

Personal Financial Literacy

Glossary of Commonly Used Terms

Amortization. The process by which loan payments are applied to the principal, or amount borrowed, as well as the interest on a loan according to a set schedule.

Annual Fee. The amount that credit card companies charge for the use of a credit card.

Annual Percentage Rate (APR). The finance charge or total amount it costs per year to use credit, calculated as a percentage of the amount borrowed (percentage rate), including interest, transaction fees, and service charges.

Annual Percentage Yield (APY). The actual interest rate an account pays per year with compounding included; calculated the same way by all banks/credit unions.

Appreciation. A rise in value or price.

Assets. What a person owns, such as cash, stocks, bonds, real estate, and personal possessions.

Automated Teller Machine (ATM). An electronic machine that bank customers and credit union members can use to withdraw cash and make financial transactions.

Back-end load. A sales charge paid when investments are sold.

Bait and switch. An illegal sales technique in which sells advertise a product with the intention of persuading customers to buy a more expensive product.

Bank. A for-profit company that is owned by its stockholders and provides saving and checking accounts and other financial services to its customers.

Bankruptcy. Legal process for selling most of the debtor's property to help satisfy debts that can't be repaid, in exchange for (a) relieving debtors of the responsibility of paying their financial obligations or (b) protecting them while a plan is created and they try to repay debts.

Bond. A formal agreement where you lend money to a borrower who can then use that money for a set period of time. In exchange, you as the lender will get paid a specific amount of interest.

Budget. A plan for managing money, dividing up expected income and expenses among spending and saving options based on personal goals during a given time period.

Capacity. Ability to repay a loan from present income; one of three factors in credit scoring.

Capital. The value of personal items that one owns, including savings, investments, and property, one of three factors used in credit scoring.

Capital Gain. The difference between the purchase price and the selling price when an investor buys a stock and later sells it at a higher price.

Capital Loss. The difference when an investor ends up selling a stock at a lower price than the purchase price.

Cash Flow. Movement of the money you receive and the money you spend.

Career. Pattern of activities and positions involved in an individual's lifetime to work to which the person has made a long-term commitment.

Cash Flow. A measure of the money a person received and spends.

Character. Refers to trustworthiness; one of three factors in credit scoring (e.g., paying bills on time shows financial responsibility). Creditworthiness indicating a responsible attitude towards living up to agreements.

Check. Written order directing a bank or credit union to pay a person or business a specific sum of money.

Checking Account. A bank or credit union account that allows withdrawals by writing a check.

Compounding, or compound interest, Rule of 72. Earning interest on interest. **Rule of 72**-how long it takes money to double in value. Divide 72 by the interest to determine the number of years it will take money to double.

Consumer. Buyer or users of goods and services for personal use.

Consumer advocates. Individuals or groups that actively promote consumer interest in areas such as health and safety, education, redress, truthful advertising, fairness in the marketplace, and environmental protection.

Consumer economics. The study of the role of the consumer in an economic system.

Consumer movement. Efforts to protect and inform the consumer by requiring such practices as honest advertising, product warranties, and improved safety standards.

Contextual factors. Personal, historical, and socio-cultural aspects of a financial situation that influence an individual or family's attitudes and behavior, including goal setting, decision making, and judgment about what to believe or how to act.

- **Historical aspects of context:** Each individual and family brings a unique personal history to the financial situation, and each interacts with the workplace, school, and neighborhood environments with personal norms, expectations, and social structures that have evolved over time.
- **Personal aspects of context:** The perceptions, values, and goals of all parties involved in the financial situation.
- **Socio-cultural aspects of context:** The larger social institutions (such as the media, business and industry, economy) and cultural values, folkways, mores, and language that influence financial decision making.

Contract. Legally enforceable written or oral agreement between two or more parties to do or not to do something.

Cost/benefit analysis, risk/reward relationship. Tool used to choose among alternatives involves weighing the cost of a product or service against the benefit it will provide.

Coverage Limit. The maximum amount an insurance company will pay if you file a claim.

Credit. Amount of money a creditor is willing to loan another to purchase goods and services, based on trust and the expectation that the money will be repaid as promised with interest.

Credit Card. Card that enables holder to charge expenses for purchases or to get money, often with interest; synonymous with "buy now, pay later."

Credit Limit. The maximum amount of credit a lender will extend to a customer.

Creditworthiness. A measure of one's ability and willingness to repay a loan.

Credit rating/score. A measure of creditworthiness based on an analysis of the consumer's financial history, often computed as a numerical score, using the FICO or other scoring systems to analyze the consumer's credit. A creditor's

evaluation of a person's willingness and ability to pay debts as judged by character, capacity, and capital; a mathematical model used by lenders to predict the likelihood that bills will be paid as promised.

Credit Union. A financial institution owned by its members that provides savings and checking accounts and other services to its membership at low fees.

Debit Card. A card used to pay for goods and services directly from a checking account by transferring funds electronically from one's checking account to the store's account to pay for a purchase; also called check cards.

Debt. The entire amount of money owed to lenders.

Decision making. The process of considering alternatives and analyzing information to make a choice.

Deductible. The amount of a loss you must pay out of your own pocket before the insurance company will step in and pay the rest.

Delayed Gratification. The willingness to give up something you want now in order to get something better in the future.

Demand. The quantities of a particular good or service that consumers are willing and able to buy at different possible prices at a particular time.

Depreciation. Decline in a product's value that starts the moment a product is purchased (car).

Diversification. Distributing funds among different types of investments to minimize overall risk.

Dividend. The portion of the profits paid to the shareholders of a company.

Dollar Cost Averaging. The practice of investing a fixed amount into the same investment at regular intervals, regardless of what the stock market is doing.

Earned Interest. The payment you receive for allowing a financial institution or corporation to use your money.

Economy-global or world. Worldwide system that results from choices of consumers, workers, business owners, manufacturers, and government officials in multiple societies and with increasing trade and cultural exchange.

Employee benefits. Additional benefits, beyond a paycheck, offered by employers (e.g., health insurance or pension plan).

Endorse. To sign the back of a check to make it payable to the specified payee.

Entrepreneur. A person who owns and operates her or his own business. A person who creates a business from scratch, based on a need or personal expertise, and puts creativity and ingenuity into action to provide a service or product. A person who organizes, manages, and takes the risks involved in creating a new product/service or developing a better way to operate a business.

Entrepreneurship. A process that involves (a) seeing an opportunity to provide product/service, (b) taking initiative to find out about competitors and what customers want from the product/service, and (c) developing plans to market the business, analyze potential profit or losses, and produce the product/service. Imagination, innovative thinking, and management skills needed to start and operate a business.

Expense. An amount of money spent to buy something or do something.

Financial plan, financial planning. Personal financial planning is the process of (a) setting goals, (b) developing a plan to achieve them, and (c) putting the plan into action. Ongoing thinking process to develop an orderly program or blueprint for handling all aspects of one's money, including spending, credit, saving and investing.

Fixed Expenses. Expenses that cost the same amount every time.

Fraud. Intentional misrepresentation of information with the intent to deceive or mislead.

Front-end load. A sales charge paid when investments are purchased and sometimes when dividends are reinvested.

Goal. Statement about what a person wants to be, do, or have, accomplished by taking certain steps; provides direction to a plan of action.

Goal setting. The process used to determine what an individual wants to be, do or have, i.e., what a person wants to accomplish.

Grace Period. On a credit card, the length of time you have before you start accumulating interest on an unpaid balance.

Green products. Products considered environmentally safe according to objective, authoritative testing.

Gross Income. The total amount of income from wages before any payroll deductions.

High balling. An excessively high offer for a trade-in vehicle.

Identity Theft. When someone uses your name, Social Security number, credit card number, and other personal information without your permission.

Implied warranty. Unwritten guarantee that a product is of sufficient quality to fulfill the purpose for which it was designed.

Impulse purchase. A purchase made on a whim, without using a decision-making process.

Income. Any money an individual receives.

Information processing. Analyzing and organizing information for decision making.

Insurance. Risk management tool that limits financial loss due to illness, injury, or damage in exchange for its promise of protection and help.

Insurance premium. The payment a person makes to an insurance company in exchange for its promise of protection and help.

Interest. Payment for use of someone else's money; usually expressed as an annual rate in terms of a percent of the principal (the amount owed).

Investment. Setting aside money for future income, benefit, or profit to meet long-term goal; using savings to earn a financial return.

Job. An occupation that provides you with the basics – cash and something to do to earn it.

Late Fee. A penalty on all types of credit for making a payment after its due date.

Liabilities. Amount a person owes, such as unpaid bills, credit card charges, personal loans, and taxes.

Lifestyle. The way people choose to live their lives, based on values they have chosen.

Liquidity. The ease with which an asset can be converted to cash without serious loss.

Loan sharks. Unlicensed lenders who charge illegally high interest rates.

Loan Term. The length of time you have to pay off a loan.

Loss leader. Sales tactic where an item is priced at below cost to attract buyers who will then purchase other merchandise.

Low-balling—repairs, new-car deals. Advertising a service, then adding other services or repairs that are not necessary or not expected. An unrealistically low price offered by a dealer for a buyer's old car as part of a new-car deal.

Money. Anything that is generally accepted as payment for goods and services; a medium of exchange; legal tender.

Mortgage. Loan to buy real estate, such as land or a home.

Mutual Fund. An investment security that is actually a diversified portfolio of equities, bonds, or other securities. Investors purchase shares and can sell them at any time.

Needs. Essentials or basics necessary for maintaining physical life, including food, clothing, water, and shelter, sometimes called material well-being.

Net Income. Also called “take-home pay”; it's the amount of income left after payroll deductions.

Net worth. The difference between a person's assets and liabilities.

Opportunity Cost. Whenever choices are made, the cost of something expressed in terms of what had to be given up to obtain it. The resources used to satisfy one goal that cannot be used for another, i.e., weighing of one alternative against another rather than merely considering the cash price or value of a specific good or service.

Origination Fee. A charge for setting up a loan that is typically associated with home loans.

Payroll deductions. Amounts subtracted from gross income that are withheld by an employer for items such as taxes and employee benefits.

Pay Yourself First (PYE). Disciplined saving or setting aside money as a regular part of the budget for later spending or investing.

Personal Identification Number (PIN). The unique pass code number you use to get access to your savings and/or checking account.

Philanthropy. A personal or corporate interest in helping others, especially through gifts to charities or endowments to institutions.

Phishing. An identity theft tool that appears in the form of an E-mail or pop-up message; usually looks like it's from a legitimate financial institution and prompts you to provide your personal information in order to fix a "problem" with your account.

Points-mortgage. A one-time service charge by mortgage lenders at closing to increase the return on the loan; each point is one percent to the amount of the principal.

Predatory lending. Lending practices which promise loans that are "too good to be true" and pressure borrowers to take loans on the spot. Lending practices include a variety of financial abuses such as excessive fees, penalties for early pay-off of the loan, balloon payments, loan flipping, high interest rates, monthly payments the borrower can't afford, the unauthorized refinancing of loans. Examples of the practice include predatory mortgages, payday loans, overdraft loans, excessive credit card debt, and instant tax refund loans.

Profit. The difference between the costs required to create a product or supply a service that can be bought with it.

Principal. The amount of money someone is willing to loan you. Also, the amount that is still owed on a loan.

Puffery. Relatively innocent exaggerations used to sell products.

Purchasing power. The value of money measured in the amount of goods and services that can be bought with it.

Reasoning. The process of making and supporting a judgment; giving reasons to defend the conclusion.

Resources. Human resources are those resources people have within themselves, such as working knowledge, skill, mental effort, motivation, energy. Non-human or external resources include money, time, and equipment.

Rate of return. How fast money in savings account or investment grows.

Reverse mortgage. An arrangement in which a homeowner borrows against the equity in his/her home and receives regular monthly tax-free payments from the lender. Also called reverse-annuity mortgage or home equity conversion mortgage.

Risk-investment, personal, insurance. The probability of making a profit or losing money on one's investment; the chance an investment will decrease in value; possible losses involving income or standard of living. The possibility of a loss from perils to people or property covered by insurance.

Risk management. Deliberately and systematically using various strategies for controlling against potential personal or financial loss from pure risks.

Risk tolerance. The amount of uncertainty or possibility of loss the individual can bear.

Savings. Money set aside for short-term goals.

Savings Account. An account you have at a financial institution that helps you accumulate and save money and earn interest at the same time.

Scam, rip-off. Swindle or fraud, especially to cheat or swindle by a con artist in a confidence game, e.g., home repairs, cell phones, gasoline and oil stocks, Internet, telemarketing, credit card, securities, pyramid schemes. See fraud.

Scarcity. An economic condition created by an excess of human wants over the resources necessary to satisfy them; an inability to satisfy all of everyone's wants.

Share Account. The credit union term for a savings account.

Share Draft Account. The credit union term for a checking account.

Shared risk-insurance principle. Using premiums from many policy-holders to reimburse the losses of a few, so that no one suffers a financially devastating loss.

Spy ware. A bad side effect of free downloads that may be used to send you pop-up ads, redirect your computer to unwanted Web sites, monitor your Internet surfing, or record your keystrokes in an effort to steal your identity.

Social security. The federal government's basic program for providing income when earnings are reduced or stopped because of retirement, or disability. Income is also provided to families when the working parent(s) dies and underage children are a part of the family.

Stock. An investment that makes the investor a part owner of a company.

Stock Market. The place where stocks are bought and sold.

Supply. The quantities of an item that producers are willing and able to make available for sale at various prices over a given time period.

Taxes. A compulsory payment by individual/organizations to the government; fees placed on income, property, or goods to support government programs.

Time value of money. The relationship between time, money, and rate of return (interest), and their effect on earnings growth. The more time, money, and rate of interest, the more money yielded at the end of a period of time.

Values-personal and cultural. Criteria, standards, or principles that individuals use when making a selection among alternatives in decision making. Prevailing beliefs and value systems of a given society passed on through social conditioning/enculturation.

Value judgment. The process of reasoning to conclusion using facts and values for purpose of determining worth, quality, importance, fairness, and credibility.

Value system. A set of criteria, standards, or principles that guide an individual or group's behavior and provides a sense of direction to life.

Variable Expenses. Expenses that are not fixed.

Volunteer service. Working to help others or one's community without being paid.

Wants. Items that a person would like to have but are not essential for life. Items, activities, or services that may increase the quality of life, but one can live without them.

Warranty. A company's promise that its product or service will meet specific standards over a given period of time, or the company will repair or replace it, redo the work, or give a refund.

Wealth-building. Increasing the total value of what one owns; one's tangible assets using strategies to increase savings and personal asset accumulation, thereby promoting individual/family economic well-being and financial security.

Withholding. Employer deductions from employees' earnings to pay employees' taxes.

Yield. The profit from an investment.

