

Financial terms glossary

A

AER

This stands for annual equivalent rate which is quoted by financial institutions, such as banks, to show how much the interest rate would be if the interest was worked out once a year. It's to make it easier for people to judge how much interest they pay (or receive) when it's being worked out more than once a year. It is also intended to make it easier to compare different financial products.

APR

This stands for annual percentage rate. It's intended to give people a more accurate idea of how much they are being charged when they borrow money.

Assets

Things that provide income or other value to their owner e.g. money in the bank, buildings, vehicles and stock.

Arranged overdraft

If a bank agrees to let a customer borrow money as a result of spending more than the customer has in their account, an overdraft is created. An arranged overdraft is when a customer agrees with the bank to borrow more than what is in their account and they set an agreed limit with their bank. The bank may charge interest on the amount borrowed. Arranged overdrafts are cheaper than unarranged overdrafts, so you should always try to agree an arranged overdraft with your bank if your outgoings are going to exceed your income.

B

Balloon payment

Some loan and finance agreements have lower repayments than normal in return for a large one-off payment at the end of the agreement.

Bankruptcy

A legal procedure where the debtor's assets are liquidated by the court to account for financial obligations. Although the debtor is able to start over, the negative action remains on the credit report for seven to 10 years.

Base rate

The key interest rate set by the Bank of England. It is the overnight interest rate that it charges to banks for lending to them. The base rate - and expectations about how the base rate will change in the future - directly affect the interest rates at which banks are willing to lend money in sterling.

Basic-rate tax

Once you have used up all your tax allowances and all your lower-rate tax band, you pay basic-rate tax. The basic rate is 20% at the moment (2019).

Bond

A bond is a written promise to repay a debt at an agreed time and to pay an agreed rate of interest on that debt.

Budget

Each year, the Chancellor of the Exchequer presents to the UK parliament estimates of the Government's income and spending for the following year. The budget also sets out the financial policies the Government will follow. You can read more about the current budget [here](#).

C

CCJ

This stands for County Court Judgement. If you receive a County Court claim form, talk to Ben or a free debt advice service right away.

Compound interest

Compound interest is interest on the money lent, plus interest on any interest already added to the loan.

Credit agreement

This is a written contract between a bank or other lender and a customer. The bank allows the customer to borrow money under the terms and conditions in the agreement.

Credit card

A credit card is an identity card issued by a lender, such as a bank, to a customer. The card allows the customer to buy on credit. It's worth being aware that there tends to be a high charge to take money out on credit cards through cash machines.

Credit limit

This is the most a customer is allowed to borrow on their account.

Credit score

Your credit score is a number that represents the risk a lender takes when you borrow money. To find out what your credit score is, you can use an online organisation like ClearScore or Experian.

Critical illness cover

This is a type of insurance cover which pays out if the policyholder gets a serious illness such as heart disease or cancer.

D

Dependant

A dependant is someone who depends on someone else for financial support.

E

Excess

This is the amount by which someone has gone over their agreed overdraft facility. It is also the first amount of any claim an insurance policyholder has agreed to pay.

ESA

If you're ill or disabled, Employment and Support Allowance offers financial support if you're unable to work and personalised help so that you can work if you're able to. You can apply for ESA if you're employed, self-employed or unemployed.

F

Finance lease

Under this type of agreement, the organisation supplying the goods is treated as if it owns the goods or assets. The "lessor" grants the right to use the goods or assets for an agreed period of time to the other party, known as the "lessee". The lessor gains the profits that would come with ownership but it also suffers the losses.

Fixed interest rate

This is an interest rate which doesn't change during the life of a loan. This allows the borrower to accurately predict their future payments.

G

Guarantee

A guarantee is sometimes needed before a bank will lend money to a customer. Another person (the guarantor) pledges to the bank, in writing, that if the customer does not repay the debt then the guarantor will.

Gross interest

This is the annual rate of interest, usually on an investment or savings account, which has not had any income tax taken out of it. Gross interest is expressed as a percentage.

Gross profit

Gross profit is the difference between the selling price of goods and what they cost to buy. Gross profit is profit before operating expenses, interest payments and taxes. Gross profit is also known as gross margin.

Ground rent

A ground rent is a rent created by a long-term lease of land.

H

Hire purchase

This is a form of credit which allows the purchaser to have possession of the goods shown in the agreement whilst making equal monthly instalments to repay the cost of the goods, plus any interest. Ownership passes to the purchaser when they have paid all the instalments and any fees and interest. With Hire Purchase agreements, there is no balloon payment. However, monthly payments will be higher compared to finance agreements with a balloon payment.

I

In arrears

Late making a regular payment e.g. rent.

Income tax

You pay this tax according to how much income you have under various categories, including income from employment, income from pensions, interest on savings, rental income, employment benefits, or income from a trust. If you are an employee, income tax from employment is deducted from your salaried pay through PAYE (Pay As You Earn).

Those who are self-employed or have any other types of income mentioned above must file a self-assessment tax return each year. The basic rate of income tax is 20% for those earning between £11,851 -£46,350 in the tax year 2018/19. Those earning between £46,351 - £150,000 in 2018/19 pay the higher rate of income tax (40%). If earnings in the tax year 2018/19 exceed £150,000, income is taxed at 45% (additional rate). If your taxable income is below £11,850, then you are not required to pay income tax.

Inflation

This is the name for general price increases.

L

Lower earnings limit (LEL)

An amount set by the government each year. If you earn below this limit, you don't pay national insurance contributions.

Liabilities

These are debts that a person or an organisation owes.

Lien

A lien is the right for someone who owes a debt to keep possession of something, until the debt has been settled.

O

Overdraft

If a bank agrees to let a customer borrow money as a result of spending more than the customer has in their account, an overdraft is created. An arranged overdraft is when a customer agrees with the bank to borrow more than what is in your account and you set an agreed limit with your bank. The bank may charge interest on the amount borrowed.

An unarranged overdraft is where there is no prior agreement with the bank to borrow more than what is available in an account. This might be caused by a direct debit leaving the account and taking the available funds below £0. Banks usually penalise you for using an unarranged overdraft by charging you a daily fee. Arranged overdrafts are therefore cheaper than unarranged overdrafts.

P

Payment protection insurance

This insurance covers people's finance agreement repayments if they can't work due to long-term illness or redundancy.

Personal allowance

Some people don't have to pay income tax on all their income. Everyone gets a tax-free allowance which allows them to have some income which they don't have to pay tax on. However, the amount varies depending on personal circumstances. For the tax year 2018/19, the standard Personal Allowance is £11,850.

Personal budget

A personal budget is a plan or a template that allocates future personal income towards expenses, savings and debt repayment. You can find out more about budgeting here.

Pledge

If someone pledges goods, they let a second person take possession of the goods, but the person pledging the goods still owns them. It's often done as security for money owed or to make sure that something is done as promised.



R

Redemption

This means paying off all the money borrowed under an agreement.

S

Surcharge

This is an extra charge banks make if a customer doesn't keep to their agreement with the bank. It is also a penalty charged if tax is not paid on time.

Surety

A surety is someone who takes responsibility for someone else's debts or promises, and guarantees that they will be paid or undertaken.

U

Unarranged overdraft

If a bank lends money as a result of a customer spending more than they have in their account, an overdraft is created. This might be caused by a direct debit leaving their account, which takes their available funds below £0. An unarranged overdraft is where there is no prior agreement with the bank to borrow more than what is available in your account.

Banks usually penalise you for using an unarranged overdraft by charging you a daily fee. Arranged overdrafts are cheaper than unarranged overdrafts, so you should always try to agree an arranged overdraft with your bank if your outgoings are going to exceed your income.

www.ben.org.uk

Free, confidential helpline 08081 311 333

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