Jargon Buster

A – Z of financial terms

This fact sheet explains some of the financial terms that you might come across when you are dealing with financial matters.

ACCOUNT:-
this is provided by a bank or building society which holds money for you. A current account is an everyday account which allows money to be paid in or taken out. It helps you budget and manage your money. A basic bank account is a special sort of current account which doesn't usually allow you to overdraw. A deposit account is for your savings.

AER:-
stands for annual equivalent rate. This shows what the interest rate would be if the interest on savings were paid and added to savings at the end of each year. Actually, interest is frequently paid more often. The AER is worked out in a standard way so you can compare interest rates directly with each other. The higher the AER the better the return is on your savings.

APR:-
stands for Annual Percentage Rate. This tells you the cost of a loan, taking into account the interest you pay, any other charges, and when the payments fall due. You can use the APR to compare the cost of one loan with another, for example, a loan with an APR of 15% is more expensive that one with an APR of 11%.

ARREARS:-
money owed that is not paid by the due date.

ATM:-
stands for Automated Teller Machine. This is a machine that pays out cash. To use an ATM, you need a cash card and a personal identification number, which is called a PIN number.

BALANCE:-
the amount of money you have in your account at any particular time or which you owe on your credit or store card. It will be shown on your statement.

BANKRUPTCY:-
Bankruptcy is a court order that you can apply for if you are in debt. Once you have been made bankrupt, an official called an 'official receiver' takes control of your money and property and deals with your creditors.

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CCJ:-
stands for County Court Judgment. This is an order made by a judge which decides a claim brought in the county court.

COMPOUND INTEREST:-
this is the type of interest usually paid on a savings account. It is calculated by adding together the amount you have paid into your account (the capital) with the interest paid on it. This is also the type of interest you pay on money you borrow – so the amount you owe can increase quite dramatically over quite a short period of time.

CONSOLIDATION LOAN:-
a single loan which replaces **(consolidates)** all your outstanding credit cards, housing arrears, loan repayments and household bills into one monthly payment.

CREDIT:-
If your account is in credit, it means that you have money available to spend. If you obtain goods or services **on credit**, it means that someone, for example, a bank or credit institution, has given you the money to buy something. You must pay the money back, usually with interest.

CREDIT CARD:-
a plastic card issued by a bank or building society which allows you to buy things and pay for them later. Or you can use the credit card to draw money out from an ATM. If you use a credit card to withdraw money from an ATM, you'll normally be charged an extra fee each time. Your credit card issuer gives you a limit that you can send up to on that account. If you go over the limit, your card will probably be refused. Even if it isn't refused, you may still have to pay extra charges. Every month the bank or building society will send you a statement of your account. You must pay back at least a minimum amount each month and usually interest will be charged if you do not pay off the full amount borrowed.

CREDIT REPORT:-
the information stored about you with a credit reference agency. It will include electoral roll information for your address, how you have handled credit in the last six years and a record of credit checks made about you with that agency. You have a right to see your credit report and correct anything that you can prove is wrong.

CREDIT REFERENCE AGENCY (CRA): -
allows creditors to share credit-related information to help them lend responsibly. This includes public records (for example, electoral roll entries), credit account information (for example, repayment records for loans, credit agreements, mortgages, or hire purchase) and records of recent credit checks that have previously been requested. CRAs make it possible for lenders to quickly make accurate lending decisions and also helps lenders guard against fraud.

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CRAs:

- do not make lending decisions. The lenders make these
- do not know which applications are successful or refused so cannot tell why a consumer has been refused credit
- do not hold a blacklist of people or properties
- do not rate consumers. Applications for credit are scored by the lenders and different lenders use difference scoring methods.

For more information on CRAs, see Credit fact sheet in Credit and Debt fact sheets.

CREDIT REPAIR COMPANIES:-
companies offering, for a charge, to advise on how to erase bad credit from your credit record, how to get bank accounts without a credit check, how to remove court judgments, clear bad debts, arrange loans and how to make successful applications for credit. There can be problems with credit repair companies.

For more information about credit repair companies, see Credit fact sheet, in Credit and debt fact sheets.

DEBIT:-
money which is taken out of an account is **debited from** that account.

DEBIT CARD:-
a plastic card that can be used instead of cash when making a purchase. The amount spent is taken **(debited)** automatically by computer from your account.

DEBT MANAGEMENT PLAN (DMP):-
a debt management plan is a way of deciding how to repay all your non-priority creditors after giving consideration to your priority payments such as mortgage/rent, council tax, fuel/water bills and other essential expenditure.

DIRECT DEBIT:-
is an instruction to your bank to release money automatically from your bank account to pay a regular bill. This is useful for frequent bills which are for different amounts each time, for example, telephone bills. You arrange this with your supplier and give them your bank details.

FINANCIAL ADVISER:-
an individual or firm that can assess your financial needs, recommend suitable products, and arrange for you to buy or invest in these products. Some advisers can also manage investments for you. Some financial advisers only offer products from the firm they work for, whilst others offer products from a limited number of providers or from the whole market. You can pay for financial advice in different ways – for example, some advisers charge a fee and others get commission from the financial provider if you buy that product. An adviser must be authorised by the Financial Services Authority (FSA).

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HIRE PURCHASE AGREEMENT:-
a form of credit agreement which allows you to pay for goods in instalments. Cars are often bought this way. You will not own the car until all the instalments have been paid. If you don't make the payments as agreed, the car might be taken away from you (**repossessed**) and sold. You can't sell the car without the permission of the lender until you have paid for it.

INTEREST:-
the reward you get for keeping your money in, for example, a bank or building society. Also the cost you pay when you borrow money through a loan or credit agreement.

INTEREST RATE:-
is the percentage that is paid on savings or loans. A savings account that was offering 8% would give you a better return than one which was offering 5%. Similarly borrowing money at 22.5% is going to cost you more than borrowing at 18%.

INVESTMENT:-
financial products which typically involve some risk of losing your original money but give you the opportunity of better returns than you can get from savings. Rather than putting your money into a deposit account and getting the interest, you buy, for example, stock market-based investments, such as bonds, shares, trusts and so on. A lot of people have shares without realising it, as many financial products, such as endowment mortgages and pensions, are actually based on investments. Other products spread the risk of investing in the stock market by putting your money in a range of different shares, for example, unit trusts. The value of your investment will change over time as the stock market prices go up and down.

ISA:-
means Individual Savings Account. You do not have to pay tax on the income you get from an ISA. You can invest in two separate ISAs each tax year, up to a maximum amount:

- a cash ISA
- a stocks and shares ISA.

The maximum amount you can invest each year in total is £10,200. Up to £5,100 of that amount can be saved in cash with one provider. The rest can be invested in stocks and shares with either the same or a different provider.

NON- PRIORITY DEBTS:-
non-priority debts are those where non-payment will not result in the loss of your home, liberty, essential goods or services. The people you owe the money to can take you to court to recover the debts but you can't be sent to prison for non-payment.

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OCCUPATIONAL PENSION:-
a pension from a scheme set up by an employer, for example, a local authority pension or a teacher's pension. Employees have to join the scheme to be eligible and may have to make contributions towards the pension. The scheme may pay a fraction of the final salary as a pension (calculated taking into account the number of years worked) or build up a cash fund used to buy an annuity. An annuity is a special type of investment which can pay out a regular sum over the lifetime of the owner.

OVERDRAFT:-
If more money is withdrawn from your current account than you have put in, you will go **overdrawn**. You can ask the bank if they can arrange to lend you some money for a short time. This is known as an authorised overdraft. You pay an agreed rate of interest on the overdraft. If you go overdrawn without asking the bank in advance, they might refuse to pay your cheques and charge you a high interest rate on the money that you owe them.

PENSION:-
an income paid out after someone retires. The Government gives tax relief on money paid into a scheme designed to provide a pension. A pension is a "locked box" form of savings because you cannot spend any money in the fund until you have reached the minimum age (often 50). You can often take part of the proceeds as a cash lump sum but the rest must be taken as income. There are different types of pension schemes, for example, an: occupational pension; a stakeholder pension and a personal pension. You may also have the right to State Retirement Pension.

PERSONAL PENSION:-
a pension plan, not tied to a particular place of employment, that you could keep going even if you change your job. You might have set up the plan yourself direct with a pension provider, or it could have been arranged through your workplace. Some personal pensions are stakeholder schemes.

PIN:-
Personal Identification Number – a secret number, which you use with a cash machine card. You type it in and the ATM checks that the card number and PIN are the same.

PRIORITY DEBTS:-
these are debts which carry the strongest penalties if payment is not made, for example, eviction from your home, disconnection of gas or electricity, or imprisonment for non-payment of court fines or council tax. Priority debts should be paid off before other types of debt (non-priority debts).

RE-FINANCING:-
negotiating a new loan to pay off an existing loan or loans.

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RISK:-
refers to the risk of losing money through savings or investments. Types of risk include capital risk (your savings or investment might fall in value), interest rate risk (the interest rate you are tied into might not be good value in the future) and inflation risk (if price levels rise, the buying power of your savings or investments might fall). Generally, the higher the potential rate of return on your investment or savings, the greater the risk. Shares and share-based investments, such as unit trusts, are considered higher risk because the value of your investment can fall.

SAVINGS:-
any money you put aside for future use. This may be in a deposit account, or under your bed. 'Rainy day' savings are useful for emergencies and need to be easily accessible, while longer-term savings can be built up to give a 'nest egg'.

SAVINGS ACCOUNTS:-
savings are often kept in a bank, building society or national savings account. The amount you put in does not fall in value but may grow as interest is added.

SECURED LOAN:-
money borrowed from a lender, using your property as an extra guarantee of repayment. If the amount is not paid in full, the lender may take the property back **(repossess it)** and sell it.

SHORT TERM:-
usually means a period of time no longer than, say, five years – and often a lot shorter.

STAKEHOLDER PENSION:-
a type of pension scheme designed to be good value for money by having low charges and flexible payments. Usually it means a personal pension that meets these conditions, but some types of occupational scheme can also be stakeholder schemes.

STANDING ORDER:-
a method of paying regular amounts from your bank account automatically. You instruct your bank to pay the money for you to a particular person or company. It is your responsibility to change the payment if it needs to be altered.

STATE RETIREMENT PENSION:-
a pension paid to you by the Government when you reach retirement age. The amount you get will depend on your national insurance record (or on that of your marriage partner).

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STATEMENT:-
a document from the bank or building society, which shows all your recent payments into, and withdrawals from your account. You should check it against your own records.

STORECARD:-
a plastic card issued by a shop that lets you buy goods at that store on credit. You must either pay the full amount, or something back each month.

SUB-PRIME LENDING (non-status or impaired credit lending):-
lenders willing to make loans to people who are unable to obtain credit from mainstream lenders, such as high street banks or building societies, because of a poor credit record.

TAX CODE:-
this code tells your employer how much tax-free pay to give you during each pay period. Your tax code is worked out from your tax allowances and other tax adjustments.

TAX CREDITS:-
are means-tested allowances administered by HM Revenue and Customs. **Working Tax Credit** is available to single people or couples who work enough hours. It includes help with the cost of disability and childcare. **Child Tax Credit** is available to single people or couples with children whether or not they are employed. Additional amounts may be included for disabled children. Entitlement to both tax credits is calculated using annual income figures.

UNSECURED LOAN:-
money borrowed from, for example, a bank, which is not secured against your home. The lender may take court action against you for payment if you don't pay the money back as agreed.

VOLUNTARY EXCESS:-
most insurance policies include an **excess**, which is the first amount of any insurance claim that you pay for yourself. Your insurer will pay the rest. A voluntary excess is a higher amount that you can choose to pay, in return for cheaper insurance.

WITHDRAW:-
taking money out of your account.

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