



Consumer Tip August 2016: Know Your Financial Vocabulary



While the financial world is full of acronyms and other terms that can be confusing, it's important to be well versed.

Below is a list of common financial terms that you've most likely heard but may not understand their meaning.

401(k) Plan - A qualified retirement plan through an employer in which eligible employees can make salary deferral contributions on a post- or pre-tax basis.

Adjustable-Rate Mortgage (ARM) - A type of mortgage with an interest rate that periodically changes. There may be an initial "teaser" rate, which will go up after a specified period. After the initial term, the rate will adjust (usually annually) with an index.

Amortization - A schedule of paying off debt, including the principal and interest, in regular payments over a period of time.

Annual Percentage Rate (APR) - The cost of credit, including all fees and interest, expressed as a percentage.

Annual Percentage Yield (APY) - A percentage rate reflecting the total amount of interest paid on an account. It may differ from the interest rate as it also takes into consideration the frequency of compounding.

Bankruptcy - A legal proceeding in which a debtor's assets are liquidated and the debtor is released from further liability.

Bear Market and Bull Market - In a bear market, securities are falling and investors have a pessimistic outlook on the stock market as a whole. In a bull market, securities rise faster than historic averages and investors are confident making buys.

Bond - A debt instrument used by corporations, governments and others to generate capital. The issuer owes the holders a debt and is obliged to pay them interest as well as repay the principal at the maturity date.

Capital Gains and Losses - A capital gain is realized when an investment's selling price exceeds its purchase price. If you sell for less than your original purchase price, it's a capital loss. The IRS taxes capital gains at a special rate.

Credit Score - A measure of credit risk based on activities such as credit use and late payments. The higher number, the more creditworthy the person is considered.

Diversification - Spreading risk by investing in a range of investment tools such as securities, commodities, real estate, bonds, stocks, etc.

Fixed-Rate Mortgage - A type of mortgage with an interest rate that remains the same through the term of the loan.

Individual Retirement Account (IRA) - Another type of retirement savings account. Unlike 401(k)s, IRAs can be opened by individuals instead of being sponsored by an employer.

Liquidity - The ability of an asset to be converted to cash quickly without sacrificing value or giving a discount on the price.

Mutual Fund - An investment—operated by money managers who try to create gains for investors—made up of a pool of funds from multiple investors who want to invest in securities like stocks, bonds, money market accounts and other assets.

Prepayment Penalty - The fee a borrower pays a lender when the borrower repays a loan before its scheduled time of maturity. These are uncommon.

Prime Rate - The best rate available to a bank's most credit-worthy customer.

Recession - An economic condition defined by a decline in the Gross Domestic Product (GDP) for two or more consecutive quarters. During a recession, the stock market generally drops, unemployment increases and the housing market declines.

Stock - A type of security that signifies proportional ownership in a corporation and represents a claim on part of the corporation's assets and earnings.

Tax Deferred - Postponing taxes until a later date. Common tax-deferred vehicles include IRAs, 401(k) and pension plans.

If you would like in-depth information on any of the 20 terms above (or others not listed) or guidance about the financial impact of one of these in a specific situation, your local community banker would be happy to talk with you.

This information is provided with the understanding that the association is not engaged in rendering specific legal, accounting, or other professional services. If specific expert assistance is required, the services of a competent, professional person should be sought.

Contact: Pennsylvania Association of Community Bankers 717.231.7447 or www.pacb.org *

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