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.

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