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Bank Terminology

ABA Routing Number – a series of numbers located at the bottom of an account holder's checks or deposit slips. These numbers identify a particular address for a specific banking institution, --a routing address, which the Federal Reserve Banking system uses when funds transactions move within the banking system.

Amortization – the repayment of a loan or process of reducing debt by installments with regular payments to cover principle and interest, -usually in a term expressed in months.

Assignment – the transfer of a loan from one party to another.

ACH – stands for Automated Clearing House, which is an electronic transfer (secure & efficient) of funds between financial institutions.

Balloon Payment – the final lump-sum payment that is made at the maturity date of a loan.

Bankruptcy – a proceeding in a federal court in which a debtor who owes more than his assets can cover is granted relief from debt by transferring all assets to a court appointed trustee.

Basis Points – a basis point is 1/100th of a percentage point. For example, 50 basis points of a $10,000 loan would be 0.50% X 10,000 or $50.00.

Breach – a violation of a loan covenant or promise.

Bridge Loan – a temporary or secondary loan collateralized by a subordinated lien or hold on a particular asset (which is usually for sale) in a manner that allows the proceeds to be used for purchase of a new /different asset before the present asset is sold.

Cap – a provision in a loan agreement that sets a limit on the interest rate which can be charged during the term of the loan.

Capital Asset or Improvement – any structure or component considered as a permanent addition to real property that adds to its value and useful life.

Cashier's Check – a check drawn on the funds of the bank, not against the funds in a depositor's account. However, the depositor paid for the cashier's check with funds from their account. The primary benefit of a cashier's check is that the recipient of the check is assured the funds are available.

Certified Check – a personal check drawn by an individual that is certified (guaranteed) to be good. The face of the check bears the words "certified" or "accepted," and is signed by an official of the bank issuing the check. It signifies that sufficient funds are on deposit and earmarked for payment of the check.

Chain of Title – the history of all documents that transfer title of real property, --starting with the original or earliest existing document and ending with the most recent.

Charge-Off – The balance on a credit obligation that a lender no longer expects to be repaid and writes off as a bad debt.

Collected Funds – cash deposits or checks that have been presented for payment and for which payment has been received; funds are readily available. Ledger funds are deposits made to an account but for which funds have not actually been received as in the deposit of a check.

Co-Maker – a person who signs a note to guarantee a loan made to another person and is jointly liable with the maker for repayment of the loan.

Convertibility Clause – a provision in some loans that allows the borrower to change the interest rate from fixed to variable or vice-versa.

Cost of Funds Index (COFI) – an index that is used to determine interest rates and/or changes of interest rates for certain types of loans. It represents the weighted average cost of funds from all sources, which a bank has access to: internal funds, other bank borrowings, the Federal Government/Federal Reserve Board.

Covenant – a clause in loan agreements that promises or obligates and/or restricts the borrower. If violated, a breach has occurred, which may cause the loan to become immediately due.

Deed – the legal document that conveys or transfers title of property.

Deed of Trust – the legal document (in some states) that conveys title of real property to a trustee on behalf of the owner.

Default – failure to make loan payments on a timely basis or to comply with other terms/requirements as stipulated in the loan agreement.

Deferred – an action that has been postponed until a future date.

Earnest Money – a deposit made by a potential buyer to show that they are serious about buying an asset.

Electronic Funds Transfer (EFT) – EFT allows entities to transfer funds from an account electronically. It can be used by creditors to pull funds from a customer automatically. EFT's are efficient, immediate, and easy.

Fair Market Value (FMV) – the highest price that a buyer, willing but not compelled to buy, and the lowest a seller, willing but not compelled to sell, would accept.

Federal Discount Rate – the interest rate, which member banks may borrow short term funds directly from the Federal Reserve Bank.

Federal Funds Rate – historically, the primary tool that the Fed uses to influence interest rates and therefore, the economy. It is the rate, which depository institutions lend balances at the Federal Reserve to other depository institutions overnight. It is not quite as effective as it once was because banks now have other sources of borrowing.

Federal Reserve System – the central bank of the United States. The Fed, as it is commonly called, regulates the U.S. monetary and financial system. The Fed is composed of a central governmental agency in Washington D.C. (the Board of Governors) and twelve regional Federal Reserve Banks. The Fed's duties consist of:

- Conducting monetary policy.
- Regulating banking institutions and protecting credit rights of consumers.

- Maintaining the stability of the financial system.
- Providing financial services to the U.S. government.

Fiduciary – undertaking to act as executor, administrator, guardian, conservator, or trustee for a family trust, authorized trust, or testamentary trust, or receiver or trustee in a bankruptcy.

Float – the amount of uncollected funds represented by checks in the possession of one bank but drawn on other banks or the time that elapses between the day a check is deposited and the day it is presented for payment to the financial institution on which it is drawn.

Guarantor – a party who agrees to be responsible for the payment of another party's debts should that party default.

Kiting – Writing a check in an amount that will overdraw the account, but making up the deficiency by depositing another check on another bank.

LIBOR – Libor stands for London Inter-Bank Offered Rate. This is a favorable interest rate offered for U.S. dollar or Eurodollar deposits between groups of London banks. It is an international interest rate that follows world economic conditions and is defined by the maturity of its deposit term (i.e. 30-day LIBOR, 60-day LIBOR). This market allows banks with liquidity requirements to borrow quickly form other banks with surpluses. The LIBOR is officially fixed once a day by a group of large London banks, but the rate changes throughout the day. The difficulty with some LIBOR based loans is that the terms can be based upon set dollar amounts to draw-down or repay at specific dates.

Lien – an encumbrance against property form money due, either voluntary or involuntary.

Line of Credit – a pre-approved loan authorization with a specific borrowing limit based on creditworthiness. A line of credit allows borrowers to obtain a number of loans without re-applying each time as long as the total amount of funds does not exceed the credit limit.

Loan to Value (LTV) – The unpaid principal balance of a loan on property divided by the asset's appraised value. Generally, the lower the LTV the move favorable the term and interest rate of the loan. For example, on a $100,000 building, with a note due of $80,000, the LTV ratio would be 80%.

Margin – the number of percentage points a lender adds to an index value to calculate the interest rate charged on a loan. Also knows as the spread.

Maturity – the date on which the principal balance of a loan becomes due and payable.

Money Market Fund – an open ended mutual fund that invest in short-term debts and monetary instruments such a Treasury bills and pays money market rates of interest. These are usually NOT insured by the FDIC.

Negative Amortization – negative amortization occurs when a loan payment is less than the loan's accruing interest. This causes the loan to grow instead of reduce or amortize. Also known as deferred interest.

Overdraft – when the amount of money withdrawn from a bank account is greater that the amount actually available in the account, the excess is known as an overdraft, and the account is said to be overdrawn.

Power of Attorney – a written instrument, which authorizes one person to act as another's agent or attorney. The power of attorney may be for a definite, specific act, or it may be general in nature. The terms of the written power of attorney may specify when it will expire. If not, the power of attorney usually expires when the person granting it dies.

Prime Rate – the most widely used benchmark in setting interest rates for banking products (loans, credit cards). Prime is based upon the Federal Funds rate, which is set by the Federal Reserve Bank.

Reconciliation – the process of analyzing two related records and, if differences exist between them, finding the cause and bringing the two records into agreement.

Refinancing - the process of paying off one loan with the proceeds of another loan, usually at a lower interest rate and pertaining to the same property as security.

Revolver – a credit agreement that allows a customer to borrow against a preapproved credit line. Usually used for working capital needs, the borrower is only billed for the amount that is actually borrowed plus any interest due. Collateral may be based upon accounts receivable and inventory.

Stop Payment – an order not to pay a check that has been issued but not yet cashed. If requested soon enough, the check will not be debited from the payer's account.

Title – the evidence one has of right to possession of land.

Title Insurance – insurance against the loss of ownership of property resulting from a defect of title to the described parcel of real property.

Title Search – an investigation into the history of ownership of a property to check for liens, unpaid claims, or other problems, to prove that a seller can transfer free and clear ownership.

Uncollected Funds – a portion of a deposit balance that has not yet been collected by the depository bank.

Uniform Commercial Code – a set of statutes enacted by the various States to provide consistency amount the States' commercial laws. It includes negotiable instruments, sales, stock transfers, trust and warehouse receipts, and bills of lading.

Usury – charging an illegally high interest rate on a loan. Usury rates are generally set by State law.

Wire Transfer – a transfer of funds from one point to another by the Federal Reserve Wire Network.

Yield - the amount of interest generated on a loan.

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