A Glossary of Bank Terms

Below you will find key words and definitions to help you better understand the terms used in the financial services industry.

ABA – American Bankers Association.

Account Ownership – There are a number of different types of account ownership:

Sole Owner – Account owned by one person.

Joint Owner – Two or more people share equal ownership of an account.

Beneficiary – The person or trust who would inherit an account.

Authorized Signer – A person who can write checks, and make deposits and withdrawals from an account. The amount of control the person has over the account depends on how the account was set up initially.

Co-Signer – Has responsibility for repayment of a loan if primary borrower does not pay.

Guardian – Has the legal authority to manage a person’s account.

Conservator – Appointed by the court to manage the affairs of a person who can no longer manage their own.

Accrued Interest – Interest that has been earned but not yet paid.

Adjustable-Rate Mortgages (ARMS) – Also known as variable-rate mortgages. The initial interest rate is usually below that of conventional fixed-rate loans. The interest rate may change over the life of the loan as market conditions change. There is typically a maximum and a minimum defined in the loan agreement. If interest rates rise, so does the loan payment. If interest rates fall, the loan payment may as well.

Amortization – The process of reducing debt through regular installment payments of principal and interest that will result in the payoff of a loan at its maturity.

Amortization Schedule – Shows your payments, including the amount of principal paid and the amount of interest paid, over the loan schedule.

Annual Percentage Rate (APR) – The cost of credit on a yearly basis, expressed as a percentage. The Annual Percentage Rate (APR) is NOT the rate of interest you pay on your loan. It represents the actual cost of the loan when calculating certain finance charges you're paying to get the loan and the interest rate. This is designed to protect borrowers from thinking they are getting a lower rate when they may very well be paying exorbitant fees.

Annual Percentage Yield (APY) – A percentage rate reflecting the total amount of interest paid on a deposit account based on the interest rate and the frequency of compounding for a 365-day year.

Appraisal – The act of determining the value of a property by an outside source. Common in real estate transactions.

Automated Clearing House (ACH) – Used by member banks to electronically distribute interbank credits and debits. For instance, if you are being paid automatically by your employer, electronically taking the money from your employer's account and then putting the money in your account is an example of ACH.

Available Balance – Available balance is the money you have available in your account. It doesn't include any transactions you may have made that have yet to post to your checking, savings or line of credit account.

Balloon Loan – A balloon loan usually offers lower payments through the life of the loan, with a large amount of money being due at the end of the loan term.

Book Balance – The amount of money available before any adjustments are made for deposits in transit, checks that have not cleared and interest on float funds.

Book Value – A company's total assets minus liabilities and intangible assets. In other words, what a company would have remaining in assets if it went out of business today.

Bridge Loan – Also known as a "Swing Loan." It helps you bridge the gap when you have more than one obligation. It is usually a loan made against the current home, which has not yet been sold, to fund the down payment on a new home. The loan gets paid when the first home is sold. It is typical in real estate.

Business Gross Income – All business sales less the cost of goods sold.

Business Net Income – It is what remains after all costs are subtracted from Gross Income. Often called "earnings" or "profit."

Cash-out refi – Cash out refinance. Takes your current mortgage balance and allows you to borrow up and above that based on the amount of equity you have in your home, with you getting the extra money for use. It is more common in low interest rate environments. The money can be used for anything.

CD – Certificate of Deposit. Shorter to medium length deposit with a financial institution that draws interest. These are set for a specific term and have a specific maturity date, where if you withdraw the funds early, you would pay a penalty. Compared to savings account, you typically get more interest, but you don't have immediate access to your funds.

Closed-End Loan – Generally, any loan in which the loan, plus any finance charges including interest, is expected to be repaid in full by a specified date. Most real estate and automobile loans are closed-end. Also known as an installment loan.

Collateral – Simply, these are assets pledged by a borrower to secure a loan. In the case of default, these assets can be taken by the lender.

Commercial Loan/Lending – Loans to businesses.

Community Reinvestment Act – Encourages banks to help meet the credit needs of the communities in which they operate, including low- and moderate-income neighborhoods.

Compounding Interest – Where interest is paid on the principal and the accumulated interest.

Co-Borrower – A person who is borrowing the money with you, who has an equal obligation and receives an equal benefit for the loan. As in a mortgage loan to two homeowners.

Construction Loan – A loan to a buyer or builder that allows for the construction/purchase of a property. The construction loan is short-term and the loan is often converted to permanent financing at the end of the construction period.

Consumer Gross Income – Gross income is a person's income from all sources before deducting allowable expenses. Adjusted gross income is that income after standardized deductions are allowed.

Consumer Lending – Loans to people for things like boats, cars, includes a Home Equity Line of Credit (HELOC).

Consumer Net Income – For an individual, net income is what is left after deducting allowable expenses from Gross Income.

Correspondent Bank – By definition, this is a bank that performs services for another bank. It is often used in mortgages.

Correspondent Banking – Where one bank helps another with their business. This may be a bigger bank helping a smaller with a mortgage, allowing the smaller bank to offer its customers mortgage products, allowing the smaller bank to leverage the rates and terms of the bigger bank. Mortgage loans go through a correspondent underwriting process to determine if they are acceptable. The larger bank can benefit by receiving fees for servicing the loan.

Credit – Credit has several definitions, depending on the use. A credit can be a deposit to a checking or savings account. A credit can also be a payment on a loan.

Credit Bureau – A company that reports your credit history to potential lenders. There are three major credit bureaus: Equifax, Experian and TransUnion.

Credit Card – Open-ended or revolving loan used to buy goods or services. When the amount borrowed has been repaid, it may be used again.

Credit Life Insurance – An insurance policy that pays a borrower's debt if he or she dies.

Credit Limit – The amount of credit extended to a consumer. This can be by a bank, or credit card, or other business.

Credit Line – The amount of credit extended to a specific borrower. Common with banks and customers. Vendors also extend lines of credit to customers. With a revolving line of credit, the borrower may use it repeatedly, and may pay back all or part of the loan at any one time. The loan continues to be funded as long as the amount being borrowed is under the credit limit and is prior to the credit line's maturity date, if applicable.

Credit Report – A report that details your credit, including detailing loans, credit card payments, late payments and delinquency. As a consumer, the law provides that you are entitled to a free credit report from each of the three nationwide consumer credit reporting bureaus -- Equifax, Experian, and TransUnion. Consumers can request a credit report at AnnualCreditReport.com.

Credit Score – A credit score is a number usually between 300 and 850 that represents an individual's creditworthiness. The higher the number, the better your credit. Your credit score can determine whether or not you will receive a loan and may influence the rate you will be charged for the loan.

DDA – Demand Deposit Account. Otherwise known as your checking account. A place where you can withdraw available funds immediately.

Debit – Takes money out of an account, like in using a debit card. Writing a check is a debit to your checking account.

Debt-to-Income Ratio (DTI) – The total amount of fixed monthly expenses divided by monthly gross income. Monthly fixed expenses would include expenses like a house payment, credit card balances that would take more than six months to pay off, car payments and support payments. Payments that would be paid off in several months or less would not be included, expenses like groceries, telephone bill and utility bills.

Delinquency – Failing to make a loan payment on time.

Direct Debit – Where a customer gives a bank the authority to directly pay a bill to a third party. This is commonly done with recurring payments.

Direct Deposit – An automatic deposit from someone like an employer into your checking or savings account. Usually done through the ACH (Automated Clearing House) network.

Discount Points (Points) – Usually fees a lender charges a borrower to help the borrower receive a lower interest rate.

Electronic Banking – Now common, allowing consumers to bank using their computers, tablet devices and other electronic devices. Also known as “Online Banking.”

Electronic Funds Transfer (EFT) – Any transfer of funds that is initiated by electronic means, such as computer, telephone, ATMs or point of sale.

Escheat – Reversion of real or personal property to the State when 1) a person dies without leaving a will and has no heirs, or 2) when the property (such as a bank account) has been inactive for a certain period of time.

Escrow – Held by impartial party on behalf of the parties in a transaction. Securities, funds, and other assets can be held in escrow. An escrow can be held by a third party for delivery to a participating party at the completion of certain conditions. They can be held/collected by a financial institution for the purpose of paying taxes and insurance on a home loan.

Escrow Analysis – Periodic examination of escrow accounts by a mortgage holder to verify that monthly deposits are sufficient to pay taxes, insurance, and other escrow-related items.

Escrow Funds – Funds held in reserve by a mortgage holder to pay taxes, insurance, and other mortgage-related items when due.

Equal Housing Lender – A federal designation that prohibits lenders from discriminating for any reason in regards to home loans.

Equity – The amount of value that a homeowner owns in his/her home. In terms of the mortgage, it is the home’s value minus the amount of the mortgage loan outstanding.

Fair and Accurate Credit Transactions Act of 2003 (FACT Act or FACTA) – The purpose of this Act is to help consumers protect their credit identities and recover from identity theft. One of the key provisions of this Act is that consumers can request and obtain a free credit report once every 12 months from each of the three nationwide consumer credit reporting companies (Equifax, Experian, and TransUnion). AnnualCreditReport.com provides consumers with the secure means to request their free credit report.

Fair Credit Reporting Act (FCRA) – A Federal law that gives consumers the right to see their credit records.

FDIC – Federal Deposit Insurance Corporation – A federal agency that insures the deposits of consumers and businesses in member financial institutions.

FDIC Insurance – The coverage given to consumers and businesses by the FDIC to protect the funds in consumer or business deposit accounts, up to a certain limit, in the event a financial institution becomes insolvent.

Federal Reserve Bank – Comprised of 12 regional banks. Maintains reserves and lends money to member banks. Helps to set monetary policy for the country.

Fiduciary – A Fiduciary acts as executor, administrator, guardian, conservator, or trustee for a family trust, authorized trust, or testamentary trust, or receiver or trustee in bankruptcy.

Financial Regulatory Agency – An organization authorized by statute to ensure the safe and sound operation of financial institutions chartered to conduct business under that agency's jurisdiction. The primary regulators are the following:

- OCC (Office of the Comptroller of the Currency)
- FDIC (Federal Deposit Insurance Corporation)
- FRB (Federal Reserve Board)
- NCUA (National Credit Union Administration)
- State regulatory agencies

Foreclosure – When a homeowner’s legal rights to the property are terminated. Usually caused by default on a mortgage loan.

Foreign Transaction Fee – A fee assessed by your bank for making a transaction at another bank's ATM.

Frozen Account – This is an account on which funds may not be withdrawn until a lien is satisfied and a court order or other legal process makes the account available. An account may also be frozen when there is a dispute regarding the true ownership of an account until legal action can determine the lawful owner.

Guarantor – A party who agrees to be responsible for the payment of another party's debts should that party default.

Holding Company – A company that owns controlling interest in a number of companies or financial institutions. For example, banks under different charters in different locations are often owned by a holding company.

HELOC – Home Equity Line of Credit. Credit secured by equity in a borrower’s home. Funds can be used for any number of purposes. This is an open-ended, or revolving, line of credit.

Home Equity Loan (Second Mortgage) – Closed-end credit with fixed interest rate and fixed term. It is secured by equity in a borrower’s home.

Interest – Simply, interest is the cost of using funds. The bank will pay you for using your funds, and you will pay the bank for using its funds. A consumer will most likely both receive and pay interest. Interest is routinely received by a consumer on savings accounts, some checking accounts, CDs and other deposit accounts as well. A consumer may pay interest on mortgages, consumer loans, credit cards and more.

Lien – A legal claim against an asset that has been used to secure a loan.

Loan Servicing – The administration of a loan from the time funds are disbursed to the time the loan is paid off. This includes collecting payments, applying principal and interest, and managing escrows.

Loan to Value – The Loan-to-Value (or LTV) represents the percentage of your loan in comparison to the value of your collateral. To get this figure, you divide the loan amount by the value. Example: $100,000 loan divided by $120,000 collateral value = a loan-to-value of 83.33%. Generally, the lower the LTV, the more favorable the loan terms offered by lenders. LTV is used as a term in business, consumer and mortgage loans.

Mobile Banking – Banking through using your mobile phone or other mobile devices. This gaining in popularity.

Mortgage – Technically, a mortgage is a filed document secured by the collateral of a specific real estate property, such as a home or place of business.

Mortgage Loan – A loan to purchase or refinance real estate. Usually at a set rate for a set period of time. A closed-end loan.

Note – A note is a legal document that obligates a borrower to pay back a loan. Often used interchangeably with loan.

NSF – Non-sufficient funds. When an account holder has non-sufficient funds in his/her checking account to cover the amount of the check.

Offset, Right of – Banks' legal right to seize funds that a guarantor or debtor may have on deposit to cover a loan in default.

Online Bill Payment – Paying bills through Online Banking. Payments can be set to automatically recur, or can be used one time to pay bills. Often used to pay credit card and utility bills. Saves time and mailing costs.

Open-End Credit – Allows a customer to borrow against a preapproved credit line when purchasing goods and services. The borrower is only billed for the amount that is actually borrowed plus any interest due. Also called a revolving line of credit. Examples may include a credit card, home equity line of credit, overdraft line of credit, or business operating line of credit.

Origination fee – A loan fee charged by banks to help cover bank processing costs. In a mortgage loan, for instance, the origination fee is often 1%. So, if you have a $100,000 loan, your origination fee would be $1,000.

"P & I" – Principal and interest. This refers to a loan payment that includes both the principal on the loan and the interest on the loan.

"PITI" – Principal, interest, taxes and insurance. Refers to payment that includes all of these. The tax and insurance amount will be held in escrow.

Periodic Rate – This is the interest rate described in relation to a specific amount of time. The monthly periodic rate, for example, is the cost of credit per month.

Private Mortgage Insurance (PMI) – Private insurance that protects the bank against loss on a defaulted mortgage up to the limit of the policy (usually 20 to 25 percent of the loan amount.) The borrower pays the insurance premium upfront or monthly.

Rate Lock – A guarantee by a lender to offer a specific rate to a borrower over a set period of time.

Refinance – Paying off an existing loan with the proceeds from a new loan. The appeal comes from when the savings in interest for the new loan is more than the fees for the loan.

Real Estate Settlement Procedures Act (RESPA) – RESPA is a federal law that, among other things, requires lenders to provide "good faith" estimates of settlement costs and make other disclosures regarding a mortgage loan.

Residual Interest – Interest that continues to accrue on your credit card balance from the statement cycle date until the bank receives your payment. This amount is posted on your next statement.

Reverse Mortgage – A reverse mortgage is a special home loan product that allows a homeowner aged 62 or older to access the equity that has accumulated in their home. The home itself will be the source of repayment. The loan is underwritten based on the value of the collateral (home) and the life expectancy of the borrower. The loan must be repaid when you die, sell your home, or no longer live there as your principal residence.

Right of Rescission – Right to cancel, within three business days, a loan that uses a person's primary residence as collateral, except in the case of a purchase money loan.

Routing Number – A routing number that identifies your bank in the Federal Reserve System. It is nine digits long. You will see it on checks.

Secondary Market Loan – Where a mortgage note is resold by the original lender to an investor, such as Fannie Mae or Freddie Mac. The owner of the debt is not the original lender.

Secured Loan – A loan where a borrower pledges some sort of asset as collateral for the loan, such as a vehicle or a property.

SBA Loan – Small Business Administration Loan. Includes a number of different types of loans and loan programs. Available to small businesses.

Short Sale – In real estate, a short sale means selling the home for less than the existing amount of the mortgage.

Stop payment – Direction from an account holder to a bank not to honor a debit.

Target Account Balance – The balance a person or business must keep in a deposit account to avoid a service charge.

Title Insurance – Protects the lender/owner of a property against loss in the case of a property dispute. Often required by lending institutions when issuing a mortgage.

Trust Account – A certain type of account ownership. Generally, it is set up for the benefit of others. This may be managed by a trust department or a trustee.

Truth in Lending Act (TILA) – The Truth in Lending Act is a Federal law, requiring lenders to provide standardized information so that borrowers can compare loan terms.

UCC – Uniform Commercial Code (UCC). Laws regulating commercial transactions.

Underwriting – The process by which a lender determines if a loan meets credit criteria.

Unsecured Loan – This loan is not secured by any sort of collateral, and is instead given solely on the basis of the borrower's good credit.

Usury Rate – It is the maximum rate of interest lenders may charge. The usury rate is generally set by State law.

Wire Transfer – An electronic transfer of funds from one point to another. Funds can be transferred between accounts at different financial institutions in different states or different countries that have been approved to transfer funds in this manner.