Dictionary of Banking Terms and Phrases

U.S. Department of the Treasury

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A

Account Agreement:

The contract governing your open-end credit account, it provides information on changes that may occur to the account.

Account History:

The payment history of an account over a specific period of time, including the number of times the account was past due or over limit.

Account Holder:

Any and all persons designated and authorized to transact business on behalf of an account. Each account holder's signature needs to be on file with the bank. The signature authorizes that person to conduct business on behalf of the account. See also Joint Account Holder.

Accrued Interest:

Interest that has been earned but not yet paid. See also Interest-Bearing Accounts and FDIC Insurance.

Acquiring Bank:

In a merger, the bank that absorbs the bank acquired. See also Acquiring Bank.

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 (or ceiling) and a minimum (or floor) defined in the loan agreement. If interest rates rise, so does the loan payment. If interest rates fall, the loan payment may as well. See also ARMs - Variable Rate Feature.

Adverse Action:

Under the Equal Credit Opportunity Act, a creditor's refusal to grant credit on the terms requested, termination of an existing account, or an unfavorable change in an existing account. See also Credit Disputes.

Adverse Action Notice:

The notice required by the Equal Credit Opportunity Act advising a credit applicant or existing debtor of the denial of their request for credit or advising of a change in terms considered unfavorable to the account holder. See also Credit Disputes.

Affidavit:

A sworn statement in writing before a proper official, such as a notary public. See also Credit Disputes and Forgery and Fraud.

Alteration:

Any change involving an erasure or rewriting in the date, amount, or payee of a check or other negotiable instrument. See also Alteration.

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.

Annual Percentage Rate (APR):

The cost of credit on a yearly basis, expressed as a percentage. See also APR Change in Term and Other Changes in Term.

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. See also APY and APY for Index-linked CDs.

Application:

Under the Equal Credit Opportunity Act (ECOA), an oral or written request for an extension of credit that is made in accordance with the procedures established by a creditor for the type of credit requested. See also Loan Application.

Appraisal:

The act of evaluating and setting the value of a specific piece of personal or real property. See also Appraisal and Appraisal Cost.

Authorization:

The issuance of approval, by a credit card issuer, merchant, or other affiliate, to complete a credit card transaction. See also Authorization and Pre-authorization.

Automated Clearing House (ACH):

A computerized facility used by member depository institutions to electronically combine, sort, and distribute inter-bank credits and debits. ACHs process electronic transfers of government securities and provided customer services, such as direct deposit of customers' salaries and government benefit payments (i.e., social security, welfare, and veterans' entitlements), and preauthorized transfers.

Automated Teller Machine (ATM):

A machine, activated by a magnetically encoded card or other medium, that can process a variety of banking transactions. These include accepting deposits and loan payments, providing withdrawals, and transferring funds between accounts. See also ATM/Debit card.

Automatically Protected:

As of May 1, 2011, up to two months of Federal benefits such as Social Security benefits, Supplemental Security Income benefits, Veteran's benefits, Railroad Retirement benefits, and benefits from the Office of Personnel Management that are direct deposited to an account may be protected from garnishment. The amount automatically protected will depend upon the balance of the account on the day of review. See also Garnishments.

Automatic Bill Payment:

A checkless system for paying recurring bills with one authorization statement to a financial institution. For example, the customer would only have to provide one authorization form/letter/document to pay the cable bill each month. The necessary debits and credits are made through an Automated Clearing House (ACH).

Availability Date:

Bank's policy as to when funds deposited into an account will be available for withdrawal. See also Funds Availability Date.

Availability Policy:

Bank's policy as to when funds deposited into an account will be available for withdrawal. See also Funds Availability.

Available Balance:

The balance of an account less any hold, uncollected funds, and restrictions against the account. See also Available Balance and Positive Balance.

Available Credit:

The difference between the credit limit assigned to a cardholder account and the present balance of the account. See also Available Credit.

B

Balance Transfer:

The process of moving an outstanding balance from one credit card to another. This is usually done to obtain a lower interest rate on the outstanding balance. Transfers are sometimes subjected to a Balance Transfer Fee. See also Balance Transfers.

Bank Custodian:

A bank custodian is responsible for maintaining the safety of clients' assets held at one of the custodian's premises, a sub-custodian facility or an outside depository. See also Asset Management - Bank Custodians.

Bank Examination:

Examination of a bank's assets, income, and expenses-as well as operations by representatives of Federal and State bank supervisory authority-to ensure that the bank is solvent and is operating in conformity with banking laws and sound banking principles.

Bank Statement:

Periodically the bank provides a statement of a customer's deposit account. It shows all deposits made, all checks paid, and other debits posted during the period (usually one month), as well as the current balance.

Banking Day:

A business day during which an office of a bank is open to the public for substantially all of its banking functions. See also Banking Day.

Bankrupt:

A bankrupt person, firm, or corporation has insufficient assets to cover their debts. The debtor seeks relief through a court proceeding to work out a payment schedule or erase debts. In some cases, the debtor must surrender control of all assets to a court-appointed trustee.

Bankruptcy:

The legal proceedings by which the affairs of a bankrupt person are turned over to a trustee or receiver for administration under the bankruptcy laws. There are two types of bankruptcy:

- Involuntary bankruptcy-one or more creditors of an insolvent debtor file a petition having the debtor declared bankrupt.
- Voluntary bankruptcy-the debtor files a petition claiming inability to meet financial obligations and willingness to be declared bankrupt.

Beneficiary:

A person who is entitled to receive the benefits or proceeds of a will, trust, insurance policy, retirement plan, annuity, or other contract. See also Beneficiary.

Billing Cycle:

The time interval between the dates on which regular periodic statements are issued. See also Billing Cycle days and Fees during the Billing Cycle.

Billing Date:

The month, date, and year when a periodic or monthly statement is generated. Calculations have been performed for appropriate finance charges, minimum payment due, and new balance.

Billing Error:

A charge that appears on a periodic statement associated with an extension of credit (e.g., credit card) that

- was not authorized by the cardholder or the cardholders' designee,
- is not properly identified, and
- was not accepted by the cardholder or the cardholder's designee.

A billing error can also be caused by a creditor's failure to credit a payment or other credit to an account as well as accounting and clerical errors. See also Credit Card Disputes.

Bond, U.S. Savings:

Savings bonds are issued in face value denominations by the U.S. Government in denominations ranging from $50 to $10,000. They are typically long-term, low-risk investment tools. See also Savings Bonds.

Business Day:

Any day on which offices of a bank are open to the public for carrying on substantially all of the bank's business. See also Credit Card Business Day.

C

Canceled Check :

A check that a bank has paid, charged to the account holder's account, and then endorsed. Once canceled, a check is no longer negotiable.

Cashier's Check:

A check drawn on the funds of the bank, not against the funds in a depositor's account. However, the depositor paid for the cashier's check with funds from their account. The primary benefit of a cashier's check is that the recipient of the check is assured that the funds are available. See also Cashier's Checks.

Cease and Desist Letter:

A letter requesting that a company stops the activity mentioned in the letter.

Certificate of Deposit:

A negotiable instrument issued by a bank in exchange for funds, usually bearing interest, deposited with the bank. See also Certificates of Deposit.

Certificate of Release:

A certificate signed by a lender indicating that a mortgage has been fully paid and all debts satisfied, also known as release of lien. See also Release of Lien.

Certified Check:

A personal check drawn by an individual that is certified (guaranteed) to be good. The face of the check bears the words "certified" or "accepted," and is signed by an official of the bank or thrift institution issuing the check. The signature signifies that

- the signature of the drawer is genuine, and
- sufficient funds are on deposit and earmarked for payment of the check.

Charge-off:

The balance on a credit obligation that a lender no longer expects to be repaid and writes off as a bad debt. See also Charge Off.

Check:

A written order instructing a financial institution to pay immediately on demand a specified amount of money from the check writer's account to the person named on the check or, if a specific person is not named, to whoever bears the check to the institution for payment.

Check 21 Act:

Check 21 is a Federal law that is designed to enable banks to handle more checks electronically, which is intended to make check processing faster and more efficient. Check 21 is the short name for the Check Clearing for the 21st Century Act, which went into effect on October 28, 2004. See also Check 21.

Check Truncation:

The conversion of data on a check into an electronic image after a check enters the processing system. Check truncation eliminates the need to return canceled checks to customers. See also Check 21.

Checking Account:

A demand deposit account subject to withdrawal of funds by check.

ChexSystems:

The ChexSystems, Inc. network is comprised of member financial institutions that regularly contribute information on mishandled checking and savings accounts to a central location. ChexSystems shares this information among member institutions to help them assess the risk of opening new accounts.

ChexSystems only shares information with the member institutions; it does not decide on new account openings. Generally, information remains on ChexSystems for five years. See also ChexSystems.

Closed-End Credit :

Generally, any credit sale agreement in which the amount advanced, plus any finance charges, is expected to be repaid in full by a specified date. Most real estate and automobile loans are closed-end agreements. See also Closed-end Credit.

Closed-End Loan:

Generally, any loan in which the amount advanced, plus any finance charges, is expected to be repaid in full by a specified date. Most real estate and automobile loans are closed-end agreements. See also Consumer Loans and Mortgages.

Closing a Mortgage Loan:

The consummation of a contractual real estate transaction in which all appropriate documents are signed and the proceeds of the mortgage loan are then disbursed by the lender.

Closing Costs:

The expenses incurred by sellers and buyers in transferring ownership in real property. The costs of closing may include the origination fee, discount points, attorneys' fees, loan fees, title search and insurance, survey charge, recordation fees, and the credit report charge. See also CFPB Settlement Cost Booklet (PDF).

Collateral:

Assets that are offered to secure a loan or other credit. For example, if you get a real estate mortgage, the bank's collateral is typically your house. Collateral becomes subject to seizure on default. See also Insurance and Mortgages.

Collected Funds:

Cash deposits or checks that have been presented for payment and for which payment has been received. See also Collected Funds.

Collection Agency:

A company hired by a creditor to collect a debt that is owed. Creditors typically hire a collection agency only after they have made efforts to collect the debt themselves, usually through letters and telephone calls. You may also wish to visit the CFPB or the FTC web sites.

Collection Items:

Items-such as drafts, notes, and acceptances-received for collection and credited to a depositor's account after payment has been received. Collection items are usually subject to special instructions and may involve additional fees. Most banks impose a special fee, called a collection charge, for handling collection items.

Collective Investment Funds (CIFs):

A Collective Investment Fund (CIF) is a trust created and administered by a bank or trust company that commingles assets from multiple clients. The Federal securities laws generally require entities that pool securities to register those pooled vehicles (such as mutual funds) with the SEC. However, Congress created exemptions from these registration requirements for CIFs so long as the entity offering these funds is a bank or other authorized entity and so long as participation in the fund is restricted to only those customers covered by the exemption. If these limitations are met, CIFs are exempt from SEC registration and reporting requirements. See also Collective Investment Funds.

Comaker:

A person who signs a note to guarantee a loan made to another person and is jointly liable with the maker for repayment of the loan. (Also known as a Cosigner.)

Community Reinvestment Act:

The Act is intended to encourage depository institutions to help meet the credit needs of the communities in which they operate, including low- and moderate-income neighborhoods. It was enacted by the Congress in 1977.

Consumer Credit Counseling Service:

A service which specializes in working with consumers who are overextended with debts and need to make arrangements with creditors.

Consumer Reporting Agency:

An agency that regularly collects or evaluates individual consumer credit information or other information about consumers and sells consumer reports for a fee to creditors or others. Typical clients include banks, mortgage lenders, credit card companies, and other financing companies. See also Credit Disputes.

Conventional Fixed Rate Mortgage:

A fixed-rate mortgage offers you a set interest rate and payments that do not change throughout the life, or "term," of the loan.

A conventional fixed-rate loan is fully paid off over a given number of years-usually 15, 20, or 30. A portion of each monthly payment goes towards paying back the money borrowed, the "principal"; the rest is "interest."

Cosigner:

An individual who signs the note of another person as support for the credit of the primary signer and who becomes responsible for the obligation. (Also known as a Comaker.) See also Cosigner.

Credit Application:

A form to be completed by an applicant for a credit account, giving sufficient details (residence, employment, income, and existing debt) to allow the seller to establish the applicant's creditworthiness. Sometimes, an application fee is charged to cover the cost of loan processing. See also Credit or Loan Application.

Credit Bureau:

An agency that collects individual credit information and sells it for a fee to creditors so they can make a decision on granting loans. Typical clients include banks, mortgage lenders, credit card companies, and other financing companies. Also commonly referred to as a consumer reporting agency or a credit reporting agency. See also Credit Bureaus.

Credit Card Account Agreement:

A written agreement that explains the

- terms and conditions of the account,
- credit usage and payment by the cardholder, and
- duties and responsibilities of the card issuer.

See also Credit Cards.

Credit Card Issuer:

Any financial institution that issues bank cards to those who apply for them. See also Credit Card Issuer.

Credit Disability Insurance:

A type of insurance, also known as accident and health insurance, that makes payments on the loan if you become ill or injured and cannot work. See also Credit Disability Insurance.

Credit Life Insurance:

A type of life insurance that helps repay a loan if you should die before the loan is fully repaid. This is optional coverage. See also Credit Life Insurance.

Credit Limit:

The maximum amount of credit that is available on a credit card or other line of credit account. See also Credit Limit.

Credit Repair Organization:

A person or organization that sells, provides, performs, or assists in improving a consumer's credit record, credit history or credit rating (or says that that they will do so) in exchange for a fee or other payment. It also includes a person or organization that provides advice or assistance about how to improve a consumer's credit record, credit history or credit rating. There are some important exceptions to this definition, including many non-profit organizations and the creditor that is owed the debt. See also Credit Repair Organization.

Credit Report:

A detailed report of an individual's credit history prepared by a credit bureau and used by a lender in determining a loan applicant's creditworthiness. See also Credit Reports.

Credit Score:

A number, roughly between 300 and 800, that measures an individual's credit worthiness. The most well-known type of credit score is the FICO® score. This score represents the answer from a mathematical formula that assigns numerical values to various pieces of information in your credit report.

Banks use a credit score to help determine whether you qualify for a particular credit card, loan, or service. See also Credit Scores.

Cut-Off Time:

A time of day established by a bank for receipt of deposits. After the cut-off time, deposits are considered received on the next banking day. See also Deposit Cut-Off Time and Credit Card Cut-Off Time.

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D

Debit:

A debit may be an account entry representing money you owe a lender or money that has been taken from your deposit account.

Debit Card:

A debit card allows the account owner to access their funds electronically. Debit cards may be used to obtain cash from automated teller machines or purchase goods or services using point-of-sale systems. The use of a debit card involves immediate debiting and crediting of consumers' accounts. See also ATMS and EFTs.