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FINANCIAL JARGON

This helpful resource translates some commonly used financial terms into plain English.

One of the things that can make the world of personal finance so confusing is that it seems to come with a language all of its own. In this resource, we'll explain some of the more commonly used terms you'll come across, to help you confirm what they mean for you and help you to make the best choices.

ACCEPTANCE RATE

This is the percentage of customers who are successful in their application for credit.

AD-HOC PAYMENT

An ad-hoc payment is a "one off" extra payment made towards a loan or credit outside of your normal repayment dates. An ad-hoc payment won't normally replace a payment due on an agreed date, unless it clears the balance so there is nothing left to pay.

ADJUSTABLE RATE

Like a variable rate, an adjustable rate is an interest rate that can change in relation to an index – meaning the interest rate and your monthly repayments could change.

ADVERSE CREDIT RATING

People who have a less-than-perfect record of repaying their credit commitments would be referred to as having an adverse credit rating. This usually occurs when something negative happens on a credit file; a default or County Court Judgement for example. This means you would struggle to get credit from prime lenders such as banks.

AGREEMENT

Another term for "contract", an agreement is a legal document that makes a loan official and binding. The agreement confirms the terms of the loan between you and the lender. When you sign a loan or credit agreement, you are accepting that you are legally responsible for paying back the money borrowed, and any interest and fees applicable.

APR

APR stands for Annual Percentage Rate, and represents the cost of borrowing per year shown as a percentage of the amount borrowed. APR is a complicated calculation that takes into account interest payable on the amount borrowed, other fees that are applied, and a number of other factors. APR isn't always the most accurate way of representing the cost of borrowing, but can be useful when comparing loans or credit cards with similar terms.

ARRANGEMENT FEE

Some lenders charge an additional fee to set up a credit agreement which can often seem hidden from publicised rates. This is called an arrangement fee. Before applying for credit, always check to see whether the lender charges hidden fees.

ARREARS

Arrears is a term that means money that is owed, that should have been paid earlier. If you've missed or only partially paid a repayment on a bill or loan, then your account will be in arrears until you get back up to date. Having accounts in arrears too often or for too long can make it more difficult to get credit in the future. Late and missed payments are recorded on your credit report, which lenders often check and use to help them make a decision about whether to lend money to you, or not.

ASSET
This is something that the borrower owns that has value in order to be guaranteed against certain credit agreements, such as mortgages. You need an asset for a secured loan, for example, your house would be considered an asset and a large loan could then be secured against the house, but you would be at risk of losing your asset if you did not keep up with the payments.

BACS
Bacs is the company which runs Direct Debit in the UK. They also run the Bacs Direct Credit Scheme, which is used to pay salaries and settle invoices from suppliers; this is commonly referred to just as Bacs.

BALANCE
A balance can be the amount of money in your bank or savings account. It can also refer to the amount you owe a lender in order to pay off your loan in full.

BALANCE TRANSFER
A balance transfer is when you move balances from one credit or store card onto another. This could be in order to move your credit onto a better interest rate. Sometimes credit card companies offer enticing rates (i.e. 0% interest for six months) to encourage you to become a customer.

BANKER’S DRAFT
Getting a banker’s draft is like asking a bank to write a cheque for you. You give them your money, and they give you a cheque for that amount to give to the person owed. The good thing about banker’s drafts is that they do not bounce through lack of funds.

BORROWER
Also referred to as loan applicant or customer – it is the person/s applying for a loan.

BOUNCED CHEQUE
A cheque “bounces” when your bank account doesn’t have enough money in it to cover payment of the amount the cheque is for.

BUDGET
A budget is a document that you can build yourself, or have help to build, that tracks your income against your outgoings, so you can see how much you’re spending and how much you have left. It can also highlight areas where you could make savings, which you may not have been aware of.

CAR FINANCE (CAR LOAN)
This is a loan specifically for purchasing a car and many dealerships offer this type of loan.

CASH ADVANCE
A cash advance is money provided against a pre-agreed line of credit.

CCJ (COUNTY COURT JUDGEMENT)
A type of court order that may be registered against you if you fail to repay money you owe. It sets out how much is owed, how the money should be repaid and the payment deadline. The Judgment will stay on your file for six years unless you pay the full amount within a month of Judgment. You could be at risk of losing your assets if you do not stick to the agreed repayment plan.

CHARGES

In finance, charges and fees are usually the same thing, and are applied to your account by your bank or lender in line with the type of account or loan you have. Banks and lenders provide a number of services to their customers, and some come with charges attached. These can include interest, transmission fees, service charges, and for some credit cards, annual card fees. If a service is misused or the terms of an agreement are broken, then that's where things like overdraft charges and late payment charges come in.

CONSOLIDATION LOAN

This is where applicants use one loan to pay off multiple debts. Ideally a consolidation loan is on a better interest rate with quicker repayment terms so you get rid of the debt quicker and save money. Alternatively it may be used to reduce how much you have to pay back debtors each month.

CPA (CONTINUOUS PAYMENT AUTHORITY)

A CPA is agreed through the loan application process between the lender and the borrower. It is a type of automatic payment that authorises a lender to withdraw sums from a borrower's bank account using debit card details. CPAs can provide an efficient and convenient payment method for customers. You must ensure you are fully aware of the commitment you are entering into when applying for a loan with this set-up and you can cancel this authority at any time with your card issuer.

CREDIT

Credit is money borrowed from a bank or credit provider on the condition that it's paid back in accordance with the agreement. Types of credit include loans, credit cards and pawnbroking.

CREDIT CHECK

Most lenders will check an applicant's credit report to establish the likelihood of them paying back the loan on time. Credit checks are recorded on credit reports and too many credit applications can have a negative effect on the credit score.

CREDIT LIMIT

A credit limit is the maximum amount of money that you can borrow on a credit card, or from a particular lender, and will be determined by the lender based on a number of factors.

CREDIT REFERENCE AGENCY

A Credit Reference Agency, or CRA, is an agency that collects data from various sources and provides information on individual consumers to form their credit report. The three main CRAs in the UK are Experian, Call Credit and Equifax.

CREDIT REPORT

This document, compiled and held by Credit Reference Agencies, gives a summary of your credit history and financial behaviour. It includes your personal details such as address and date of birth, information on your borrowing and payment histories, the length of your credit history, information on the total credit you have available to you and how much of that you've used. Some of the things that are not included in your credit report are your salary and details of savings accounts you hold. Under the Consumer Credit Act, you have the right to see the file held on you by Credit Reference Agencies for a small fee.

CREDIT SCORE
Your credit score is a number calculated from the information held in your credit report, which indicates the probability of you being able to pay back the loan or credit. The higher the number, the higher the probability that the Creditor will see you as being able to repay the credit, and the less risk you are seen as to lend to. There are three main credit reference agencies, Experian, Call Credit and Equifax, which all use unique score systems and algorithms to calculate your credit score.

CREDITORS
An organisation or business that has loaned money to someone and agreed repayment terms.

DEBT
Debt is money that you owe to a person or company.

DEBT MANAGEMENT PLAN
A Debt Management Plan (DMP) is a repayment scheme offered by a debt management company or even can be set up by you. The debt management company will negotiate your repayments over a number of years to enable you to make payments to your creditors more affordable. This affects your credit rating but does help get hold of finances that have become uncontrollable.

DATA PROTECTION ACT
A law designed to protect personal data stored by organisations, businesses or the government. The Act is governed by eight rules which are called the 'data protection principles'.

DEBIT CARD
Unlike a credit card, you are not borrowing money. The card takes money you already have directly from your bank account and is a substitute for cash.

DEDUCTIONS
A deduction is any money that is taken from your gross income before you receive your wages or salary, and will be displayed on your payslip. Common deductions you may come across include income tax, National Insurance, student loan repayments and pension contributions.

DIRECT DEBIT MANDATE
The process of setting up a regular repayment via your bank so the lender or service provider receives payments automatically.

DEFAULT
Failing to meet the terms of the credit agreement such as not making the agreed payments on time.

DOORSTEP LOAN
A doorstep loan involves local agents physically visiting an individual's home to lend and collect money. Interest rates tend to be higher than other financial solutions.

EARLY REPAYMENT
An early repayment means paying back a loan before the balance is due. Some lenders may charge a fee for settling early, but you may still be entitled to a rebate, regardless of this fee. This is all dependent upon the type of loan and terms and conditions of the loan.

EXTENSION
Increasing the amount of time you have to pay back a loan.

FCA
The Financial Conduct Authority or FCA regulates the financial services industry in the UK. Their aim is to protect consumers, ensure the industry remains stable and promote healthy competition between financial services providers. Further details can be found on their website (www.fca.org.uk).

FISA
The Finance Industry Standards Association or FISA is an independent body whose role is to promote best practice within the finance industry.

FSA
The FSA has now become two separate regulatory authorities: The Financial Conduct Authority can be found at www.fca.org.uk and the Prudential Regulation Authority at www.bankofengland.co.uk.

FIXED RATE INTEREST
Fixed rate interest means the interest rate payable or receivable, on the account will be fixed for the time period specified.

GUARANTOR
A guarantor is someone who steps in and makes a payment if the borrower can't so that the account stays up to date. This is usually made a condition of the credit agreement before it is taken out.
The guarantor needs to be aged between 18 and 75 with a good credit history.

GROSS INCOME
Gross income is the total amount you earn from your employment, before any tax or other deductions are made.

IFA (INDEPENDENT FINANCIAL ADVISOR)
An IFA provides financial advice. IFAs usually offer products such as pensions, insurances and mortgages.

INTEREST
Interest can be the amount you earn from savings and investments. Interest can also be money you pay to borrow money, and is usually expressed as a percentage of the amount borrowed. Interest is normally included in the total cost of borrowing.

IVA (INDIVIDUAL VOLUNTARTY ARRANGEMENT)
An IVA is a legal procedure for people in financial difficulty who have unsecured debts. It is a form of insolvency so you must be unable to pay your debts to apply for an IVA. You need an Insolvency Practitioner (IP) to arrange an individual voluntary arrangement.

LENDER
A lender is an organisation or business that provides credit options to those looking to borrow money.

LOAN AGREEMENT
A contract agreed between an applicant borrower and a lender which regulates the mutual promises made by each party including when the borrowed money will be repaid. A loan agreement states the interest rate, the repayment period, the collateral (if any) and any special terms.

LOAN PERIOD/ LOAN TERM
The loan period, or loan term, is the length of time you've agreed to borrow money for. It can last from a few days to a number of years depending on the terms of your agreement and the type of loan you are taking. In most cases, interest will accrue throughout the term of the loan.

MAXED OUT
When a credit limit is reached or exceeded, it is said to be "maxed out". Many lenders will not allow further money to be taken against the credit limit until the account holder pays off enough of the balance to be under the limit again. In some circumstances, the creditor or lender may agree to extend the credit limit, or allow additional withdrawals or purchases, but might charge a fee for this.

MINIMUM PAYMENT
The least you can pay towards a loan or bill without incurring penalties.

NET INCOME
Net income is the amount you earn from your employment, after all applicable deductions like tax, national insurance, pension contributions and student loan repayments, also known as your "take-home pay".

ONLINE LOAN
Any loan applied for over the internet can be called an online loan. The application and decision-making processes are usually simpler and quicker online with no need for face-to-face meetings.

OUTGOINGS
Current financial commitments of the borrower. This could be other direct debits such as mortgage payments and insurances, along with regular ad hoc spend such as food and petrol.

OUTSTANDING BALANCE
The outstanding balance is the amount remaining on a debt that has not yet been repaid in full.

PENALTY CHARGES
Penalty charges are charges applied to your account with a bank or lender if the service is misused or the terms of your agreement with them are broken. Common penalty charges include late payment fees, over-limit fees and overdraft fees.

PERSONAL LOAN
An unsecured loan which is borrowed by a private individual from a lender such as a bank or other financial service provider for personal use such as the purchase of a car, holiday, wedding, debt consolidation or home improvements.

PRA (THE PRUDENTIAL REGULATION AUTHORITY)
PRA is a part of the Bank of England and responsible for the prudential regulation and supervision of banks, building societies, credit unions, insurers and major investment firms. It sets standards and supervises financial institutions at the level of the individual firm.

PRINCIPAL
The principal of a loan is the actual amount borrowed.

PRIVACY POLICY
A privacy policy is a statement or a legal document that discloses some or all of the ways a party gathers, uses, discloses, and manages a customer's data. It fulfils a legal requirement to protect a customer or client's privacy.

RATE
Rate refers to the level of interest charged by a lender, and is usually expressed as an Annual Percentage Rate (APR).

REPAYMENT DATE
This is the date that you agree to repay either the full balance of, or an instalment towards, your loan.

REPAYMENT PLAN
A repayment plan is where you make agreed regular payments to the lender you borrowed money from. A repayment plan will be dependent on the amount of money that is borrowed and the duration of the loan.

REPRESENTATIVE APR
Representative or typical APR is a term lenders use to describe the APR offered to over 51% of their customers. The APR you are offered is based on a number of factors that help the lender decide how high-risk a borrower they think you will be, so it could be higher or lower than the representative APR.

SECURED LOAN
A secured loan uses the borrower's property as security. It is often the cheapest option if you are a homeowner looking to borrow a larger amount of money. Unlike unsecured personal loans, you risk losing your home if you miss payments on a secured loan.

SHORT TERM LOAN
A short-term loan is generally considered to be a loan with a repayment plan less than 1 year. So they are usually for relatively small amounts and over a short time period. These loans do usually carry a high interest rate on them. Check the repayment terms and the charges if you go over that term.

TOTAL AMOUNT REPAYABLE
This is the amount originally borrowed in addition to all the interest and fees charged over the full loan term, e.g. exactly what you end of paying back for borrowing the money.

TRANSACTION
Transaction means any occasion where money is exchanged, whether it is being given to you, or taken away. In the context of credit, common transactions include borrowed money being deposited into your bank account, making purchases on a credit card, or repaying, or making payments towards, money borrowed.

UNDERPAYMENT
Underpayment is a payment less than the minimum amount required to avoid penalties.

UNSECURED LOAN

An unsecured loan is a loan that does not require the applicant to provide any form of security, guarantor or asset as part of the deal. Most personal loans are unsecured. See ‘personal loan’ and ‘secured loan’.

VARIABLE RATE

Common with mortgages. An interest rate on a loan that may change over time so a borrower’s repayments may go up or down. The benefit to a variable interest rate is that if the underlying interest rate declines, the borrower’s interest payments also reduce. Some good deals are possible but there is also the risk of monthly payments increasing. Choose what’s right for you.