

Banking & Interest Terms - Cheat Sheet

Term	Explanation
Interest	The cost of money you are borrowing OR the return on money you are saving/depositing..
Compound Interest	Interest you earn/pay on interest.
Inflation	<p>Rate at which the value of a currency is falling and, consequently, the general level of prices for goods and services is rising.</p> <p><i>Simply put, inflation is the increase in prices over a given period of time - e.g. what cost \$2 a year ago, now costs \$2.50.</i></p> <p>Inflation is healthy for the overall economic growth (~2-4% depending on industry).</p>
Annual Percentage Rate (APR)	Rate of return charged to borrowers.
Annual Percentage Yield (APY)	Rate of return earned on savings.
Prime Rate	The lowest rate of interest at which money may be borrowed commercially. This rate is set by individual banks.
Net Interest Margin	Refers to the difference between what the bank charges (when borrowing), and what it pays (interest on savings).
Fixed Interest Rate	Rate that <u>does not change</u> throughout the life of the liability (loan, ...) or asset (savings, CDs, ...).
Step (Adjustable) Interest Rate	Rate that <u>will/might change</u> throughout the life of the liability (loan) or asset (savings, CDs,...) based on the market.
Open Market Operations (OMO)	Open market where the central bank buys or sells short-term Treasuries and other securities in order to influence the money supply to regulate the inflation rate.
ACH Transfer (Automated Clearing House Transfer)	An electronic, bank-to-bank money transfer processed through the ACH Network. E.g. Direct deposit, paying bills online, ...
Direct Deposit	Any electronic transfer made from a business or

	government entity to a consumer.
Minimum Balance	The minimum amount of money (cash) to open or maintain a bank account.
Overdraft	Extension of credit granted when your account reaches \$0, and you continue to withdraw/use money from the account.
Check	Written, dated, and signed instrument that directs a bank to pay a specific sum of money.
Money Market Account (MMA)	Hybrid between checking and savings account that often pays high interest. Sometimes, you may also write checks or make purchases from this account, but there might be a monthly withdrawal limit. Minimum balance and fees may be applied as well.
Certificate of Deposit (CD)	Type of bank account that can be considered as a savings account, where you deposit money for a certain amount of time (usually 6 months - 5 years).