

Banking Terminology

Account

Refers to a running record of transactions which are taking place between two transactors, who may be in two departments of one business and a basic element in all systems of recording business transactions. In retail trading it refers to the credit facility which is automatically extended to a customer with whom an account is operated.

Annuity

A regular annual payment of money purchased by an immediate lumpsum prepayment.

Asset

When the balance sheet of a business is drawn up, everything which it owns at the time which has a money value is listed as an asset. They may be classified as:

- (1) Current Assets – consisting of cash, stock and book debts.
- (2) Fixed Assets – consisting of buildings, plant and machinery.
- (3) Intangible Assets – being the value of goodwill, patents.

Bail Out

To rescue a company which is in financial difficulties. **Ex:** The US government recently bailed out insurance company AIG.

Balance Sheet

This is an ordered statement of the economic resources or assets of a company or other business

organisation, each item having a value set upon it; the financial claims of persons or organizations upon the value of these assets.

Bank Credit

Refers to the lending by the banking system, by whatever means: bank advances, discounting bills or purchasing securities.

Bank Deposits

The funds deposited in bank accounts. In reality they are simply records of indebtedness of a bank to the depositor and they arise from the character of banks as financial intermediaries.

Bank Note

A note issued by a bank for a sum of money which it promises to pay the bearer on demand.

Bank Rate

Bank Rate is the rate of discount at which the central bank of the country discounts first class bills. It is the rate of interest at which the central banks lends money to the commercial banks. Bank rate is a direct quantitative method of credit control in the economy.

Bankruptcy

A legal proceeding under which the property of an insolvent debtor is taken for the benefit of his creditors generally.

Bill

A short-term debt instrument, which is in the form of a document ordering the drawee (i.e., the

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debtor) to pay the drawer (the creditor) a stated sum at a specified date, or 'at sight' which means on demand. Once it is accepted, i.e., signed by the drawee (who may be an accepting house or bank) and 'endorsed', i.e., signed on the back by the acceptor, a bill becomes negotiable and may get discounted, i.e., sold at a discount on its face value, at a rate which reflects current short term rates of interest.

Bill of Exchange

A Bill of Exchange is an instrument in writing, containing an unconditional order, signed by the banker, directing a certain person to pay a certain sum of money only to or to the order of a certain person or to the bearer of the instrument.

Bridge Loan

A loan made by a bank for a short period to make up for a temporary shortage of cash.

Call Loan

A loan which may be terminated or called at any time by the lender or borrower.

Call Money

Funds borrowed by discount houses from the clearing houses banks in many countries, and which they employ in holding a portfolio of assets. A high proportion of these funds are borrowed literally "at call."

Capital Asset

The term used for an asset, which is not bought or sold as part of the everyday running of a business. Examples include real estate, plant equipment.

Capital Expenditure

Expenditure of a non-recurrent nature resulting in the acquisition of assets.

Cash

Money in the form of bank notes and coins.

Cash Cow

Units in large business enterprises which yield high earnings but often have low growth potential.

Cash Discount

A deduction from a price charged payment made before a certain date

Cash Flow

Refers to the sum of retained earnings and depreciation provision made by firms. As such it is the source of internally generated long – term funds available to the company.

Cash Reserve Ratio (CRR)

Refers to the liquid cash that banks have to maintain with the Reserve Bank of India (RBI) as a certain percentage of their demand and time liabilities.

Certificate of Deposit (CD)

A document, which is issued by a bank acknowledging a deposit of money with it and constituting a promise to repay that sum, to the bearer, at a specified future date. It is negotiable i.e., can be transferred.

Cheap Money

A term used to describe a situation where bank rate and other rates of interest are low. A policy of cheap money may be adopted in a time of industrial depression to stimulate recovery.

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Cheque

A cheque is a bill of exchange drawn on a specified banker and not expressed to be payable otherwise on demand.

Collateral Security

An additional security in addition to the personal security offered by a borrower.

Commercial Banks

A general term denoting those banks, which conduct a general rather than a specialized type of business. They accept deposits, make advances, etc.

Consumer Credit

Refers to a loan, which is given to the consumer for a short period of time, for the purchase of a specific commodity. This can take the form of hire purchase or be in the form of a personal loan from a bank.

Credit

A wide term which has been used in connection with operations or states involving lending, generally at short-term. To 'give credit' is to finance, directly or indirectly, the expenditure of others against future repayment.

Credit Card

A card which is issued by a bank or group of bodies or other agency which provides the holder direct access to credit e.g., from a merchant location, hotel etc., or, in the case of some cards issued by banks, to cash from the banks operating the particular scheme.

Credit Rating

Means an evaluation of the soundness of an individual or business firm as a credit risk. It is usually based on

- (1) company's track – record
- (2) company's current and prospective business
- (3) financial risk
- (4) quality of management.

Crossing

This means drawing two parallel lines across the face of a cheque, the effect of which is to make it necessary to pay it into a banking account.

Dear Money

A period when rates of interest are high, so that borrowing is expensive.

Debt

Refers to a sum of money, or quantity of goods or services, owned by one individual or body to another.

Deed

A deed is a legal document or written agreement. There are different types of deeds viz, deed of assignment, deed of partnership etc.,

Demand Draft

A Demand Draft is a Bill of Exchange and negotiable instrument.

Demonetisation

To deprive a coin or note of its value

Devaluation

Refers to a fall in the external value (or exchange rate) of one currency vis-à-vis other currency.

Discount

- (1) An inducement offered by a creditor to debtors to pay promptly. (Cash Discount).
- (2) A deduction from the catalogue price of an article generally allowed by a wholesaler to a retailer, that is, trade discount.

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- (3) With reference to a bill of exchange, to discount a bill means to acquire it by purchase for a sum less than its face value, the amount of this discount depending partly on the length of the unexpired term of the bill and partly on the amount of risk involved.
- (4) When a recently issued stock falls below its issue price it is said to stand at a discount.

Dishonour

A Bill of Exchange is dishonoured when the drawee has insufficient funds to discharge it when it falls due for payment. Similarly, a cheque is dishonoured when the drawee has insufficient funds to meet it.

Drawer

One who makes out or writes the cheque.

Drawee

Person or bank asked to make payment by the drawer.

Easy Money

Refers to a general state of ease and cheapness of borrowing in the financial system. It may result from policy action to reduce interest rates, increase liquidity of the banking system, release any non-price restrictions on lending like credit ceilings and restrictive conditions on hire-purchase contracts.

Fiat Money

Money which the State declares to be legal tender.

Finance

The term is applicable to funds from almost any source which is used to undertake any kind of expenditure.

Hot Money

Money that moves across country/borders in response to interest rate differences and that, which moves away when the interest rate differential disappears.

Hypothecation

Refers to the pledging of securities as collateral; for example to secure the debit balance in a margin account.

Idle Money

An inactive money that does not contribute to productive assets in an economy. It results from what Keynes called 'Liquidity Preference' i.e.; the desire to hold money rather than risk it on interest-earning assets, or goods which may have little utility.

Insolvent

Means the state of being unable to pay one's debts.

Interest

A payment by a borrower for the use of a sum of money for a period of time. It is the reward for the use of capital in the process of production.

Lease

The term used for an agreement in which one agent obtains the right of use of some property owned by another agent for a given period of time in return for an agreed fixed charge (which is generally paid in periodic instalments).

Letter of Credit

A document which is issued by a bank on behalf of a customer which guarantees payment by the bank of cheques drawn by the customer, or more commonly today of bills drawn on that customer

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by parties from whom he has bought goods. Letters of Credit are used largely in association with bills of exchange, to which they give added security in the financing of foreign trade.

Letter of Hypothecation

The term used for a letter from an exporter to his bank authorizing it, in the event of the importer failing to accept or pay a bill of exchange, to sell the goods exported and remit the proceeds less expenses.

Liabilities

Refers to any claims, actual or potential, of an individual or institution. The term usually refers to financial liabilities of which the commonest form has been a debt of any kind. Thus, some deposits, which are bankers' debts, are commonly termed as 'deposit liabilities'.

Lien

Means a claim against property. A bond is usually secured by a lien against specified property of the company.

Liquid Assets

Means assets either in the form of money or which can be quickly converted into money.

Liquidity

The term indicates availability of cash, and of assets readily convertible into cash (called liquid assets), to meet immediate obligations; a volume of reserves plus credit facilities, reflected in an ability to meet current financial liabilities in cash.

Mortgage

Refers to the conveyance of property by a debtor (mortgager) to a creditor (mortgagee) as security

for a debt, with a condition that the property will have to be reconveyed on payment of the debt.

Micro finance

A type of banking service that is provided to unemployed or low income individuals or groups who would otherwise have no other means of getting those services.

Near Money

Assets which are readily convertible into money e.g. deposit accounts, deposit with savings banks and building societies, and certain short-term agreement securities.

Negotiable Instrument

A claim, the title to which passes by delivery. Examples of such claims include bills of exchange, cheques, promissory notes, dividend warrants and debentures payable to bearer. Transfer is by delivery only. A bill of exchange payable to a certain person 'only' is not a negotiable instrument. Neither is a cheque with 'not negotiable' written on it. Bill of Lading, Dock Warrants, and Postal Orders are not negotiable.

NINJA

Sub-Prime borrowers can be categorized as "NINJA" i.e., No Income, No Job and No Asset.

Overdraft

Refers to a system of bank lending, by which the borrower is permitted to draw cheques beyond the credit balance in his account, up to an agreed limit, and to pay interest only on the daily amounts by which the account is overdrawn.

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Paper Note

A general term which is used for money in the form of bank notes.

Pass Book

A book supplied to customers by a bank, in which entries are made of all deposits and withdrawals.

Prime Lending Rate (PLR)

Interest rate charged by banks to their largest, most secure and credit worthy customers on short-term loans.

Probation

Probation is a period when a new worker is being tested before getting a permanent job.

Pro Forma

An invoice sent to a buyer before the goods are sent, so that payment can be made or business documents can be produced.

Repo

Repo is a short term for repurchase agreement for RBI selling a government security at a competitive rate in the market to absorb what it considers is excess liquidity. The buyers are either banks or registered primary dealers.

Repo Rate

A transaction where funds are borrowed through the sale of short term securities by the money market to the Central Bank. It is a means of

relieving short term shortage of funds and used as a device for monetary control.

Reverse Repo Rate

The sale of securities is by the central bank to the money market.

Revolving Credit

A loan facility that is renewed as it is repaid and may be used repeatedly. Also termed as open end credit. A credit card limit is a form of revolving credit.

Securitisation

The process of converting a bank loan into a marketable, negotiable security.

Statutory Liquidity Ratio (SLR)

Refers to the amount that all banks require to maintain in cash or in the form of Gold or approved securities.

Sub Prime Crisis

The crisis in the financial services sector starting in the United States due to sanctioning of loans to “subprime borrowers” [sub-standard borrowers]

Sweep facility

An automatic service available on some bank accounts that shifts credit balances into a deposit account where they will earn interest.