Banking & Financial Systems
Chapter 16: Financial Crises of the Early 21st Century—Glossary

collateralized debt obligation (CDO). Divides returns into tranches, or segments.

consumer debt. Money owed by individuals for the purchase of personal goods and services.

Consumer Financial Protection Bureau (CFPB). An independent consumer-protection organization that was created to protect the interests of consumers by making sure federal consumer-protection laws are enforced; it has the authority to ensure consumers get clear information about loans, mortgages, credit cards, and other financial products and is also charged with ending deceptive practices in lending.

debt ceiling. The limit on the level of debt the government can take on.

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

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

Dodd-Frank Wall Street Reform and Consumer Protection Act. Increased regulation of the banking and financial services industry, established actions to prevent another financial crisis, and created the Consumer Financial Protection Bureau; more transparency is now required of banks and other financial firms; passed in 2010.

double-dip recession. Occurs when a recovering economy goes into negative growth a second time.

excess capital. The difference between how much money a company needs to run its operations and how much it takes in.

Financial Crisis Inquiry Commission. Created in 2009 by the Fraud Enforcement and Recovery Act to determine what caused the financial crises of the early 21st century.

foreclosure. The legal process of ending an owner's right to a property and transferring it to the lender.

Great Recession. The period of time during which the US most acutely felt the effects of the financial crises of the early 21st century.

housing bubble. Increased access to credit by home buyers who would not have otherwise been able to qualify for a larger mortgage or any mortgage.

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

ratings agency. An agency that provides expert opinions on the financial strength of a given institution that issues securities, such as a corporation or country.

recession. Occurs when the country has experienced negative economic growth for at least a six-month stretch.

securitization. The pooling and packaging of loans to create securities.

subprime lending. The offering of loans to high-risk borrowers that do not meet standard lending criteria.

toxic asset. An asset with no liquidity.

Troubled Asset Relief Program (TARP). Often called the bank bailout bill; allowed the federal government to purchase assets and equity from financial institutions in order to strengthen them and prevent more failures; passed in 2008.

wage stagnation. Slow growth in wages.