed upon the closing of a sale of real estate. In some parts of the country, escrows of taxes and insurance premiums are called impounds or reserves.
Establishing credit Giving lenders the trust and confidence to make loans to you based on a good history of paying your debts.
Expected family contribution (EFC) The amount a student's family is expected to pay toward his or her education, as figured by the Department of Education, based on the Free Application for Federal Student Aid (FAFSA).
Expense For individuals, an expense is a cost of living – for example rent or groceries. For businesses, an expense is any cost resulting from the money-making activities of the business.
ETA (see electronic transfer account)
FAFSA (see Free application for federal student aid)
FDIC (see Federal Deposit Insurance Corporation)

Federal Deposit Insurance Corporation (FDIC) An agency of the federal government that insures all bank deposits up to $100,000 per person.
Federal Reserve An independent governmental agency established by Congress to organize and regulate banking throughout the United States.
Federal work-study program A U.S. government program that provides funding for jobs for undergraduate and graduate students with financial need
Fees Charges for services by a financial institution or lender.
FICO score A numerical rating that indicates an individual's creditworthiness based on a number of criteria. FICO scores are used by lenders in the loan approval decision process.
Finance charge The amount of money a borrower pays to a lender for the privilege of borrowing money, including interest and other service charges.
Financial aid package The total amount of financial aid (federal and nonfederal) a student receives, as determined by the student's educational institution.
Financial institution Companies such as banks, credit unions, and savings institutions that provide a wide range of money management products and services to consumers. Financial institutions collect funds from the public and place them in financial assets, such as deposits, loans, and bonds.
Financial planning The process of setting financial goals and deciding the best ways to manage your money in order to achieve those goals.
Fixed cost, Fixed expense For an individual, a fixed cost is an expense that stays the same each month, such as rent or a car payment. For a business, a fixed cost is an expense that does not vary depending on production or sales levels, such as an equipment lease or property tax.
Fixed-rate mortgage A loan with an interest rate that remains the same over the life of the loan.
Flexible expense An expense that you can control or adjust, for example, how much you spend on groceries, clothes, or long distance phone calls.
Forbearance A period of time at the lender's discretion when you're allowed to postpone or temporarily reduce the amount of your student loan payment due to temporary financial hardship. Interest continues to accrue on the loan during the forbearance period and is capitalized (added to the principal balance) when the forbearance ends.
Forbearance agreement A lender's agreement to postpone foreclosure in order to give a borrower time to catch up on overdue payments.
Foreclosure The legal process by which an owner's right to a property is terminated, usually because of failure to make loan payments as agreed. Foreclosure typically involves a forced sale of the property at public auction, with the money applied to the remaining debt.
Free application for federal student aid (FAFSA) The application a student and his or her family completes in order to apply for federal student loans.
Garnishment A court order requiring a portion of the debtor's wages to be paid to the lender.
Good credit A situation in which lenders are willing to make loans to an individual, due to his or her good history of repaying debts.
Grace period A pre-determined length of time during which a lender charges no interest on money that has been borrowed. For a mortgage loan, grace period may refer to a period of time each month during which the lender does not charge the borrower a late fee on mortgage payments.
Gross income For an individual, the full amount of money earned during a specific time period. For a business, the pre-tax net sales minus the cost of goods sold.
Guarantor An individual or company who has a legal obligation to pay a debt.
Home equity The financial difference between what your home or other real estate is worth and the amount of money you still owe as debt on that home or other real estate. For example, if your home is worth $100,000 and you owe $75,000 on your mortgage, then you have $25,000 of equity in your home.
Home equity loan An installment loan which, like a mortgage, uses a home as collateral. Home equity loans allow a homeowner to borrow money against the equity value of the home. In many cases, the interest paid on a home equity loan is tax deductible.
Home equity line of credit A line of credit which, like a mortgage, uses a home as collateral. Home equity lines of credit allow a homeowner to borrow money against the equity value of the home.
IDA (see Individual development account)
Identity theft A criminal activity involving stealing personal information from others and forging their signatures in order to apply for credit in their names.
Income For an individual, income means the amount of money received during a period of time, including money received in exchange for labor or services, from the sale of goods or property, or as profit from financial investments. For a business, income is revenues (all the money brought in) minus cost of sales, operating expenses, and taxes, over a given period of time.

Individual development account (IDA) Special savings accounts designed to help low-income families become financially independent. When you deposit savings into an IDA, another organization such as a foundation, corporation, or government group adds a matching amount of money to your account. Most IDAs are used only to save for college, job training, a down payment or closing costs for a first-home purchase, or to start a business.
Individual retirement account (IRA) An account that holds your investments to help pay for your retirement. The major benefit is that the government doesn't tax the interest you earn until you withdraw the money. You may have to pay a penalty if you withdraw money before age 59½. You can currently contribute up to $4,000 a year to your IRA account, up to age 70½. Beginning at age 70½ you must begin to make withdrawals. Your IRA contributions may be deductible on your tax return. Check with your tax advisor.
Inflation An increase in the general price level of goods and services; a decrease in the purchasing power of the dollar.
Installment credit, Installment loan A loan that is repaid to the lender in equal amounts, over a fixed period of time.
Installment payment An amount of money repaid to a lender according to the terms of an installment loan.
Institutional student information record (ISIR) A document that the Department of Education, after they have reviewed a student’s Free Application for Federal Student Aid (FAFSA), sends to educational institutions for evaluation by financial aid officers.
Insurance A company’s promise to pay you in the event of specific future losses, in exchange for your payments, called premiums. Insurance is designed to protect your financial well-being, or that of your business, in the case of an unexpected loss. Some forms of insurance are required by law, while others are optional. Agreeing to the terms of an insurance policy creates a contract between the insured and the insurer. In most cases, the policy holder pays part of the loss (called the deductible), and the insurer pays the rest. Examples include car insurance, health insurance, disability insurance, life insurance, and business insurance.
Interest The amount of money paid by a borrower to a lender in exchange for the use of the lender’s money for certain period of time. For example, you earn interest from a bank if you have a savings account and you pay interest to a lender if you have a loan.
Interest rate The amount of interest paid per year divided by the principal amount (that is, the amount loaned, deposited, or invested). For example, if you paid $500 in interest per year for a loan of $10,000, the interest rate is 500 divided by 10,000, or five percent (5%).
Intermediary bank A specialized financial institution that processes the transactions between banks.
Inventory A company's merchandise, raw materials, and finished or unfinished products that have not yet been sold.
Investing Purchasing something of value (for example, stocks or real estate) with the goal of earning money over time if the value increases.
Investment Property or another possession acquired for future financial return or benefit.
Investment account An account offered by a financial institution or investment company for the purpose of investing.
IRA (see Individual retirement account)
ISIR (see Institutional student information record)
Joint account A bank account owned by two or more people who are equally responsible for the account.
Keeping the books (see Bookkeeping)
Late fee The charge or fee that is added to a loan or credit card payment when the payment is made after the due date.
Lender A business that makes money available for others to borrow.
Liability The amount of money an individual or business owes to someone else: a debt.
Lien A legal claim, filed on record, against real estate or personal property used as a security for payment of a loan. A lien is the guaranteed right of a lender or investor to specific property should a loan default.
Line of credit An arrangement by which a lender extends a specific amount of credit to a borrower for a certain time period. As long as the borrower repays the principal with interest, he or she can continue to borrow against the line of credit during the agreed upon time period. A line of credit can be unsecured or secured. Also called a credit line.
Living wage A dollar amount higher than the federal minimum wage that’s designed to provide workers with a level of pay that allows them to meet their basic needs.
Loan An agreement between a borrower and a lender, where the borrower agrees to repay money with interest over a period of time.
Long-term loan A loan that can be paid back over a period of more than one year, usually requiring interest payments.
Manufacturer A business that produces products.

Matching contributions When an employer contributes to an employee's retirement plan each time that the employee makes a contribution.
Marketing The activities of a business (such as advertising, offering special sale prices, etc.) designed to gain new customers and to interest customers in continuing to do business over time.
Merchandise The products a business offers for sale to its customers.
Merchant card processing A service offered by credit card providers, including many banks, that allows a company to accept credit card and debit card payments where it does business or online.
MI (see Private mortgage insurance)
Minimum balance A specific amount of money required by a financial institution in order to open or maintain a particular account. In some cases, a financial institution may charge the account holder fees, or even close an account, if the minimum balance is not maintained.
Minimum payment The least amount of money to be repaid on a loan or credit card in order to keep the account in good standing.
Money Market account A savings account which is FDIC-insured. Many money market accounts offer the same features as checking accounts, although the number and type of transactions may be somewhat more limited. Money market accounts are generally very safe investments which return a relatively low interest rate. They are most appropriate for temporary storage of cash.
Money order A document issued by a post office, bank, or convenience store ordering payment of a specific sum of money to an individual or business. There is generally a small charge for purchasing a money order.
Monthly spending limit (see Credit limit)
Mortgage A loan to finance the purchase of a home, usually with defined payments and interest rates. The homeowner gives the bank a lien, called the "mortgage," on the home, which serves as collateral for the loan.
Mutual fund A type of investment where an investment company sells shares to the public and then invests the money in a group of investments such as stocks and bonds.
Net income For a business, the amount of money earned after all expenses and taxes. For an individual, total take-home pay after all deductions (taxes, social security, etc.). Also called after tax income or net salary.
Net salary (see Net income)
Non-sufficient funds (NSF) The lack of enough money in an account to pay a particular check or payment. Also known as insufficient funds. A check with insufficient funds will be returned unpaid to the person cashing it. This has a negative impact on the check writer's history of handling his or her account, and may prevent opening of future accounts. The bank generally charges the checking account holder a fee for overdrawing the account. See also Overdraft.
Online banking A service that allows you to handle banking activities by computer, using the Internet.
Outstanding balance The amount still owed on a bill, loan, or credit line.
Overdraft When a check is written or money is withdrawn for an amount greater than the available deposit account balance. The bank generally charges the checking account holder a fee for overdrawing the account. Unlike non-sufficient funds (NSF), the bank honors the check.
Overdraft protection A service offered by many banks, overdraft protection is a prearranged agreement for the bank to cover your checks, payments, and charges if they are greater than your existing deposit account balance. Doing so results in a loan that you must repay to the bank, usually with interest. The bank may also charge a fee for overdraft protection service.
Overhead The ongoing administrative expenses of a business, such as rent, utilities, and insurance.
P&L (see Profit & Loss statement)
Past due A bill that is not paid by its due date is said to be past due.
Pay period A length of time (for example, one week or one month) used to calculate the amount workers are paid on their paychecks.
Payables Money owed by a company to others that must be paid within one year or less. Also called current liabilities or current debt.
Payee The person, company, or organization to whom a check is written: a person or company who is to receive money.
Payor (or Payer) The person or company from whose account the money is to be taken to pay a check: a person or company who pays money.
Payroll deductions Money subtracted from an employee's paycheck for such items as federal and state taxes, Social Security contributions, and health insurance.
Pell grants A U.S. federal government program that provides student financial aid based on financial need
Penalty, Penalty fee A fee charged for the violation of a rule in a financial agreement.
Personal identification number (PIN) A secret combination of letters or numbers you use to gain access to your account through an electronic device such as an ATM.

Personal guarantee When a business owner gets a loan for his or her company, and makes a promise that legally requires him or her to repay the debt if the business fails to do so.
PIN (see Personal identification number)
PMI (see Private mortgage insurance)
Points A fee charged to a borrower by a lender. One point is equal to 1% of the loan amount.
Portfolio A collection of investments all owned by the same person or organization. For example, a portfolio might include a variety of stocks, bonds, and mutual funds.
Pre-approval A written commitment from a lender, subject to a property appraisal or other stated conditions, that confirms the price of home a potential borrower can afford.
Predatory lending When lenders conduct business in ways that is illegal or not in the best interest of borrowers, using tactics that are fraudulent, deceptive, or discriminatory and, as a result, cause the borrower to have difficulties in making the payments as agreed.
Principal The total amount of money borrowed, loaned, invested, etc., not including interest or service charges.
Private mortgage insurance (PMI) An insurance policy on a mortgage that is not insured or guaranteed by a government agency. PMI protects a lender against loss if a borrower does not make payments as agreed. Mortgage insurance may be required if a borrower makes less than a 20% down payment on a home loan.
Production process The method or system used by a manufacturer to create its products.
Profit The positive gain from an investment or a business operation after subtracting all expenses.
Profit & Loss statement (P&L) A financial document showing a company's earnings, expenses, and net profit for a specific time period, such as a month, quarter, or year. Also called an income statement or earnings report.
Profit sharing An arrangement in which an employer shares some of the company's profits with its employees. Payments can be in cash, stock, or bonds, and may be immediate or held until an employee's retirement.
Property tax Local tax on property, such as real estate. Property tax is usually deductible on federal income taxes when itemizing deductions.
Prospects People or businesses who have not yet purchased from your company, but who are potential customers you would like to interest in doing business with you.
Prospectus A legal document offering investments for sale. It must explain the offer, including such items as who is making the offer, the terms, historical financial statements, and other information that could help someone decide if the investment is appropriate.
Qualify To meet the credit qualifying requirements for a loan, for example a home mortgage.
Quarter A period of three months, for example, January, February, and March. The four calendar quarters begin in January, April, July, and October.
Receivables Money owed to a company that must be paid within one year or less.
Reconcile The process used to determine if the balance in your account register matches the balance reported by the bank on your account statement. Also called balancing your account.
Refinance To repay a mortgage with a new loan that uses the same property as security.
Register A small notepad you receive when you open a bank account for the purpose of tracking your deposits, withdrawals, and current balance.
Regular savings account (see Savings account)
Reinvesting In a business, using the profits from the business to further improve or expand. In regard to investing, using the dividends, interest, or profits from an investment to buy more of that investment, rather than receiving a cash payout.
Repossess When a lender or seller takes back property or collateral from the borrower or buyer, usually because the buyer has failed to make required debt payments on time, or has failed to meet other conditions of the loan agreement.
Retail Selling directly to consumers.
Return on investment (ROI) The income that an investment produces for the investor.
Reverse mortgage A loan that enables senior homeowners age 62 or older to convert part of the equity in their home into tax-free proceeds without having to sell their home, give up title, or take on a new monthly mortgage payment.
Revolving credit A type of credit allowing an individual to borrow up to a certain amount of money, repay the money borrowed with interest when it is due, and then borrow the money again. The most popular kind of revolving credit account is the credit card.
Risk The measurable likelihood of loss, or less-than-expected return, on an investment or a loan.
Rollover The transfer of funds from one investment to another. For example, when an employee leaves a job that offered a 401(k) retirement plan, the funds can be moved, or rolled over, to his or her new employer's plan, usually without tax penalty if done within sixty days.

Roth IRA A type of personal retirement account in which contributions are not tax-deductible, but earnings are tax deferred and qualified withdrawals, including withdrawals at retirement, are tax-free.
Routing number The nine-digit number on the bottom left hand corner of your checks, to the left of your account number. The routing number identifies the bank that issued the check. Every bank in the United States has at least one routing number.
Rule of 72 A way to estimate the time or interest rate you would need to double your money on an investment. For example, if you have an investment that's earning 8% per year, 72 divided by 8 equals 9. This means it would take about nine years for your original investment to double.
Sales contract A legal agreement, signed by the buyer and the seller, that spells out the terms and conditions for the sale, for example, for a home or property. Also called the sales agreement.
Sales tax A tax charged by the state or city on the retail price of an item, collected by the retailer.
SAR (see Student aid report)
Savings account A bank account that allows a customer to deposit and withdraw money and earn interest on the balance.
Savings account register A small notepad you receive when you open a savings account for the purpose of tracking your deposits, withdrawals, and current balance.
Savings institution A financial institution that accepts deposits from individuals, makes home mortgage loans, and pays dividends.
SBA (see Small Business Administration)
Section 529 Plans A program, available in most states, that is designed to help parents pay for their children's education expenses. Anyone can contribute to a Section 529 Plan, regardless of their income level. The money is invested by an investment company into a collection of investments, such as stocks, bonds, and mutual funds. Withdrawals for non-educational purposes can trigger taxes and other financial penalties.
Secured credit The ability of an individual or a business to borrow money using assets, such as cash or real estate, as collateral. This means that if the borrower does not repay the debt as agreed, the lender has the right to take ownership of the assets.
Secured credit card A credit card secured by a savings account. The money in the savings account is collateral and may be claimed by the company issuing the card if the account holder fails to make the necessary payments. Using a secured credit card, and paying according to the terms of the agreement, can be a good first step for individuals or businesses that want to establish or rebuild their credit.
Secured line of credit, Secured loan A line of credit or loan which is backed by assets or collateral belonging to the borrower in order to decrease the risk of the lender. The lender may take ownership of the assets if the borrower fails to make the required payments.
Service delivery process The method or system used by a service company (for example, a dry cleaner or a photo finishing lab) to deliver its services to its customers.
Service fees (see Fees)
Settlement Legal procedure in which property ownership is transferred.
Shareholder One who owns shares of stock in a corporation or mutual fund. Also called a stockholder.
Share price The price of one share of stock.
Simple interest Interest that is calculated only on the principal sum, that is, the amount of money that was originally deposited. (By contrast, *compound interest* is when a financial institution pays you interest not only on your initial principal but also on the interest your deposit has earned over time.)
Small Business Administration (SBA) An independent agency of the Federal Government whose purpose is to help people get in business, stay in business, and grow.
Sole proprietorship A business structure in which an individual and his or her company are considered as a single entity for legal and tax purposes. The owner does not pay income tax separately for the company, but reports business income or losses on his or her individual income tax return.
Spending limit (see Credit limit)
Statement (see Bank statement)
Stop payment order A formal demand made by the owner of an account, asking the bank to not honor a particular check written on that account.
Stock Certificate of ownership in a company.
Student aid report (SAR) A document that the Department of Education sends to a student's family after they have evaluated the student's Free Application for Federal Student Aid (FAFSA).
Take-home pay The amount of money earned after taxes, insurance, or other costs have been subtracted. Also called net income.
Tax-deferred Income for which paying taxes can be delayed to a later date. Examples include money you put into an IRA or 401(k) plan.

Tax-deferred growth Earning money on an investment of tax-deferred income. Since taxes have not yet been paid, the amount of the investment is larger, and the potential return on investment may therefore be greater.
Tax-deferred investment account Accounts, such as IRAs and 401(k) Plans, where individuals can place pre-tax income.
Term A period of time over which a loan is scheduled to be repaid. For example, a home mortgage may have a 30-year term, meaning it must be repaid within 30 years.
Title agency A company specializing in titles, the legal documents that establish who has the current right to, or ownership of, a property, plus a history of the property's ownership and transfers.
Transaction An agreement between a buyer and seller to exchange an asset for payment. In accounting, a transaction is any event recorded in the written financial records, also called the accounting books.
Treasury The U.S. Treasury is the department of the U.S. government that handles financial-related functions such as managing federal finances, collecting taxes, producing currency and coins, and supervising national banks.
Unpaid balance The amount that is still owed on a loan or credit card debt.
Unsecured credit A loan that is not backed by collateral (such as cash or property) of the borrower.
Value Having worth, desirability, or usefulness.
Variable cost A business expense that changes from month to month, for example, electricity or telephone expense. Also, a business expense that occurs only a few months each year and the amount is different each time, for example, taxes.
Variable rate An interest rate that changes on a periodic basis, usually tied to movement of an outside indicator, such as the prime interest rate. Savings accounts, mortgage loans, and certain other kinds of loans, for example, may use a variable interest rate. Also called adjustable rate.
Wholesale The sale of goods in quantity for resale purposes. For example, when a manufacturer sells cases of soup to a retail grocery store, who in turn sells individual cans of soup to the public.
Withdraw To take money out of an account.
Withdrawal slip A printed form supplied by a financial institution onto which the customer writes the amount of money to be taken out.

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