

Building Wealth Vocabulary

Acceleration clause	A stipulation in a loan contract stating that the entire balance becomes due immediately if other contract conditions are not met.
Accrued interest	Interest that has been earned but not received or recorded.
Amortization	Liquidation of a debt by making periodic payments over a set period, at the end of which the balance is zero.
Annuity	A series of equal payments made at regular intervals, with interest compounded at a specified rate.
Appreciation	An increase in the value or price.
Asset	Anything an individual or business owns that has commercial or exchange value.
Auto debit	The deduction from a checking or savings account of funds that are automatically transferred to a creditor each month. Some lenders offer interest rate discounts if loan payments are set up on auto debit at the beginning of the loan.
Balance	The amount owed on a loan or credit card or the amount in a savings or investment account.
Balance sheet	A financial statement showing a “snapshot” of the assets, liabilities and net worth of an individual or organization on a given date.
Bankruptcy	A legal proceeding declaring that an individual is unable to pay debts. Chapters 7 and 13 of the federal bankruptcy code govern personal bankruptcy.
Beneficiary	The person designated to receive the proceeds of a life insurance policy.
Budget	An itemized summary of probable income and expenses for a given period.
Capital	Cash or other resources accumulated and available for use in producing wealth.
Cash Flow	Money coming to an individual or business less money being paid out during a given period.
Certificate of deposit (CD)	A type of savings account that earns a fixed interest rate over a specified period of time.

Collateral	Assets pledged to secure a loan.
Common stock	A kind of ownership in a corporation that entitles the investor to share any profits remaining after all other obligations have been met.
Compound interest	Interest computed on the sum of the original principal and accrued interest.
Credit	The granting of money or something else of value in exchange for a promise of future repayment.
Credit card	A plastic card from a financial services company that allows cardholders to buy goods and services on credit.
Credit Report	A loan and bill payment history, kept by a credit reporting company and used by financial institutions and other potential creditors to determine the likelihood a future debt will be repaid.
Credit reporting company	An organization that compiles credit information on individuals and businesses and makes it available for a fee.
Credit score	A number generated by a statistical model that objectively predicts the likelihood that a debt will be repaid on time.
Credit union	A cooperative organization that provides financial services to its members.
Creditor	A person, financial institution or other business that lends money.
Debit card	A plastic card similar to a credit card that allows money to be withdrawn or the cost of purchases paid directly from the holder's bank account.
Debt	Money owed; also known as a liability.
Debt Service	Periodic payment of the principal and interest on a loan.
Deductible	The amount of loss paid by an insurance policyholder. The deductible may be expressed as a specified dollar amount or a percent of the claim amount.
Delinquency	The failure to make timely payments under a loan or other credit agreement.
Diversification	The distribution of investments among several companies to lessen the risk of loss.
Dividend	A share of profits paid to a stockholder.
Equity	Ownership interest in an asset after liabilities are deducted

Face value	The principal amount of a bond, which will be paid off at maturity.
Fair market value	The price a willing buyer will pay and a willing seller will accept for real or personal property.
Federal Deposit Insurance Corp.	(FDIC) A federally chartered corporation that insures bank deposits up to \$100,000.
Finance company	A company that makes loans to individuals.
Financing fee	The fee a lender charges to originate a loan. The fee is based on a percentage of the loan amount; one point is equivalent to 1 percent.
Foreclosure	The legal process used to force the payment of debt secured by collateral whereby the property is sold to satisfy the debt.
401(k) plan	A tax-deferred investment and savings plan that serves as a personal retirement fund for employees.
Health savings account	A tax-advantaged personal savings account, set up to be used exclusively for medical expenses; must be paired with a high-deductible health insurance policy
Individual Retirement Account (IRA)	A retirement plan, offered by banks, brokerage firms, mutual funds and insurance companies, to which individuals can contribute each year on a tax-deferred basis.
Inflation	A sustained increase in the prices of goods and services.
Insurance premium	The amount of money required for coverage under a specific insurance policy for a given period of time. Depending on the policy agreement, the premium may be paid monthly, quarterly, semiannually or annually.
Interest	A fee for the use of money over time. It is an expense to the borrower and revenue to the lender. Also, money earned on a savings account.
Interest rate	The percentage charged for a loan, usually a percentage of the amount lent. Also, the percentage paid on a savings account.
Investing	The act of using money to make more money.
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 ease with which an investment can be converted into cash.

Loan	A sum of money lent at interest.
Management fee	The fee paid to a company for managing an investment portfolio.
Maturity	The time when a note, bond or other investment option comes due for payment to investors.
Mortgage	A temporary and conditional pledge of property to a creditor as security for the repayment of a debt.
Municipal bond	A bond issued by cities, counties, states and local governmental agencies to finance public projects, such as construction of bridges, schools and highways.
Net worth	The difference between the total assets and total liabilities of an individual.
Par value	The nominal, or face, value of a stock or bond, expressed as a specific amount on the security.
Predatory lending	Targeting loans to seniors, low-income and other people to take advantage of their financial status or lack of financial knowledge.
Pretax	A person's salary before state and federal income taxes are calculated.
Prime rate	The lowest interest rate on bank loans, offered to preferred borrowers.
Principal	The unpaid balance on a loan, not including interest; the amount of money invested.
Return	The profit made on an investment.
Risk	The possibility of loss on an investment.
Stock option	The right to buy or sell a corporation's stock at a predetermined price or calculable formula; sometimes used as part of employee compensation.
Stockholder	A person who owns stock in a company and is eligible to share in profits and losses; same as shareholder.
Tax-deferred	Phrase referring to money that is not subject to income tax until it is withdrawn from an account, such as an individual retirement account or a 401(k) account.
Term	The period from when a loan is made until it is fully repaid.

Treasury bill	A short-term investment issued by the U.S. government for a year or less.
Treasury bond	A government security with a term of more than 10 years; interest is paid semiannually.
Treasury Inflation-Protected Security (TIPS)	A Treasury bond or note that is tied to inflation so that the principal amount of the investment increases or decreases according to the annual inflation rate.