Financial Glossary

Accounts Payable (AP)
Accounts payable is money owed by a business to its suppliers shown as a liability on a company's balance sheet. In households, accounts payable are ordinary bills from the electric, phone or water company; home owners associations; cable television or satellite dish; internet provider and other such regular services.

Accounts Receivable (AR)
Accounts receivable represents money owed by entities to a business or firm on the sale of products or services on credit. In most business entities, accounts receivable is typically executed by generating an invoice. Businesses list AR as current assets on the balance sheet.

Accrued interest
Accrued interest is interest that has accumulated on the principal balance of a loan, adding to the total amount owed on a loan.

Additional principal payment
Additional principal payment is made towards reducing the principal balance of a loan. In amortized loans, such as mortgages and auto loans, most of the early payments go toward paying interest. By making additional principal payments, you will pay off the loan more quickly as it reduces the outstanding balance owed and the amount of interest paid.

Adjustable-rate mortgage (ARM)
Adjustable rate mortgages are a form of financing, secured by real estate, which carries an interest rate that may change over the life of the loan. The interest rate on an ARM is calculated by adding interest to a benchmark. For example "Prime plus 5 percent."

Advanced Medical Directive
An Advanced Medical Directive (also known as Living Will, Personal Directive, Advance Directive, or Advance Decision) is a legal document in which a person specifies the actions related to their health that should be taken if they are no longer able to make decisions for themselves because of illness or incapacity. It may also designate a surrogate decision maker in the event that a person should become unable to make medical decision on his or her own behalf.

After Tax Income
After-tax income is the gross earnings of an individual or company after the deduction of taxes.

Amortization schedule
An amortization schedule is a table detailing the principal and interest due for each payment on the loan. The schedule differentiates the portion of the payment that will be applied to interest expense and the portion applied to the principal for each payment.

Appraisal (real estate)
An appraisal is the estimated value of a property, based on an analytical comparison of similar properties.

Appreciation (real estate)
Appreciation is the increase in the value of property over time due to supply and demand, capital improvements, and fluctuations in market conditions, inflation and other factors.

APR
APR is the Annual Percentage Rate, which is the interest percentage rate for a whole year rather than a monthly fee/rate.

Asset
An asset is property or possessions owned by an individual or business that has monetary value. Includes real estate, personal property and debts owed to the individual by others.

Automobile Insurance
Automobile insurance (car insurance) is insurance purchased for cars, trucks, motorcycles and other road vehicles. It provides financial protection against physical damage and/or bodily injury resulting from traffic collisions. The specific terms of vehicle insurance vary with legal regulations in each state.

Balanced Fund
A balanced fund is a type of mutual fund that pursues a hybrid investing strategy. Balanced funds contain a mix of stocks, bonds, and other types of securities in order to offer investors both capital appreciation and income generation.

Balloon mortgage
A balloon mortgage requires a principal payment made at the end of a term to payoff the loan. For example, on a mortgage, amortization can be based on a period of years, but in a balloon mortgage, the loan terms require a lump sum or balloon payment at the end of 7 years.

Bankruptcy

Bankruptcy is the legal status of an individual (or organization) who is unable to pay their creditors. Bankruptcy is filed in a Federal Court. Bankruptcies are of various types. The most common is the 'Chapter 7 No Asset' bankruptcy that relieves the individual/ borrower of his debts and liabilities. The borrower remains ineligible for loans for a period of time after the bankruptcy has been discharged. The borrower is also required to re-establish the ability to repay debt.

Basis Points

A basis point is 1/100th of 1 percent. Basis points are used as a convenient unit of measure in contexts where percentage differences of less than 1 percent are discussed. The most common example is interest rates, where differences in interest rates of less than 1 percent per year are meaningful. For example, a difference of 0.10 percentage points is equivalent to a change of 10 basis points (a 4.67 percent rate increases by 10 basis points to 4.77 percent. An increase of 100 basis points means a rise of 1 percent.

Bearer Bond

A bearer bond is a debt investment that does not have a registered owner, but is considered the property of whoever has it in his or her possession. The bond may have attached coupons that must be submitted to the bond issuer in return for interest payments.

Before Tax Income

Before-tax income is the gross earnings of an individual or company prior to the deduction of taxes.

Beneficiary

A beneficiary is any individual or legal entity, which is named as an inheritor of funds or property in a bank account, trust fund, insurance policy or similar financial instrument.

Bequest

Bequest is the act of giving property to a beneficiary in a will. The term can also refer to bequeathed property.

Bill of sale

A bill of sale is a legal document made by a seller to a purchaser, which documents the transfer of property by reporting that on a specific date, at a specific location for a particular sum of money (or other value received), the property transfer occurred.

Billing Cycle

A billing cycle is the period of time between billings. During the billing cycle, purchases, credits, fees, and finance charges are posted to an account. At the end of the billing cycle, a bill is issued for all the fees plus unpaid charges during the billing cycle.

Blended rate

A blended rate is an interest rate charged on a loan, which is in between a previous rate and the new rate. Blended rates are usually offered through the refinancing of previous loans, and charge a rate that is higher than the old loan's rate but lower than the rate on a new loan.

Blue Book

The Blue Book, also called Kelley Blue Book, is a printed valuation guide that assists vehicle owners, auto dealers, and insurance companies in determining the market value or sales price of a vehicle

Bond

A bond is a loan that's sold in shares as a security. Corporations and government entities (bond issuers) sell bond shares to raise money for special projects, expansion, or simply to cover budgeted expenses. One who purchases a bond is called the bondholder. The terms of the bond specify when and how the bond issuer will repay the principal to the bondholder.

Book value

Book value is the cost of an item or capital asset plus the cost of additions, less depreciation. In the case of financial records, book value is the net amount attributed to an asset on a balance sheet. The term can also refer to the net worth of a company's common stock equity.

Brokerage account

Money held by a Brokerage or Brokerage Firm for investment purposes. The brokerage firm is an entity that buys and sells securities, for a fee, on behalf of its customers.

Buyer's remorse

Buyer's remorse is the buyer's second thoughts after buying a house, car or other major purchase, a feeling of anxiety or being overwhelmed by the thought of another financial responsibility. It may stem from fear of making the wrong choice, guilt over extravagance, or a suspicion of having been overly influenced by the seller.

Call loan

A call loan is a debt instrument that gives the lender the right to demand full repayment prior to the scheduled maturity.

Cancellation of debt

Cancellation of debt means writing off of a borrower's outstanding principal balance, even though payment hasn't been made. The lender essentially wipes away the debt and the borrower is free from obligation.

Capital gain

A capital gain is the increase in an asset's value, such that it becomes worth more than the purchase price. The gain is known as an unrealized capital gain until the asset is sold. Once the asset is sold and the profit is made, the gain is called a realized capital gain.

Cardholder agreement

A cardholder agreement is the written statement of terms that governs a credit card account. The Federal Reserve requires credit card companies to provide cardholders with a cardholder agreement that defines the annual percentage rate, how minimum payments are calculated, annual account fees, and rights of the cardholder when billing disagreements arise.

Cash advance

A cash advance is a service offered by credit card companies where the cardholder can withdraw cash, up to a certain limit. Most credit card accounts allow for cash advances in addition to purchases, but the rates for cash advances are typical higher and the terms are more restrictive than those governing purchase transactions.

Cash advance fee

A credit card issuer levies cash advance fees when the cardholder draws cash against a credit account. The fee might be structured as a per-transaction amount, or as a percentage of the amount of cash advanced.

Cashier's check

A cashier's check is a draft written by a bank and signed by a bank cashier or officer. Cashier's checks do not bounce, as a personal check might, because the instrument is drawn on the bank, and not on a personal account.

Caveat emptor

Caveat emptor is Latin for "buyer beware." It means that the buyer of an item buys or invests at his or her own risk.

Certificate of deposit (CD)

A certificate of deposit is a fixed-rate, time deposit issued by banks and other financial institutions. Upon purchasing the CD, the investor agrees to keep the funds on deposit with the CD issuer for a certain period of time. CDs pay higher interest rates than unrestricted cash deposits. Most CDs are FDIC-insured.

Certified check

A certified check is a draft that is guaranteed by the issuing bank. The bank may set aside the amount of the check from the accountholder's available funds so that the money is not spent before the check is presented for payment. Generally, a bank charges a fee for check certification.

Charitable donation

A charitable donation is a gift of money or property that is given to a nonprofit or organization. Many nonprofit organizations rely on charitable donations for continued funding. It is common for taxing authorities like the IRS to provide tax breaks to individuals and commercial entities that make qualifying charitable donations.

Closing costs

Closing costs are expenses incurred over and above the price of the property, by buyers and sellers when transferring ownership of property. They are of two types, non-recurring and pre-paid. Non-recurring expenses are incurred on items paid just once as a result of buying property or obtaining a loan. Pre-paid expenses are costs, which are recurring such as property taxes and homeowner's insurance. A lender usually gives the borrower an estimate of the total costs in a Good Faith Estimate within three days of receiving a home loan application. Closing costs normally include an origination fee, attorney's fee, taxes, amount placed in escrow, and charges for obtaining title insurance and a survey. Closing cost percentages will vary according to the area of the country and the lender.

Co-signer

A co-signer agrees to take responsibility for a debt if the borrower defaults. A loan applicant who does not qualify for a loan may be able to obtain financing if an individual agrees to be a cosigner.

Collateral

Collateral is an asset that acts as the guarantee in the repayment of the loan. The borrower may risk losing this asset if he is unable to repay his loan according to the terms of the loan contract or the mortgage or the trust deed.

Compound interest

For loans, compound interest is calculated on the total amount owed, including interest that has accumulated. Borrowers experience negative amortization when the principal amount of the loan actually increases because the monthly payments are lower than the full amount of interest owed. For savings, compound interest is calculated on the principal and interest paid previously that had been added to the principal balance.

Consolidation loan

A consolidation loan pays off and replaces several smaller debts. Debtors consolidate their debts to lower their monthly payments and overall interest rate. Consolidation loans are also called Debt Consolidation Loans.

Consumer credit counseling service

Consumer credit counseling services offer advice about how to work out a realistic budget and a debt repayment plan. The goal is to ensure that debts are paid in full and that the consumer knows how to avoid debt in the future. These services often work closely with creditors and can greatly reduce the interest rates on credit cards.

Consumer Credit Protection Act

The Consumer Credit Protection Act is federal legislation that limits wage garnishments and mandates disclosure of certain terms with respect to credit offerings. The Act was passed in 1968 and is best known for containing the Truth in Lending Act (TILA), which requires creditors to provide consumers with understandable, comparable terms for credit offers.

Contract

A contract is a written or oral binding agreement between two parties that is legally enforceable.

Contract for deed

A contract for deed (sometimes called a land contract) is a contract between a buyer and a seller of real property in which the seller provides financing to the buyer to purchase the property at an agreed upon price, and the buyer repays the loan in installments.

Contractor

A contractor is a person who constructs or oversees construction of a house or a large renovation.

Conventional mortgage

A conventional mortgage refers to a fixed rate mortgage for a time period of 15, 25 or 30 years which is not insured by the government (FHA or Veterans Administration). In a conventional mortgage, the interest rate will not change during the entire term of the loan.

Conveyance

A conveyance is a document that transfers title to property. It is also used to affect a transfer, such as a deed, or mortgage.

Cost basis

Cost basis is the original price paid for an investment or asset, including commissions and fees. The cost basis is used to calculate capital gains or losses for tax purposes. The capital gain or loss would be the price for which the investment or asset is sold plus fees, minus the cost basis.

Cost of living adjustment – COLA

Cost of living adjustment, or COLA, is a change to wages or Social Security income that corresponds to movements in the Consumer Price Index. The Consumer Price Index is a measure of inflation, and the cost of living adjustment is intended to address changes in purchasing power. Generally, cost of living adjustments are additive to wages.

Counteroffer

A counteroffer is made when the initial purchase offer on real estate is rejected. The counter offer is submission of another offer with different terms (such as price or closing date).

Covenants, conditions and restrictions (CC&Rs)

Covenants, conditions, and restrictions, or CC&Rs, are legally enforceable rules pertaining to the use of property. Homeowners' associations commonly have CC&Rs, which mandate proper exterior landscaping and maintenance of the home, or restrict neighborhood homeowners from parking unsightly vehicles in their driveways. CC&Rs are generally intended to preserve the property values in the neighborhood.

Coverdell Education Savings Account – ESA

Coverdell Education Savings Account, also known as CESA or ESA, is a tax-advantaged savings program for children under the age of 18. Families contribute to the account with post-tax dollars, but the earnings accumulate without incurring tax liability. Withdrawals are tax-free as long as the funds are used for qualified educational expenses. There is a cap on the annual contributions allowed.

Credit bureau

A credit bureau collects and maintains debt payment histories of individual and corporate borrowers. Lenders use this information to evaluate a prospective borrower's creditworthiness.

Credit card

A credit card is a plastic payment card that's linked to a revolving credit account. The borrower/cardholder uses the card to purchase goods, services or cash advances, and receives an itemized statement of transactions at the end of each reporting period. If the balance is not paid in full by the end of the grace period, interest charges are added automatically to the account.

Credit check

A credit check is the review of a loan applicant's debt payment history. Lenders perform this review to predict how the applicant will handle the proposed debt obligations.

Credit history
Credit history is the documented and detailed statement of an individual's debts – including both debts that are open and debts that are fully repaid. Credit history is used to help the lender ascertain the risk and credit worthiness of a potential borrower and whether he will be able to repay future debts on time. A married couple each has their own credit history.

Credit life insurance
Credit life insurance is an insurance product that enables consumers to insure repayment of loans if the borrower dies, becomes ill or disabled, loses a job, or faces other circumstances that may prevent them from earning income to service the debt.

Credit limit
A credit limit is the maximum amount of debt available to a borrower under a credit card, charge card, or other type of revolving credit. The borrower may apply charges to the account only up to the approved credit limit.

Credit report
A credit report is a documented statement of an individual's credit history and current credit standing. It is prepared by a credit bureau and used by lenders in determining the credit worthiness of the loan applicant.

Credit score
A credit score is a number that reflects the credit history as outlined in an individual's credit report (see also FICO score). A lender will calculate this number using a computer algorithm as part of the process of assigning interest rates and terms to the loans they make. The higher the number, the better the terms that a lender will offer. A good credit score is around 720. It is possible to raise your credit score over time and by appealing incorrect items that appear on your credit report. It is smart for consumers to monitor and track their credit reports to ensure that the information is correct and to make sure that disputed items have been removed.

Credit worthiness
Credit worthiness is an individual's or business's ability and willingness to repay debt. When an individual or business submits a loan application, the lender reviews the applicant's qualifications, including credit history and income, and makes an evaluation regarding that applicant's credit worthiness. This evaluation determines if, and on what terms, the loan application will be accepted.

Debenture

A debenture is an unsecured debt security, such as a Treasury bond or Treasury bill. Governments and highly rated corporations can issue debentures to raise capital. Because there is no collateral supporting the debenture, investors must feel confident in the credit worthiness of the issuer.

Debit card

A debit card is a plastic payment card that's linked to a deposit account. Debit cards are accepted for purchase transactions at participating businesses. When the card is presented and approved for payment, the transaction amount is almost immediately deducted from the account balance. Debit cards can also be used at the ATM for funds withdrawals, deposits, and transfers.

Debt Instrument

Debt instruments are assets that require a fixed payment to the holder, usually with interest. Examples of debt instruments include bonds (government or corporate) and mortgages.

Debt-to-income ratio (DTI)

Debt-to-income ratio is the quotient of a borrower's minimum debt payments divided by that borrower's gross income for the same time period. DTI is used by lenders as one factor in evaluating the risk associated with a debt request. From the lender's perspective, a higher ratio indicates greater risk.

Debtor

A debtor is an individual or entity that owes money to another. Debtors owing money to a bank or lender are called borrowers, and debtors owing money to investors (who have purchased the debtor's bonds or debentures) are called issuers.

Deed

A deed is a document or contract of legal bearing with evidence of title to property.

Deed in lieu of foreclosure

A deed in lieu of foreclosure is an exchange of outstanding (and usually past-due) mortgage debt in return for full ownership rights to the mortgaged property. A property owner in distress can sometimes avoid foreclosure by negotiating this arrangement with the lender.

Deflation

Deflation is an economic condition where prices drop throughout a region or economy. Deflation, which is the opposite of inflation, can result from a tightening of the money supply.

Demand deposit

A demand deposit can be withdrawn at any time without advance notice. A checking account is a demand deposit account.

Depreciation

Depreciation is a decrease in the value of property or assets.

Direct deposit

Direct deposit is an electronic transfer of funds into a bank or credit union account. Direct deposit is most commonly associated with wages; in lieu of paper payroll checks, an employer automatically deposits wages into the employees' personal accounts. The IRS also offers direct deposit of tax refunds.

Disclosure statement

A disclosure statement is any document that spells out the terms of a debt arrangement, or other type of contractual relationship. Disclosure statements can apply to real estate transactions, loans or investments.

Discretionary income

Discretionary income is the amount of an individual's earnings, which is available for voluntary spending after covering the cost of food, shelter, clothing, taxes, and other essentials.

Diversification

Diversification is a tenet of conservative investing. It calls for spreading out investment funds among different classes of assets, different industries, and/or different companies in order to reduce risk.

Dividend

A dividend is a taxable distribution or payment of earnings to shareholders as declared by a company's board of directors. In credit unions, a dividend is the money paid to members for deposits. This is similar to the interest banks pay to their customers for their deposits.

Down payment

A down payment is the initial and down payment towards the price of an item prior to the calculation of the loan amount.

Eminent Domain

Eminent domain is the constitutional right of a government to take over private property for public use. The most common use of this right is for public projects like roads, military installations, and public buildings. The owner of the property is typically given compensation.

Encumbrance
Encumbrance is anything that restricts the fee simple title to property. It could be in the form of mortgages, leases, easements etc.

Escheat
Escheat is a common law doctrine, which transfers property to the state in the absence of legal heirs or claimants.

Estate
An estate is the real and personal property owned by an individual at the time of death.

Estate Tax
An Estate Tax is a tax on the property and interests in property left by a decedent or on the transfer of such property as a result of death.

Estimated tax payments
Estimated tax payments are quarterly tax installments paid to the IRS during the year the income taxes are incurred. Taxpayers who do not have sufficient paycheck withholdings are often required to make estimated tax payments. Examples include self-employed individuals, and those who earn a large amount of investment income.

Euthanasia
The glossary in the Catechism of the Catholic Church defines euthanasia as “an act or omission which, of itself or by intention, causes the death of handicapped, sick, or dying persons—sometimes with an attempt to justify the act as a means of eliminating suffering.

> “Euthanasia is a form of murder and thus is prohibited by the Fifth Commandment. It is a grave offense against the dignity of the human person and also against God, the Author of human life. While motives and circumstances can mitigate one’s culpability, they do not change the nature of this murderous act, which must be forbidden.” (Catechism, no. 2277).

Executor
The Executor of an estate is the person named in the will of the deceased as the person to administer the will and to ensure that the deceased’s final wishes are respected.

FDIC (FDIC Insured)
The Federal Deposit Insurance Corporation (FDIC) is a US government corporation operating as an independent agency created by the Banking Act of 1933. It provides deposit insurance guaranteeing the safety of a depositor’s accounts in member banks up to $250,000 for each deposit category in each insured bank.

Fee Simple

Fee simple is the most common type of land ownership, meaning that the owners have complete ownership of the land and the home, but are still subject to taxation and debt obligations on their mortgage.

FICO score

A FICO score is numeric value calculated by Fair Isaac Credit Organization that represents credit worthiness. When lenders talk about credit score, they're usually referring to the FICO. The FICO score is calculated by a proprietary algorithm, which considers an individual's payment history, debt level, and other related factors.

Fiduciary

A fiduciary is one who acts for the benefit of another person. The term includes personal representatives, guardians, trustees and other agents.

Financial planner

A financial planner is a qualified professional who helps individuals and businesses set financial targets and take the appropriate steps to meet those targets. An individual may seek the services of a financial planner when starting an investment program, or when planning for retirement.

First mortgage

A first mortgage receives the primary position amongst all loans taken out against a property. In case of the borrower defaulting, it is claimed first.

Fixed-rate mortgage (FRM)

A fixed-rate mortgage is loan secured by real estate property that accrues interest at the same rate throughout the life of the loan.

Flood insurance

The national flood insurance program denotes specific insurance to protect against property loss from flooding. In certain flood prone areas, the federal government requires flood insurance to secure mortgage loans backed by federal agencies such as the FHA and VA. Flood insurance is a separate policy from homeowner's insurance and is administered by FEMA.

Forbearance

Forbearance is a specific agreement between the lender and borrower to delay foreclosure

Foreclosure

Foreclosure is the repossession of property by a legal process due to default on terms of mortgage by the borrower. When the process is complete, the lender can sell the property and keep the proceeds to pay off its mortgage and any legal costs.

Grace period

A mortgage grace period is the time during which a loan payment may be made after its due date without incurring a late penalty.

Graduated payment mortgage
A graduated payment mortgage is a home loan where the payments start out smaller and gradually increase over the first few years, after that time it remains fixed.

Grantor
A Grantor is an individual who conveys or transfers ownership of property. In real property law, an individual who sells land is known as the grantor.

Health Insurance
Health insurance covers the risk of incurring medical expenses. According to the Health Insurance Association of America, health insurance is defined as "coverage that provided for the payments of benefits as a result of sickness or injury." It includes insurance for losses from accident or medical expense.

Healthcare (Surrogate) Power of Attorney
(Sometimes referred to a Medical Power of Attorney) Authorizes an agent to make health care decisions for an individual when he or she is no longer capable of making them. Most states allow for a Living Will and a Health Care Power of Attorney to be combined into one document. The most important aspect of a Health Care Power of Attorney is the choice of your Agent, the one who will become your advocate when you are incapacitated. A good agent is one who knows your wishes and desires, shares your moral and ethical beliefs and will advocate for you when necessary. This could be your spouse, your children, a sibling or a good friend.

Heirs and Next of Kin
The terms heirs and next of kin, usually refer to the persons who by operation of law—the application of the established rules of law—inherit or succeed to the property of a person intestate on his or her death. Statutes generally confer rights of inheritance only on blood relatives, adopted children, adoptive parents, and the surviving spouse.

HELOC
HELOC is an acronym for Home Equity Line of Credit.

Home equity line of credit

A home equity line of credit is a loan in which the lender agrees to lend a maximum amount within an agreed period (called a term), where the collateral is the borrower's equity in his/her house. Because a home often is a consumer's most valuable asset, many homeowners use home equity credit lines only for major items, such as education, home improvements, or medical bills.

Homeowner's insurance

Homeowners insurance is a form of property insurance that is designed to protect an individual's home from damages to the house itself or to possessions in the home. It also covers personal liability and theft.

Homestead

Homestead is the dwelling house and its adjoining land where a family resides. Technically, and based on modern homestead exemption laws, it is an artificial estate in land, created to protect the possession and enjoyment of the owner against the claims of creditors by preventing the sale of the property for payment of the owner's debts so long as the land is occupied as a home.

Household income

Household income is the total income of all members of a household.

Inflation

Inflation is a persistent increase in the general price level of goods and services in an economy over a period of time.

Installment contract

In an installment contract the buyer makes a series of payments on certain dates or based on certain events.

Intangible property

Intangible property is non-physical or abstract property that does not have value itself, but represents something else. Stocks, bonds, franchises, patents and copyrights are all examples of intangible property.

Interest

Interest is money paid by the borrower to the lender for the use of the money, calculated as a percentage of the money borrowed and paid over a specified time. For saving and investing, interest is money paid to the saver or investor for use of the money.

Interest only loan
In an interest-only loan, the borrower pays only the interest on the principal balance, with the principal balance unchanged for a set term. At the end of the interest-only term the borrower may enter another interest-only loan, pay the principal, or (with some lenders) convert the loan to a principal and interest payment (or amortized) loan at his/her option.

Intestacy
Intestacy is a legal status arising as a result of dying without a valid Will. If a person dies without a will he is said to have "died intestate."

Investment income
Investment income is the gross income from property held for investment such as interest, dividends, annuities and royalties.

Investment Stewardship
Investment stewardship means including Catholic morals and values as a factor in deciding how to invest financial assets. Through investment screening, Catholics can be wise stewards of their financial blessings and avoid investing in companies and mutual funds which profit from or support abortion, pornography, anti-family entertainment, gambling and other morally objectionable conduct.

IRA (Individual Retirement Account)
An IRA allows individuals to deduct pretax income, up to specific annual limits, toward savings for retirement. Contributions to the traditional IRA may be tax-deductible depending on the taxpayer's income, tax filing status and other factors.

Irrevocable Trust
An Irrevocable Trust cannot be revoked or terminated by the person creating it. Life Insurance Trusts and Charitable Trusts are common types of irrevocable trusts.

Issue
Issue defines a group of individuals consisting of children, grandchildren, and others directly descending from a common ancestor.

Joint account
A joint account is owned by two or more persons, who share in the rights and liabilities of the account.

Joint credit
Joint credit issued to a couple based on both of their incomes, credit reports, and assets.

Joint liability
Joint liability is two or more people assuming responsibility to repay debt.

Joint tenants (with right of survivorship)
Joint tenants are two or more people who own a home, either as a joint tenants or tenants in common. Each individual owns a share (or interest) of the entire property. This means that specific areas of the house are not owned by any one individual, but instead, are shared as a whole. When joint tenants own a property, the property automatically gets transferred to the surviving owner(s) upon a joint tenant's death.

Judgment
A Judgment is a legal decision by a court that resolves controversy and determines the rights and obligations of the parties.

Late payment fee
A late payment fee is charged to the borrower for not making the payment on time.

Lease
A lease is an agreement where the property's owner allows a lessee to use the property in exchange for monies for a set amount of time. This may also pertain to an automobile where the lessee uses the vehicle for a set amount of time in exchange for lease payments. At the end of the lease period, the lessee gives the car back to the dealer or arranges to buy the automobile.

Lease option
A lease option is the right to buy property for a designated price at the end of the original lease period.

Lease to purchase contract
A lease to purchase contract is an option for a potential homebuyer in which they lease a property with the option to buy. The contract is often constructed so that the monthly payment will cover the owner's cost and a little extra, which is put into an account and used for a down payment at the end of the lease.

Legacy Will
A Legacy Will is a written statement included in a person's estate plan that contains testimony about their Catholic faith, values and morals. The Legacy Will is an inspirational statement that is read to a person's surviving family after he or she has passed away. The Legacy Will is a final expression of a Catholic's beliefs to their surviving family and helps pass on a lasting faith-based legacy to a person's loved ones.

Lessee
Lessee is the person who rents land or property from a lessor.

Lessor

Lessor is the owner of an asset that is leased under agreement to the lessee.

Liabilities
Liabilities are all of a borrower's debts and legal obligations.

Line of credit
A line of credit is the maximum amount a financial institution is committed to lend to a borrower during a designated time period.

Liquid assets
Liquid assets can be quickly converted into cash such as bank accounts, CD's, or bonds.

Living Trust
A living trust is a revocable legal document that, if properly implemented, will enable a person's property to be distributed to their surviving family without having to go through probate court. A living trust helps protect a family's financial security by avoiding estate shrinkage due to legal fees, court costs and, possibly estate taxes.

Living Will
A living will, also called a directive to physicians or advance directive, is a document that lets people state their wishes for end-of-life medical care, in case they become unable to communicate their decisions. A living will is a written, legal document that spells out medical treatments you would and would not want to be used to keep you alive, as well as other decisions such as pain management or organ donation.

Loan origination fee
A loan origination fee is assessed by the lender for underwriting a loan. This fee covers the time and preparation associated with the inception of a new loan.

Loan term
Loan period is the time in which the borrower has to repay the loan as specified in the original loan contract. Auto loans are typically four to six years, whereas mortgages typically have a loan term of fifteen to thirty years.

Loan to value ratio (LTV)
Loan to value ratio is the ratio of the loan to the value of the asset.

Market value
Market value is the highest price a willing buyer would pay and a willing seller would accept, both being fully informed, and the property being for sale for a reasonable time period.

Millage rate
Millage rate, or mill rate, refers to the amount per $1,000 that is used to calculate tax on property. The millage rate is multiplied by the total taxable value of the property to calculate the total property tax due.

MLS (Multiple Listing Service)
Multiple Listing Service is a suite of services used by real estate professionals to share information about property for sale.

Modification (loan modification)
A loan modification is a change to the terms and conditions of the loan or mortgage agreement.

Money market deposit account
A money market deposit account is offered by banks or credit unions, so it is FDIC insured. There is usually a minimum deposit amount and a limit on the number of monthly withdrawals.

Money market mutual fund
A money market mutual fund is offered by investment companies, which invest in short term paper debts, designed to produce high yields without the loss of capital. It is not FDIC insured.

Morally Responsible Investing
Morally responsible investing seeks prudent returns without compromising a person's moral values. Morally responsible investing typically avoids companies and mutual funds that profit from or promote abortion, pornography, anti-family entertainment, gambling and other morally objectionable conduct.

Mortgage
A mortgage is a debt instrument secured by real estate property. The terms mortgage loan and mortgage are used interchangeably.

Mortgage bond
A mortgage bond is a corporate debt instrument that is supported by real estate property collateral. Bondholders have a claim on the collateral property if the corporate borrower defaults.

Mortgage debt
Mortgage debt is the outstanding principal on a loan that's backed by residential real estate collateral.

Mortgage insurance (PMI)

Mortgage insurance protects lenders against defaults or losses from a borrower. Borrowers are required to carry Private Mortgage Insurance if their mortgage loan has loan-to-value ratio higher than 80 percent. Depending on the type of loan, the borrower will have to pay an initial premium and a monthly payment. The monthly payment will continue until the equity of the home is greater than 20 percent. Some mortgages may require mortgage insurance over the life of the loan.

Mortgage life insurance

Mortgage life insurance protects the borrower. It is a policy taken out specifically to pay off a mortgage on the property if the owner dies.

Mortgage Loan

A mortgage loan is a debt instrument secured by real estate property. The terms mortgage loan and mortgage are used interchangeably.

Mortgage refinance

A mortgage refinance is the option to pay off an old mortgage loan with a new one. This typically saves the borrower money in terms of a lower interest rate on the new loan.

Mutual fund

A mutual fund is a professionally managed portfolio of securities that builds capital by selling shares to investors. Mutual funds give the individual investor access to a diversified, regulated portfolio. The fund publishes its investment strategy and objective along with its historic performance in a prospectus. Gains or losses in the portfolio are shared by the shareholders/investors.

Negative amortization

Negative amortization occurs when the interest due on the loan is more than the monthly interest payments. The unpaid interest is added to the principal balance of the loan. In a negative amortization, the loan of the borrower increases and thus he ends up owing more than the original loan.

Negative equity

Negative equity occurs when the value of an asset securing a loan dips below the loan balance. For example, an individual could take out a mortgage loan to finance 100 percent of a home purchase. If the home’s value subsequently drops, (for example, due to recession) the homeowner would have negative equity. Selling the home would require the homeowner to pay out of pocket to cover the difference between the sales price and the loan balance.

Net worth
Net worth is the total sum of all of assets minus all debts. Assets include home, car, investments, etc. Debts include mortgages, car loans, credit cards balances, and other loans.

Overdraft
Overdraft occurs when withdrawals exceed an account's available balance of funds. The term is used interchangeably with "insufficient funds." Overdraft can also mean an immediate credit extension, such as when there are insufficient funds in an account and the bank must extend credit to cover pending drafts.

Overdraft protection
Overdraft protection is a service offered on checking accounts where the banking institution will pay presented checks, even if the funds available in the account are not sufficient to cover the check amount. There is usually a fee associated with overdraft protection, as well as a per-check fee, when an overdraft situation occurs.

Owner financing
Owner financing occurs when the financing for the purchase of a property is provided in whole or part by the seller.

Personal Representative
The institution or individual appointed to carry out the terms of a Will. (In some states this person is call the "executor.")

Planned Gift
A Planned Gift is a type of charitable gift that is usually done through a person's estate plan or other planned arrangement. This type of gift usually is put into place while a person is alive yet is carried out after the person passes away.

POA (Power of Attorney)
Power of attorney is a legal document that authorizes one person to act on behalf of another. There can be a general POA, granting complete authority or a specific POA for a specific act or a certain period of time.

Prepayment penalty
Prepayment penalty is a fee charged for payment of the full loan amount before the due date. There are often soft prepayment terms versus hard prepayment terms. Soft prepayment terms can allow prepayment without penalty under the terms of selling the home. Hard prepayment does not allow any exceptions without penalty.

Prime rate
The prime rate is the interest rate that a bank charges its most reliable customers who are the least likely to default on their loan.

Principal

Principal is the actual value of a mortgage or loan or the balance left on a loan, not taking into account any future interest accrual.

Principal, interest, taxes, insurance (PITI)

Principal, interest, taxes and insurance are different parts of a complete mortgage payment. Principal is the amount applied to the debt balance, interest is the monthly-accrued financing charge, taxes are pro-rated amounts applied to the annual tax bill, and insurance is the pro-rated amount for the homeowner's and/or mortgage insurance premiums.

Private mortgage insurance (PMI)

Private mortgage insurance protects lenders against defaults or losses from a borrower. Borrowers are required to carry Private Mortgage Insurance if their loan-to-value ratio is higher than 80 percent. Depending on the type of loan, the borrower will have to pay an initial premium and a monthly payment. The monthly payment will continue until the equity of the home is greater than 20 percent. Some mortgages may require mortgage insurance over the life of the loan.

Probate

Probate is a legal document. Receipt of probate is the first step in the legal process of administering the estate of a deceased person, resolving all claims and distributing the deceased person's property under a will. A probate court (surrogate court) decides the legal validity of a testator's (person's) will and grants its approval, also known as granting probate, to the executor. The probated will then becomes a legal instrument that may be enforced by the executor in the law courts if necessary. A probate also officially appoints the executor (or personal representative), generally named in the will, as having legal power to dispose of the testator's assets in the manner specified in the testator's will. However, through the probate process, a will may be contested.

Pro-life Health Care Declaration vs. (Pro-Euthanasia) Living Will

(see also Advanced Medical Directive, Healthcare [Surrogate] Power of Attorney)
Pro-life Health Care Declaration vs. a Living Will refer to very different documents that contain written instructions that a person gives to instruct their medical care providers as to the type of care they wish to receive.

Common forms of these types of instructions are Health Care Declarations, Advance Directives and Living Wills. These documents have very different outcomes due to the language typically found in the documents and the way these documents are used.

The Pro-Life Health Care Declaration is a document that seeks to ensure that the patient receives all necessary life-sustaining care, including food and water (nutrition and hydration). One of the primary objectives of the Pro-Life Health Care Declaration is to protect a person from euthanasia by ensuring that they die "from what ails them," i.e., their diagnosed illness or condition, rather than being dehydrated or starved by the hospital they have been admitted to.

On the other hand, a Living Will usually contain instructions that the care provider can stop providing a patient food and water (through intravenous means) thereby resulting in an accelerated death of the patient due to starvation or dehydration. The Living Will is often described as a Pro-Euthanasia document since the euthanasia lobby originated it with the goal of giving the patient the right to choose an accelerated death by euthanasia.

Property tax

Property tax is assessed by the state or local government on real estate and personal property. Amount varies depending on the property's value and the various services provided to the property. Property taxes are most commonly paid into an escrow account and the lender is responsible for paying the tax bill when it is due.

Purchase agreement

A purchase agreement is a contract in which the buyer and seller approve the price and other terms of the transfer of title. This contract is required when applying for the loan. It can also be called an agreement of sale, a purchase contract or a sale contract.

Quitclaim deed

A quitclaim deed is a legal instrument by which the owner of a piece of real property, called the grantor, transfers his or her interest to a recipient, called the grantee. The owner/grantor terminates ("quits") his or her right and claim to the property, thereby allowing claim to transfer to the recipient/grantee.

Real property

Real property is any subset of land to which improvements (such as a home) have been made.

Reverse mortgage (Reverse-annuity mortgage)

A reverse mortgage is a type of loan that allows senior homeowners to access the equity in their homes without income or credit qualifications. There are no payments due until the borrower moves out of the home, dies, or the property is sold. An elderly homeowner is allowed a long-term loan in the form of monthly payments against his or her paid-off equity as collateral, repayable when the home is eventually sold.

Revocable trust

Revocable trust is a legal entity created to hold assets that allows the grantor of the trust to make changes to certain trust provisions. Income generated by trust assets is usually distributed to the grantor during their lifetime; after the grantor passes away, the assets are distributed to the trust beneficiaries.

Right of first refusal

Right of first refusal is an agreement by an owner to give a specific individual the opportunity to buy the property before offering it to anyone else.

Right of rescission

The right of rescission law allows a borrower to change their mind and cancel a mortgage loan, mortgage refinance or home equity line of credit within three business days. In specific situations it also applies to other (but not all) consumer transactions.

Roth IRA

A Roth IRA is a type of tax advantaged retirement savings account available in the US. Contributions to a Roth IRA are made with after tax money, but earnings and qualified withdrawals are tax-free. Qualified withdrawals cannot be made until the account has been opened for five years or the account holder reaches age $59^{1/2}$. Roth IRA's are subject to income and annual contribution limits.

Rule of 72

The rule of 72 is a means of estimating how many years it will take to double an investment earning a certain interest rate. To make the calculation, divide the number 72 by the compound interest rate. For example, a 10 percent interest rate will double an investment in approximately 7.2 years.

Savings account

A savings account is a bank or credit union deposit that earns interest and can be withdrawn on demand.

Second mortgage

A second mortgage is a mortgage made subordinate to the first one. In bankruptcy, the lenders of the second mortgage are paid after the first mortgage is paid in full.

Secured debt

A secured debt is a loan that's supported by collateral. Mortgages are secured because the lender takes a lien on the property and has the right to foreclose in a default situation. Auto loans are also secured because the lender takes a lien on the vehicle.

Short-term bond fund
A short-term bond fund is a mutual fund that invests in debt securities that mature in five years or less.

Signature loan
A signature loan is an unsecured personal loan. This type of loan is made on the strength of the borrower's credit rating and history, and no collateral is pledged. An unsecured loan means the lender relies on the borrower's promise to pay it back.

Simple interest
Simple interest is computed only on the principal balance, without adding the accrued interest to the principal balance.

Speculation home or spec home or built on spec
Speculation home, spec home, and built on spec, all refer to a home that is built before a buyer is secured. The developer makes the investment to build the home on the assumption that a buyer will be found.

Stewardship Based Estate Planning
Stewardship Based Estate planning enhances traditional estate planning by including strategies that reflect a person's Catholic values.

Subprime borrower
A subprime borrower is a debtor who has a low credit score.

Subprime lender
A subprime lender is a financial institution that specializes in making loans to subprime borrowers. Subprime lenders charge a higher interest rate on these loans, because there is a high risk of default.

Subrogate
To subrogate is to substitute one party for another with respect to a legal claim. When a collection agency takes responsibility for a debt on behalf of a client, for example, subrogation occurs.

Tax deferred
Tax deferred earnings and income are not taxable when earned, but will be at a later date. This is most common in retirement plans distributions.

Tax exempt
The portion of an individual’s income that is not taxable or subject to tax is tax exempt.

Tax-free money market mutual fund
A Tax-free money market mutual fund is a diversified investment fund that invests only in short-term, tax-exempt securities. These funds are usually purchased through brokers and provide income that is free from federal tax liability.

Tax-sheltered annuity
Tax-sheltered annuity is a type of retirement planning instrument available to employees of tax-exempt organizations. Contributions are tax-deductible and earnings within the annuity are not taxed until withdrawn.

Tenancy by the Entirety
Tenancy by the entirety, or TBE, is a property ownership arrangement used in some states by married couples. If the couple owns a home as tenants by the entirety, neither one of them can dispose of his or her ownership interest, and when one co-owner dies, ownership automatically transfers to the surviving co-owner.

Tenancy in Common
Tenancy in common is a co-ownership arrangement that gives each owner the right to have his ownership interest transferred, upon his death, to a beneficiary. While living, both owners have an equal right to use the property. (See Joint Tenants)

Term deposit
Term deposit is a savings product that cannot be withdrawn until a specified amount of time has passed. The most common term deposit is a CD, which pays a higher yield than a savings account.

Testamentary trust
Testamentary trust is a property ownership arrangement that is established according to instructions within a will, and after the grantor has died. Generally, the trust will hold the decedent’s property. An appointed executor must manage the property and make distributions to beneficiaries in accordance with the grantor’s wishes.

Testate
If a person has a valid will, they are said to die testate, meaning they have spelled out their intentions completely and legally in their last will and testament.

Testator/Testatrix
A testator/testatrix is a person who has written and executed a last will and testament that is in effect at the time of his/her death. It is any person who makes a will.

Treasury bill or Treasury note (T-bill)
A treasury bill, or treasury note, is a short-term debt security that is issued and backed by the US government. Treasury bills are sold at a discount, so that the value of the bond increases as the maturity date approaches. Investors realize yield by purchasing the bond at a discount, and then selling it for a higher price at a later date.

Trust
A trust is similar to a will, which is used by an individual to transfer valuables or assets to a trustee who manages the property for the benefit of the beneficiary.

Truth-in-lending act
The truth-in-lending act requires disclosure of the terms and conditions of loan terms and conditions, charges and annual percentage rate (APR) in writing as required by the federal law.

Umbrella insurance
Umbrella insurance refers to liability insurance that is in addition to other policies. Umbrella policies are usually made in addition to a homeowners and automobile insurance. The term “umbrella” refers to the broad coverage of the policy.

Unsecured loan
An unsecured loan is any type of debt that is not secured by collateral.

Upside down
Consumers are upside down when they find themselves in a position where the outstanding balance of a loan is higher than the current fair market value of the asset.

Usury
Usury is illegal and excessive interest.

Variable rate mortgage
A variable rate mortgage has an interest rate, which changes periodically based on a financial index. Also referred to as an adjustable-rate mortgage.

Wealth management
Wealth management is a comprehensive planning service that incorporates all aspects of personal finance, such as tax planning, estate planning, investment planning, legal planning, etc.

Will
A will is a legally binding document in which an individual specifies how he would like his property distributed after his death. The will can also specify a guardian for dependents and an executor for the estate.

Workout
A workout is a mortgage in which basic terms: interest rate, term and monthly payment have been altered to prevent a foreclosure

Zeros or Zero-coupon CDs
Zeros, or zero-coupon CDs, are time deposits that pay interest at maturity, rather than at regular intervals.