

## 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.