Defining Common Banking Terms

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Below you'll find a list of common banking services and terms, compiled to assist you in making your banking decisions in case there are some terms that you aren't familiar with.

Chequeing

Chequeing accounts are one of the most common types of bank accounts in the world, but there are some individuals who might not be sure exactly how the cheque writing process works. Basically, a cheque is a form of contract between an individual and the recipient - the cheque is submitted to the recipient's bank, and its value is transferred from the writer's account to the recipient's.

Debit

Working on much the same principal as a cheque, debit cards transfer funds from an account held by the user and an account held by a business or individual. Unlike cheques, however, the debit card uses credit card processors and doesn't require the same amount of time as cheque writing. Additionally, there aren't any cheques to write and no chequebook to carry around.

Interest

Interest is a term that can have two meanings, depending upon which type of banking service it's used in conjunction with. When used with savings, chequeing, or money market accounts, interest is the amount that is paid to you monthly based upon the balance that you have. For loans, credit cards, and other such services, however, interest is an additional fee that you pay that is added on to the monthly balance of your debt.

Annual Percentage Rate

The annual percentage rate, or APR, is used when determining interest on credit cards. The APR is based upon national interest rates and other rates determined by the bank and dependant upon the credit rating of the cardholder. The APR that you pay may fluctuate, and the lower it goes the less interest you have to pay each month.

Equity

Equity is a representation of how much of a mortgage has been paid off - some people look at it as how much of your home or real estate you actually "own". This percentage of how much debt has been cleared from your property can be used as collateral for some types of loans, and can be an important factor in refinancing a home loan.

Balloon Payment

A balloon payment is a specific type of mortgage payment, and is named "balloon payment" because of the structure of the payment schedule. For balloon payments, the first several years of payments are smaller and are used to reduce the total debt remaining in the loan. Once the small payment term has passed (which can vary, but is commonly 5 years), the remainder of the debt is due - this final payment is the one known as the "balloon" payment, because it is larger than all of the previous payments.

Closing Costs

Closing costs are additional costs associated with the purchase of real estate and some other high-value items. Once the loan has been approved to pay for the purchase and all of the paperwork has been completed, various costs associated with filing, legal fees, and other commonalities are due at the time of closing the deal. While there are some mortgage lenders who don't charge closing costs, they are required in most cases.

Short note about the author

John Mussi is the founder of Direct Online Loans who help homeowners find the best available loans via the www.directonlineloans.co.uk website.

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