Banking & Financial Systems
Chapter 8: Lending—Glossary

adjustable-rate mortgage (ARM). A mortgage loan in which the interest rate may change over the life of the loan.

adjusted balance method. A way to calculate finance charges by using the balance from the previous month and subtracting payments made during the current period.

annual percentage rate (APR). The actual annual interest rate paid over the life of a loan.

average daily balance method. A way to calculate finance charges by using the card's beginning daily balance.

bankruptcy. A legal procedure that enables individuals or companies to eliminate or repay some or all debt under the guidance of federal bankruptcy courts.

cap. The maximum increase that can be applied to a monthly loan payment, or the maximum interest rate increase when the rate is adjusted.

capacity. A loan applicant's ability to pay debts as shown by cash flow.

capital. A loan applicant's money, property, and other valuables.

character. A loan applicant's honesty and integrity as shown by how he or she handles debt.

closed-end loan. A loan that must be paid in full on a specific date.

closing costs. Several fees that are applied when a mortgage is signed.

collateral. A borrower's property that is pledged to secure a loan.

commercial loan. A loan made when a company borrows money.

conditions. The overall environment in which a loan will be given.

consumer loan. A loan made when an individual borrows money for his or her use.

cosigner. An individual who signs a loan along with the borrower, taking on equal liability for repayment.

credit bureau. A company that gathers, analyzes, and summarizes credit-related information on consumers.

credit score. A measure of risk based on a borrower's credit history.

creditworthiness. An assessment of a borrower's ability to repay a loan.

debt ratio. A comparison of debt to income or assets, the most common of which are the debt-to-income ratio, the debt-service-coverage ratio, and the loan-to-value ratio.

default. Occurs when a borrower fails to meet the terms of a loan agreement.

equity. The difference between real estate's value and the amount owed for the real estate; equity belongs to the owner.

equity loan. A loan that temporarily transfers cash to the borrower and is secured by the owner's equity; sometimes referred to as a second mortgage.

Export-Import Bank of the United States (Ex-Im Bank). An independent federal agency established in 1934 to assist US businesses by financing the export of US products, supporting US companies engaged in the overseas export of goods and services, offering loans to US companies, providing guarantees that creditworthy foreign buyers will pay, and offering insurance on exported goods.

Farm Service Agency (FSA). Part of the US Department of Agriculture that provides financial and logistical support to commercial farms, often in the form of loans or guarantees.

FICO score. A credit rating used by lenders to predict an applicant's ability and willingness to repay loans.

fixed-rate mortgage. A mortgage loan in which the interest rate stays the same for the entirety of the loan's term.

government-sponsored enterprise (GSE). An organization that is chartered and supported by the government to promote a public interest.

installment loan. A type of closed-ended loan for a large amount of money that is repaid in smaller amounts over a specified period of time.

loan. Money temporarily transferred to a borrower in exchange for repayment and interest.

loan policy. A guideline for balancing risk.

mortgage-backed securities. Bonds that are guaranteed by the US government.

mortgage loan. A secured loan made to purchase real estate; typically known as a mortgage.

nominal annual rate. A loan's annual interest rate without the cost of fees or compound interest.

open-ended loan. A loan that does not have to be paid in full by a specific date.

periodic interest rate. The interest rate the lender applies to a loan's outstanding balance to calculate the finance charge each billing period.

previous balance method. A way to calculate finance charges by using the amount the customer owed at the end of the previous billing period to calculate the interest owed for the current month.

principal. An initial amount of money that is loaned or deposited.

real estate. A section of land, the air above it, the ground itself, and any buildings on that land.

reorganization. The process of creating a repayment plan to repay debts without liquidating property.

risk. The chance that an unfavorable event will happen to a person or property.

secured loan. A loan backed by the borrower's property.

signature loan. A loan that is not backed by collateral, only the borrower's signature.

Small Business Administration (SBA). An independent agency of the federal government that was created in 1953 to help Americans start and grow businesses, often in the form of loans.

subprime loan. A loan with fees and interest rates that are higher than the rates given to a person who meets all of the underwriting criteria.

term. The number of years a loan will exist.

underwriting. When lenders analyze risks and set conditions on the loan.

unsecured loan. A loan that is not backed by collateral, only the borrower's signature; also called a *signature loan*.

World Bank Group (WBG). A group of international organizations whose mission is to ease poverty around the world by giving loans and grants to developing countries.