

## Building Wealth Glossary

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| <b>Acceleration clause</b>         | A stipulation in a loan contract stating that the entire balance becomes due immediately if other contract conditions are not met.  |
| <b>Accrued interest</b>            | Interest that has been earned but not received or recorded.   |
| <b>Amortization</b>                | Liquidation of a debt by making periodic payments over a set period, at the end of which the balance is zero.   |
| <b>Annuity</b>                     | A series of equal payments made at regular intervals, with interest compounded at a specified rate.   |
| <b>Appreciation</b>                | An increase in the value or price.  |
| <b>Asset</b>                       | Anything an individual or business owns that has commercial or exchange value.  |
| <b>Auto debit</b>                  | 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. |
| <b>Balance</b>                     | The amount owed on a loan or credit card or the amount in a savings or investment account.  |
| <b>Balance sheet</b>               | A financial statement showing a “snapshot” of the assets, liabilities and net worth of an individual or organization on a given date.   |
| <b>Bankruptcy</b>                  | A legal proceeding declaring that an individual is unable to pay debts. Chapters 7 and 13 of the federal bankruptcy code govern personal bankruptcy.  |
| <b>Beneficiary</b>                 | The person designated to receive the proceeds of a life insurance policy.   |
| <b>Budget</b>                      | An itemized summary of probable income and expenses for a given period.   |
| <b>Capital</b>                     | Cash or other resources accumulated and available for use in producing wealth.  |
| <b>Cash Flow</b>                   | Money coming to an individual or business less money being paid out during a given period.  |
| <b>Certificate of deposit (CD)</b> | A type of savings account that earns a fixed interest rate over a specified period of time.   |
| <b>Collateral</b>                  | Assets pledged to secure a loan.  |
| <b>Common stock</b>                | A kind of ownership in a corporation that entitles the investor to share any profits remaining after all other obligations have been met.   |

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| <b>Compound interest</b>        | Interest computed on the sum of the original principal and accrued interest.   |
| <b>Credit</b>                   | The granting of money or something else of value in exchange for a promise of future repayment.  |
| <b>Credit card</b>              | A plastic card from a financial services company that allows cardholders to buy goods and services on credit.  |
| <b>Credit Report</b>            | 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. |
| <b>Credit reporting company</b> | An organization that compiles credit information on individuals and businesses and makes it available for a fee.   |
| <b>Credit score</b>             | A number generated by a statistical model that objectively predicts the likelihood that a debt will be repaid on time.   |
| <b>Credit union</b>             | A cooperative organization that provides financial services to its members.  |
| <b>Creditor</b>                 | A person, financial institution or other business that lends money.  |
| <b>Debit</b>                    | Charges to an account.   |
| <b>Debit card</b>               | 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.   |
| <b>Debt</b>                     | Money owed; also known as a liability.   |
| <b>Debt Service</b>             | Periodic payment of the principal and interest on a loan.  |
| <b>Deductible</b>               | 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.   |
| <b>Delinquency</b>              | The failure to make timely payments under a loan or other credit agreement.  |
| <b>Direct deposit</b>           | The electronic transfer of a payment from a company to an individual's checking or savings account. Many employers offer direct deposit of paychecks.  |
| <b>Diversification</b>          | The distribution of investments among several companies to lessen the risk of loss.  |
| <b>Dividend</b>                 | A share of profits paid to a stockholder.  |
| <b>Equity</b>                   | Ownership interest in an asset after liabilities are deducted  |

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| <b>Face value</b>                           | The principal amount of a bond, which will be paid off at maturity.  |
| <b>Fair market value</b>                    | The price a willing buyer will pay and a willing seller will accept for real or personal property.   |
| <b>Federal Deposit Insurance Corp.</b>      | (FDIC) A federally chartered corporation that insures bank deposits up to \$100,000.   |
| <b>Finance company</b>                      | A company that makes loans to individuals.   |
| <b>Financing fee</b>                        | 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.   |
| <b>Flexible spending account</b>            | An employer-sponsored account that allows employees to save pretax dollars to cover qualified medical or dependent care expenses.  |
| <b>Foreclosure</b>                          | The legal process used to force the payment of debt secured by collateral whereby the property is sold to satisfy the debt.  |
| <b>401(k) plan</b>                          | A tax-deferred investment and savings plan that serves as a personal retirement fund for employees.  |
| <b>Health savings account</b>               | 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   |
| <b>High-deductible health plan</b>          | A health insurance policy that requires the policyholder to pay more out-of-pocket medical expenses but usually has lower premiums than traditional health insurance plans.                                      |
| <b>Individual Development Account (IDA)</b> | A type of savings account, offered in some communities, for people whose income is below a certain level.  |
| <b>Individual Retirement Account (IRA)</b>  | 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.   |
| <b>Inflation</b>                            | A sustained increase in the prices of goods and services.  |
| <b>Installment plan</b>                     | A plan requiring a borrower to make payments at specified intervals over the life of a loan.   |
| <b>Insurance premium</b>                    | 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. |

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| <b>Interest</b>             | 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.  |
| <b>Interest rate</b>        | The percentage charged for a loan, usually a percentage of the amount lent. Also, the percentage paid on a savings account.   |
| <b>Investing</b>            | The act of using money to make more money.  |
| <b>Investor</b>             | An organization, corporation, individual or other entity that acquires an ownership position in an investment, assuming risk of loss in exchange for anticipated returns.                             |
| <b>Leverage</b>             | The ability to use a small amount of money to attract other funds, including loans, grants and equity investments.  |
| <b>Liability</b>            | Money an individual or organization owes; same as debt. Also, a kind of insurance for the policyholder's legal obligation to pay for either bodily injury or property damage caused to another party. |
| <b>Lien</b>                 | A creditor's claim against a property, which may entitle the creditor to seize the property if a debt is not repaid.  |
| <b>Liquidity</b>            | The ease with which an investment can be converted into cash.   |
| <b>Load</b>                 | The fee a brokerage firm charges an investor for handling transactions.   |
| <b>Loan</b>                 | A sum of money lent at interest.  |
| <b>Management fee</b>       | The fee paid to a company for managing an investment portfolio.   |
| <b>Market value</b>         | The amount a seller can expect to receive on the open market for merchandise, services or securities.   |
| <b>Maturity</b>             | The time when a note, bond or other investment option comes due for payment to investors.   |
| <b>Money market account</b> | A type of savings account offered by a financial institution.   |
| <b>Mortgage</b>             | A temporary and conditional pledge of property to a creditor as security for the repayment of a debt.   |
| <b>Municipal bond</b>       | A bond issued by cities, counties, states and local governmental agencies to finance public projects, such as construction of bridges, schools and highways.  |
| <b>Mutual fund</b>          | A pool of money managed by an investment company.   |
| <b>Net worth</b>            | The difference between the total assets and total liabilities of an individual.   |

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| <b>Par value</b>         | The nominal, or face, value of a stock or bond, expressed as a specific amount on the security.  |
| <b>Predatory lending</b> | Targeting loans to seniors, low-income and other people to take advantage of their financial status or lack of financial knowledge.                              |
| <b>Pretax</b>            | A person's salary before state and federal income taxes are calculated.  |
| <b>Prime rate</b>        | The lowest interest rate on bank loans, offered to preferred borrowers.  |
| <b>Principal</b>         | The unpaid balance on a loan, not including interest; the amount of money invested.  |
| <b>Promissory note</b>   | A written promise on a financial instrument to repay the money plus interest.  |
| <b>Qualified plan</b>    | A tax-deferred retirement plan for the self-employed.  |
| <b>Return</b>            | The profit made on an investment.  |
| <b>Revenue bond</b>      | A type of municipal bond backed by revenue from the project the bond finances.   |
| <b>Risk</b>              | The possibility of loss on an investment.  |
| <b>Savings account</b>   | A depository institutions offer whereby people can deposit their money for future use and earn interest.   |
| <b>Stock option</b>      | The right to buy or sell a corporation's stock at a predetermined price or calculable formula; sometimes used as part of employee compensation.                  |
| <b>Stockholder</b>       | A person who owns stock in a company and is eligible to share in profits and losses; same as shareholder.  |
| <b>Tax-deferred</b>      | 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. |
| <b>Term</b>              | The period from when a loan is made until it is fully repaid.  |
| <b>Terms</b>             | Provisions specified in a loan agreement.  |
| <b>Treasury bill</b>     | A short-term investment issued by the U.S. government for a year or less.  |
| <b>Treasury bond</b>     | A government security with a term of more than 10 years; interest is paid semiannually.  |

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| <b>Treasury Inflation-Protected Security (TIPS)</b> | 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. |
| <b>Treasury note</b>                                | A government security with a maturity that can range from two to 10 years; interest is paid every six months.   |
| <b>U.S. savings bond</b>                            | A nontransferable, registered bond issued by the U.S. government in denominations of \$50 to \$10,000.  |