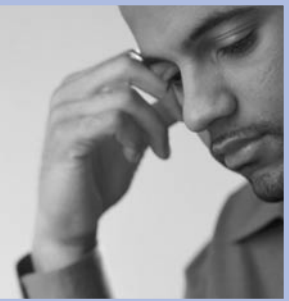


GLOSSARY



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401(k)

A retirement plan that is sponsored by an employer and allows employees to contribute to a tax-deferred account; some 401(k) plans also receive funding from employers. 401(k) funds can be withdrawn after the employee retires and/or is 59 years old. Taxes are paid upon withdrawal.

Accountant

A professional who is trained to document, record and analyze financial information in order to provide accurate payroll, tax, income, and other reports.

Advance (also Cash Advance)

A loan against available credit or future cash. Example: An advance on a credit card is a loan. The APR for a credit card advance usually is higher than the APR for purchases on the same card.

Annual Fee

The cost or charge for having credit available to use for a year. Some credit cards charge an annual fee, others do not. The annual fee is in addition to the cost of using credit, interest.

Annual Percentage Rate (APR)

The cost of credit on a yearly basis, expressed as a percentage rather than a dollar amount.

Asset

Something of value. Personal assets are divided into two main categories: liquid assets – cash-on-hand and savings; and capital assets – investments including 401(k) retirement funds, a house, or other valuable property.

Asset Allocation

A basic financial planning strategy to save or invest in several different types of assets including cash, stocks, bonds, and real estate. Asset allocation increases opportunities for growth and protects against potential losses.

ATM (Automated Teller Machine)

A computer that allows consumers to learn balances, get cash, make deposits, and do other banking chores. ATMs are located in banks, stores, malls, drive-in centers, colleges, hospitals, airports, service stations, and many other locations for 24-hour convenience. If you use an ATM that is not sponsored by your bank, there may be a fee for using it.

GLOSSARY

**Average Annual Return***

The rate of return on investments averaged over a specific period of time (Example: the last 20 years). It is determined by adding together the rates of return for each year and dividing by the number of years in the calculation.

Balance Sheet

A financial snapshot of assets and liabilities to show net worth at a specific point in time. A personal balance sheet would include all checking and savings account balances and investments, as well as loans and other debts on a certain date, such as the end of a quarter or year.

Bank Statement

Monthly record of all activity within an account, provided by the bank.

Bankruptcy

When a borrower cannot pay debts and cannot work out a payment plan with the credit card or other creditors, he/she can file with the court to be released from debts. This is a serious situation that may have profound effects on the consumer. It may require the sale of the debtor's property and/or a court-approved plan for repayment of debts. It can also reduce or eliminate the consumer's ability to get a job, buy a car or home, or get additional credit for many years.

Banks*

Corporations chartered by state or federal government to offer numerous financial services such as checking and savings accounts, loans, and safe deposit boxes. The Federal Deposit Insurance Corporation (FDIC) insures accounts in federally chartered banks.

Beneficiary

An individual or group named to receive the income, funds, or payment from an investment, trust, retirement, or insurance fund. Example: A husband may name his wife as the beneficiary of his life insurance policy.

Bill (Billing Statement)

A statement that customarily discloses the payment terms and conditions, including current or past due amounts, outstanding balance, due date, APR, and other details.

Budget*

A financial plan that summarizes future income and expenditures over a period of time.

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GLOSSARY



Cancelled Check

A check that has been stamped to show that the payee has received the designated amount from the bank and that amount has been deducted from the account holder's checking account.

Capital Gain*

A positive difference between an asset's price when bought and its price when or if sold; the opposite of capital loss.

Capital Loss*

A negative difference between an asset's price when bought and its price when or if sold; the opposite of capital gain.

Cash Advance

(See **Advance**.)

Cashier's Check

A check that is paid for by a customer – either with cash or funds from a savings or checking account – then issued by a bank, drawn on its own funds, and signed by the cashier. A cashier's check is often required for large financial transactions where the title to property is transferred. Example: A cashier's check is required by the seller to finalize the closing of a home sale.

Certificate of Deposit (CD)

A timed deposit that may be protected by the FDIC, incurs penalty charges if money is withdrawn before the maturity date, and usually has a higher rate of return than other interest-bearing savings options.

Check

A written order to pay a specified sum from funds held in a bank or credit union account.

Check Register (Ledger)

A record of all activity that happens within a checking account; maintained by the checking account holder.

Checking Account

An account from which the account holder can write checks.

Commission*

A fee to a third party for assisting a business transaction, such as buying or selling an asset. Example: A real estate agent who sells a home receives a commission – a percentage of the cost of the home – for the work done to make the sale. A commission on a \$200,000 home could be 5 percent or \$10,000.

GLOSSARY



Compensation*

The total wage or salary and benefits that an employee receives. (See *Income*.)

Compound Interest*

Interest credited daily, monthly, quarterly, semi-annually, or annually on both principal and previously credited interest.

Consumer*

A person who buys and/or uses a product.

CPA (Certified Public Accountant)

An accountant who is a graduate of an accredited college accounting program, has several years professional accounting experience, and has passed an exam to certify skills, integrity, and objectivity in reporting financial information. A CPA also needs to take continuing education programs to have current knowledge of tax laws and other developments that affect financial reporting.

Credit

Trust given to another person for future payment of a loan, credit card balance, etc.

Credit Card

A small plastic card that is encoded with a credit account number and other information to allow a person to charge expenses against a credit line.

Credit Counseling

Professional guidance from trained credit counselors, who will work with an individual to help him or her get out of debt and establish a sound financial management plan.

Credit Laws

Bankruptcy Reform Law – Credit Counseling (2005)

The recently enacted Bankruptcy Reform Law includes a provision that consumers be fully informed about the bankruptcy process, alternatives to bankruptcy, and the potential consequences of filing for bankruptcy. The new law also requires debtors, prior to receiving a bankruptcy discharge, to complete a financial management instructional course. Providing consumers in bankruptcy with education and training, as well as the necessary skills and tools, will enable them to better prepare for their financial future and to avoid future financial problems.

GLOSSARY



Fair Credit Reporting Act (as amended 1997)

Federal law that covers the reporting of debt repayment information. It establishes when a credit reporting agency may provide a report to someone; states that obsolete information must be taken off (7 or 10 years); gives consumers the right to know what is in their credit report; requires that both a credit bureau and information provider (Example: department store) have an obligation to correct incorrect information; gives consumers the right to dispute inaccurate information and add a 100-word statement to their report to explain accurate negative information; and gives consumers the right to know what credit bureau provided a report when they are turned down for credit.

Fair Credit Billing Act

Federal law that covers credit card billing problems. It applies to all open-end credit accounts (Example: credit cards, overdraft checking). States that consumers should send a written billing error notice to the creditor within 60 days (after receipt of first bill containing an error); creditor must acknowledge in 30 days; creditor must investigate; and creditor may not damage a consumer's credit rating while a dispute is pending.

Fair Debt Collection Practices Act

Federal law that prohibits debt collectors from engaging in unfair, deceptive, or abusive practices when collecting debts. Collectors must send a written notice telling the amount owed and name of the creditor; collector may not contact consumer if he or she disputes in writing within 30 days (unless collector furnishes proof of the debt); collectors must identify themselves on the phone and can call only between specified times unless a consumer agrees to another time; and collectors cannot call consumers at work if they are told not to.

Equal Credit Opportunity Act

Federal law that requires that consumers be given an equal ability to receive credit. Prohibits discrimination on the basis of gender, race, marital status, religion, national origin, age, or receipt of public assistance. Lenders cannot ask about your plans for having children or refuse to consider consistently received alimony or child support payments as income. If you are denied credit, you have a legal right to know why.

Truth in Lending Act

Federal law that mandates disclosure of information about the cost of credit. Both the finance charge (i.e., all charges to borrow money, including interest) and the annual percentage rate or APR (i.e., the percentage cost of credit on a yearly basis) must be displayed prominently on forms and statements used by creditors. The law provides criminal penalties for willful violators, as well as civil remedies. It also protects you against unauthorized use of your credit card. If it is lost or stolen, the maximum amount you have to pay is \$50.

GLOSSARY



Fair Credit and Charge Card Disclosure Act

A part of the Truth in Lending Act that mandates a box on credit card applications that describes key features and costs (i.e., APR, grace period for purchases, minimum finance charge, balance calculation method, annual fees, transaction fees for cash advances, and penalty fees such as over-the limit fees and late payment fees).

Credit Line (also called a Line of Credit)

The amount of credit that is available for purchases or cash advances on a credit account.

Credit Rating (also called Credit Score)

A number that indicates a person's creditworthiness based on the use of credit, credit payments, employment, and other information.

Credit Report

Financial information collected by businesses and used by lenders to determine creditworthiness of individuals. This information contains an individual's personal and employment history, as well as payment history of all debts.

Credit Unions*

Not-for-profit cooperatives of members with some type of common bond (Example: an employer) that provide a wide array of financial services, often at a lower cost than banks.

Creditor

A person or company to whom a debt is owed.

Debit Card

A card that provides for the payment of goods and services purchased with the card, subtracted directly from funds held in a person's bank account.

Deflation*

A broad, overall drop in the price of goods and services; the opposite of the more common inflation.

Direct Deposit

A person signs an agreement to have payments such as salary, Social Security, investment income, or other funds sent directly into a bank account. This is a safe, convenient way to have immediate access to money.

Disposable Income*

Income remaining after income and payroll taxes are deducted from gross pay; income available to spend or save.

GLOSSARY

**Diversification**

The process of spreading assets among different investments to reduce the risk of a decline in value of an investor's total portfolio from a decline in any one investment. Example: A person may include stocks, bonds, and life insurance as part of a complete retirement investment program.

Dividend*

A payment to shareholders that a company's board of directors approves from earnings.

Dollar Cost Averaging*

Investing regular sums of money (Example: \$50) at regular time intervals (Example: quarterly) regardless of whether security prices are moving up or down.

Due Date

The date a bill must be paid to keep an account current and avoid interest and penalty fees.

Earned Income*

Payment received for work, such as wages, salaries, commissions, and tips.

Earned Income Tax Credit (EITC)

A refundable federal income tax credit for low-income working individuals and families.

Employee Benefit*

Something of value that an employee receives in addition to a wage or salary. Examples include health insurance, life insurance, discounted childcare, and subsidized meals at the company cafeteria.

Employer-Sponsored Retirement Savings Program*

Tax-deferred savings plans offered by employers that provide a federal tax deduction, tax-deferral of contributions and earnings, and, in some cases, employer matching. They include 401(k) plans for corporate employees, 403(b) plans for employees of schools and non-profit organizations, and Section 457 plans for state and local government employees.

Employer-Sponsored Savings Plan*

A government-approved program through which an employer can assist workers in building their personal retirement funds.

Endorsement

A written mark on the back of a check, such as a signature, entitling the payee to either receive or transfer payment.

Entrepreneur*

A person who starts a business.

GLOSSARY

**Expense***

The cost of a good or service.

FDIC (Federal Deposit Insurance Corporation)

A federal agency, established in 1933, that protects most deposits against certain losses of up to \$100,000.

FICA (Federal Insurance Contributions Act)

The legislation that funds Social Security. FICA deductions are made from an individual's paycheck, then sent by employers to the government.

Finance Charge

Charges to borrow money, including interest.

Financial Advisor (also called a Financial Planner)

A person who gives financial advice. Check the credentials to be sure a Financial Advisor or Planner is a qualified and/or certified professional.

Financial Goals*

Short, intermediate, and long-term goals that require money and guide a person's future plans and savings decisions.

Financial Plan*

A plan of action that allows a person to meet not only the immediate needs but also the long-term goals.

Financial Resources*

Financial assets that can be accessed when necessary.

Fraud*

An intentional deception of a fact by one person to another.

Garnishment

A court order requesting that an employer deduct a percentage of the employee's paycheck and send it to the creditor before the paycheck is given to the employee.

Government Transfer Payments*

Payments by governments, such as Social Security, veterans' benefits, and welfare, to people who do not supply current goods, services, or labor in exchange for these payments.

Grace Period*

A time period during which a borrower can pay the full balance of credit due and not incur any finance charges.

Gross Pay

The total amount of your pay, before deductions for FICA, health insurance, taxes, and other expenses.

GLOSSARY



Home Equity Loan, Home Equity Line of Credit

A loan or line of credit issued on the current value of your home minus the outstanding liens. Example: If your home cost \$150,000 and now has a market value of \$200,000, you may qualify for a Home Equity Loan or Line of Credit for \$50,000 or more, depending on how much of a down payment you made and how much of your mortgage principal is outstanding.

IDA (Individual Development Account)

Special savings accounts that help low-income consumers build financial assets. IDA savings deposits are increased with matching funds from sponsoring community-based organizations and financial institutions, and can be used to buy homes, pay for post-secondary education, start a small business, or save for retirement.

Identity Theft

Crime committed when someone gains access to and uses another person's credit card numbers, Social Security number, birth date, checking and savings account numbers, driver's license, automobile records, or other important personal information, and uses that person's identity for a fraudulent purpose, such as setting up accounts without permission.

Income*

Earnings from work or investment. (See **Compensation**.)

Inflation*

A broad, overall rise in the price of goods and services; the opposite of the less common deflation.

Insurance

Protection against the loss of life, health, home, car, or other valuables.

Interest*

Money paid to savers and investors by financial institutions, government, or business entities for the use of their money (Example: 5% interest on a Certificate of Deposit or 6% interest on a bond).

Interest-Only Loan

A loan that is structured so that the payments are only interest; no part of the principal is paid. Example: The monthly cost of an interest-only loan for a home mortgage would be just the monthly interest rate; at the end of the loan term, the original purchase price of the loan is still due.

Investing*

The process of setting money aside for the purpose of increasing over time and accumulating funds for long-term financial goals, such as retirement.

Investor*

One who buys securities, such as stock and bonds, to achieve long-term financial goals.

GLOSSARY

**IRA (Individual Retirement Account)**

A tax-deferred savings account for individuals.

Ledger

(See **Check Register**.)

Lien

A court order that allows a creditor to place a claim on property, investments, funds, or other types of property owned by a debtor who is in default on an obligation, such as a loan. A lien lets a creditor recover the losses from unpaid debt.

Liquidity*

The quality of an asset that permits it to be converted quickly into cash without loss of value.

Loss*

The negative difference between total revenue from a business or investment minus total expense.

Medicare*

A federal government program of transfer payments for certain health care expenses for citizens 65 or older. The Social Security Administration manages the program.

Money Market Account

A type of savings account that may be protected by the FDIC, with minimum balance requirements and usually higher interest rates than other types of savings accounts.

Money Order

A payment instrument that can be bought at the Post Office or another institution and used to pay funds, instead of cash.

Money Wire (Transfer)

The process of sending money from one individual or bank to another, sometimes between countries.

Mortgage Loan

A loan to pay for property, usually a house. For most people, a mortgage loan is the largest financial obligation they apply and qualify for in a lifetime.

Mutual Funds*

Investment companies that pool money from shareholders and invest in a variety of securities, including stocks, bonds, and short-term money market assets.

GLOSSARY

**National Credit Union Administration (NCUA)**

A federal agency that charters and oversees federal credit unions. The NCUA insures deposits at federal credit unions and at some state credit unions against certain losses.

Needs*

Those economic goods and services that are considered basic, such as food, clothing, and shelter.

Net Pay (also called Take-Home Pay)

The amount of money in your paycheck; total wage or salary (plus bonuses) minus payroll deductions.

Online Banking

Computer systems that allow consumers to check balances, pay bills, transfer funds, and complete other banking activities through the Internet.

Opportunity Cost*

The opportunity cost of a choice is the value of the best alternative given up. Example: If a person sells an investment that is worth \$40,000 and earns 8 percent per year – \$3200 – to buy a new car, the “opportunity cost” is \$3200 because that is how much the person gives up by using the investment. Most likely in this situation, the cost of financing the car would be higher than 8 percent so the buyer might be willing to pay this opportunity cost, compared with paying higher car-loan finance fees.

Overdraft

Lack of sufficient funds in a checking account to cover the full amount of a check. A bank or credit union will charge an Overdraft Fee – a service charge – to cover expenses involved in returning a check and handling other procedures caused by an overdraft.

Overdraft Protection

Procedure agreed upon by an account holder and a bank in advance to transfer funds from a savings or credit account to a checking account to cover insufficient funds.

Paycheck

The paper form or check that is the amount of money a person has earned during a specific period after taxes and other deductions.

Payroll Deduction* (also called Salary Deduction)

An amount subtracted from a paycheck as the government requires or the employee requests. Mandatory deductions include various taxes. Voluntary deductions include loan payments or deposits into saving accounts.

GLOSSARY

**Phishing**

An illegal search for credit information on the Internet by sending false e-mails to consumers and asking for or capturing financial information or codes. A growing problem that results in identity theft, financial loss, and damage to a person's credit score.

Principal

The amount of money borrowed or invested, not including fees, interest, or dividends. Example: A new car may cost \$23,000 but if you make a down payment of \$5,000 and get \$3,000 credit for your old car, the principal of your car loan will be \$15,000, the actual amount borrowed.

Profit*

The positive difference between total revenue from a business or investment, minus total expense.

Prospectus*

An official document that contains information required by the Securities & Exchange Commission to describe material facts concerning the issuer of a security or bond and the investment offered.

Purchasing Power*

A measurement of the relative value of money in terms of the quality and quantity of goods and services it can buy. Inflation decreases purchasing power; deflation increases it.

Rate of Return (also called Yield)

The amount earned as a return on an investment or deposit, expressed as a percentage of its cost. Example: If you earn \$3 annual return on a \$24 investment, divide \$3 by \$24 = .125 or a 12.5% rate of return.

Receipt

A written record that shows that a purchase has been made or a bill has been paid.

Rent

Regular payment by a tenant to a landholder (a landlord) for use of property.

Repossession

When the creditor takes back an item that has not been paid for according to a credit or other agreement.

GLOSSARY



Reverse Mortgage

A mortgage that allows a homeowner to receive payments based on the current market value of a property. Example: The Johnsons' home has a current market value of \$200,000 and no mortgage. A reverse mortgage would allow them to receive regular monthly payments against a portion of the market value. When the home is sold, the bank will be paid back the amount that the Johnsons received, plus bank charges as agreed upon in the reverse mortgage contract.

Revolving Credit

A credit agreement that makes credit available again after the payment for its use. Example: A \$500 overdraft credit account will have \$500 available after all the interest, fees, and outstanding principal is paid.

Risk*

Exposure to loss of investment capital due to a variety of causes such as business failure, stock market volatility, and interest rate changes. In business, the likelihood of loss or reduced profit.

Risk Management*

Procedures to minimize the adverse effect of a possible financial loss by: 1) identifying potential sources of loss; 2) measuring the financial consequences of a loss occurring; and 3) using controls to minimize actual losses or their financial consequences.

Rule of 72*

A quick way to calculate how long it will take to double a sum of money. Divide 72 by the expected interest rate to determine the number of years. Example: $72 \text{ divided by } 8\% = 9 \text{ years}$.

Salary*

Payment for work, usually calculated in periods of a week or longer. Salary is usually tied to the completion of specific duties over a minimum but not maximum number of hours. (See **Wage**.)

Salary Deduction (also called Payroll Deduction)

An amount subtracted from a paycheck as the government requires or the employee requests. Mandatory deductions include various taxes. Voluntary deductions include loan payments or deposits into saving accounts.

Savings*

The process of setting aside money until a future date instead of spending it today. The goal of saving is to provide funds for emergencies, short-term goals, and investments.

Savings Accounts*

Accounts at financial institutions that allow regular deposits and withdrawals. The minimum required deposit, fees charged, and interest rate paid varies among providers.

GLOSSARY



Savings Bond*

A bond is a certificate representing a debt. A U.S. Savings Bond is a loan to the government. The government agrees to repay the amount borrowed, with interest, to the bondholder. Two types of savings bonds are Series EE and inflation-adjusted I bonds. Savings bonds are often purchased through payroll deduction or at financial institutions in denominations of \$50 to \$10,000.

Savings & Loan Associations* (also called S&Ls)

Financial institutions that provide loans and interest-bearing accounts. Accounts in federally chartered S&Ls are federally insured up to available limits.

Simple Interest*

Interest credited daily, monthly, quarterly, semiannually, or annually on principal only, not previously credited interest.

Social Security*

A federal government program of transfer payments for retirement, disability, or the loss of income from a parent or guardian. Funds come from a tax on income, a payroll deduction labeled "FICA."

Stocks

A type of investment where investors hold shares of a corporation, which may rise or fall in value.

Take-Home Pay

(See **Net Pay**.)

Tax*

A government fee on business and individual income, activities, or products.

Tax Credit*

An amount that a taxpayer who meets certain criteria can subtract from tax owed. Examples include a credit for earned income below a certain limit and for qualified post-secondary school expenses. (See **Tax Deduction, Tax Exemption**.)

Tax Deduction

An expense that a taxpayer can subtract from taxable income. Examples include deductions for home mortgage interest and for charitable gifts. (See **Tax Credit, Tax Exemption**.)

Tax-Deferred*

Investments where taxes due on the amount invested and/or its earnings are postponed until funds are withdrawn, usually at retirement.

Tax-Exempt (Tax Free)*

Investments (Example: municipal bonds) whose earnings are free from tax liability.

GLOSSARY



Tax Exemption*

An amount that a taxpayer who meets certain criteria can subtract from taxable income. Examples include exemptions for each dependent or for life insurance proceeds. (See **Tax Credit**, **Tax Deduction**.)

Taxable Income*

Income subject to tax; total income adjusted for deductions, exemptions, and credits.

Term

The period of time during which a loan must be paid or interest is accrued on an investment. Example: The term of an auto loan can be four or five years; the term of a Treasury bill can be one year.

Time Value of Money*

Comparison of a lump sum of money, or a series of equal payments, between two different time periods (Example: present and future), assuming a specified interest rate and time period. (Reference: *The Time Value of Money* by Clayton and Spivey.)

Tip*

An amount paid beyond what's required, usually to express satisfaction with service quality; also known as a gratuity.

Transfer

(See **Money Wire**.)

Transfer Payments

(See **Government Transfer Payments**.)

Travelers' Checks

Documents that function as cash but can be replaced if lost or stolen. Travelers' checks are often used when traveling to other countries.

Unearned Income*

Money received for which no exchange was made, such as a gift.

Wage*

Payment for work, usually as calculated in periods of an hour rather than longer. (See **Salary**.)

Wants*

Desires for economic goods or services, not necessarily accompanied by the power to satisfy them.

Wealth*

Accumulated assets such as money and/or possessions, often as a result of saving and investing.

GLOSSARY

**Withdrawal**

Removal of money from a bank or credit union account.

Yield (also called Rate of Return)

The amount earned as a return on an investment, expressed as a percentage of its cost. Example: If you earn \$3 annual return on a \$24 investment, divide \$3 by \$24 = .125 or a 12.5% rate of return.

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