

Banking & Financial Systems

Chapter 2: Financial Institutions—Glossary

bond. Represents money a government or company has borrowed from the bondholder.

business finance company. Provides loans for businesses, such as retail stores.

captive finance company. Formed by a manufacturer to provide loans so the manufacturer can easily sell its goods.

commercial bank. A financial institution owned by investors that focuses on business customers, providing bank accounts along with specialized services such as foreign exchange, investment services, and capital loans; some also provide limited customer-oriented services, such as personal checking and savings accounts.

commission. A fee, such as the kind charged by a stockbroker for placing an order.

cooperative. A business or organization that is owned by its members who cooperate to run the organization.

credit union. A financial institution that provides many of the same services as banks and S & Ls, but owned by its members and run on a nonprofit basis.

consumer finance company. Provides high-interest personal loans to individuals who have poor credit.

deposit. Money placed or transferred into a bank account.

deposit insurance. Insurance that covers the deposits of customers in the case of a bank failure.

deposit insurance fund (DIF). Arranges for depositors to maintain their insured funds in the case of bank failure. Depository institutions pay premiums to this fund in order to pool their money and share risk.

depositor. A customer who makes a deposit.

derivative. A contract designed to manage risk and make money.

discount broker. Stockbroker who places orders for customers at commissions lower than full-service brokers and may offer only limited services.

dividend. A payment.

Federal Deposit Insurance Corporation (FDIC). An independent federal agency established in 1933 that provides deposit insurance up to \$250,000 for depositors in insured banks and thrifts in the case of bank failure.

finance company. Issues loans to both individuals and businesses in order to make a profit, also known as a loan company.

financial institution. Any organization or business that provides services related to money.

full-service brokerage firm. Advises customers on which securities to buy and helps manage investments.

insurance company. A for-profit business that primarily sells insurance.

insured. The person or thing covered by an insurance policy.

investment bank. A financial institution that provides services for businesses, such as raising capital through the stock market.

money market account. A savings account that pays a higher interest rate and requires a higher minimum balance than a traditional savings account.

National Credit Union Share Insurance Fund (NCUSIF). Established in 1970 to insure credit union deposits up to \$250,000.

non-depository institution. A type of financial institution that does not accept deposits but accepts money from customers for the purpose of investing in business deals in order to spread risk and provide a means of investment.

not-for-profit. Instead of paying profits to shareholders, money made by not-for-profit credit unions is returned to members in the form of higher interest rates on savings accounts and lower interest rates on loans.

payday lender. Provides short-term high-interest loans designed to cover expenses until the borrower's next payday.

premium. Periodic payments made to purchase an insurance policy.

savings account. A deposit account at a depository institution that earns interest and provides a safe place to store money.

savings and loan association (S & L). A type of financial institution that helped customers save money by allowing small deposits and home loans; also known as a savings association or thrift institution.

securities. Financial instruments that pay interest or give the investor part ownership of the company; issued by investment banks.

securities firm. A type of financial institution involved in the trading of securities in financial markets; also called a brokerage firm, stockbroker, or bondbroker.

share account. A savings account at a credit union.

share draft account. A checking account at a credit union.

stock. A security that gives the purchaser part ownership in the company, known as equity.

stockholder. An investor who expects to make a return from his or her investment in stock.

transaction account. A bank account that allows the owner to use it to pay a third party, such as a checking account.