

BANKING & FINANCE

at the market: an order that the broker has executed at the best price available after it was received by the broker on the floor of the exchange, synonymous with *market order*. see *limit order*.

deficit spending: the spending of public funds raised by borrowing rather than by taxation. A fiscal activity often associated with the government that spends more than it collects from taxes and other revenues. Some fiscal policy experts point out that an increase in the deficit stimulates the economy, whereas a decrease in the deficit has the opposite effect. cf. *deficit financing*.

Government National Mortgage Association (GNMA): an agency of the Department of Housing and Urban Development. Its primary function is in the area of government-approved special housing programs, by offering permanent financing for low-rent housing. Nick-name, Ginnie Mae. see *Ginnie Mae trusts*.

prime interest (rate): the rate of interest charged by a commercial bank for large loans made to its most credit-worthy business and industrial customers; it is the lowest interest rate charged by the bank. The prime rate level is determined by how much banks have to pay for the supply of money from which they make loans. In an inflated economy, banks pay increasingly higher rates for funds, and the prime rate rises. When inflation subsides, the prime rate usually drops. The Federal Reserve Bank's charge for negotiable business instruments, which is publicly established, influences the rate for all other business interest payments.

supply-side economics: a concept that shifts the emphasis from aggregate demand economics (which Keynes considered the most important economic variable) to investment and production. It lays great stress on the repressive role of taxes, and it leads logically to a strong endorsement of tax cuts designed to encourage investment.

tax shelter: the term applied to a means of legal avoidance of paying a portion of one's income taxes by a careful interpretation of tax regulations and adjustment of one's finances to take advantage of IRS rulings. The Tax Reform Act of 1976 placed new restrictions on tax shelters.

yo-yo stocks: highly volatile securities; these are high-priced specialty issues that fluctuate greatly in price.

zero-balance account: an arrangement, agreed to in advance by a drawee bank, under which a customer issues checks on an account even though funds do not exist in that account to cover the items. When the checks are physically presented to the drawee and posted, creating a minus balance, the bank contacts the customer, reports the overdraft figure, and transfers funds from another account to eliminate it, thus restoring the account to a zero balance. Commonly used by corporations that have many disbursing points and by many agencies of government.

JERRY M. ROSENBERG

FOREWORD BY DAVID ROCKEFELLER

DICTIONARY OF BANKING AND FINANCE

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FOREWORD

David Rockefeller
Chase Manhattan Bank,
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Chairman and Chief
Executive Officer (retired)

As I look back over nearly 35 years as a banker, I cannot help noting how much more complex banking is now than when I began my career. It has indeed been a business of change, with the rate of change itself continually increasing.

From all indications, this rapid change in the banking business is not likely to abate. Rather, all indicators suggest that it is likely to increase geometrically in the days ahead. Increasingly responsive communications and increasingly diverse and demanding market forces have led to more complex arrangements for lending, funding, money transfers, and other bank services. At the same time, increased competition has made it necessary for financial institutions to market their products and services more vigorously and effectively.

New international financial structures which have emerged in past decades have themselves induced other changes in banking—and it is likely that more structural changes will be created in the future to serve international financial needs and markets.

Meanwhile, on the domestic scene, crumbling statutory and regulatory barriers between banks and other kinds of

financial institutions, in conjunction with long overdue trends toward reduced regulation, have added new competition for commercial banks. New and more innovative competitive responses will no doubt be required.

New markets, new products, new regulatory constraints, new participants, and new competitors in the financial marketplace—all these represent challenges to clear understanding and communications in an increasingly complex and evolving business.

In this challenging atmosphere of transition and turmoil in the financial industry, effective communication—clear understanding among people and financial institutions—is absolutely fundamental to business effectiveness. Simply put, we must know how to express precisely what we mean, and we must be able to discern correctly the intended meaning of what is being said to us. The changes in our financial community, domestically and internationally, and the need to communicate more clearly make it essential that we use terminology accurately, and that we agree on the full meaning of the terms we use in our business affairs. This clarity of meaning is as important in our letters to associates and statements to the public

as it is in our highly structured financial communications, letters of credit, and loan agreements.

Thus, as we face a changing business and financial environment and recognize the need to communicate more clearly, I am confident that Professor Rosenberg's dictionary of terms in banking and finance will be welcomed by the community it seeks to

serve. I am particularly pleased that it reaches to the periphery of banking and financial services so that relevant terms in such areas as computer systems, organization, and manpower can be understood in their banking and financial contexts.

August, 1980

PREFACE

A revolution among financial institutions is under way. Differences between them are fading, arbitrary barriers to nationwide retail banking are threatened, and the dividing line between banking and securities is challenged.

Sweeping legislation passed in 1980—the Depository Institutions Deregulation and Monetary Control Act—ratified and extended innovation and price competition in the financial marketplace, and over the course of the next few years these changes will bring about a rationalization of the industry via interstate banking.

As the shape of financial institutions is transformed, savings and loan associations are going to take on more qualities usually attributed to commercial banks, and they will have to manage their assets and liabilities more like commercial banks.

In sum, with deregulation in banking and finance, change is bound to create a combination of threats and challenges, requiring a better awareness of the full range of strategies, options, and meanings open to all.

This dictionary is a practical guide and reference tool for proper handling of the many banking and financial problems and questions that arise in business every day. It provides a deeper understanding of operations, methods, and practices in the rapidly changing fields of banking and finance.

This work of approximately 10,000

entries has been prepared with the hope that awareness of the accepted meanings of terms may enhance the process of sharing information and ideas. Though it cannot eliminate the need for the user to determine how a writer or speaker treats a word, such a dictionary shows what usages exist. It should reduce arguments about words and assist in stabilizing terminology. Most important, it should aid people in saying and writing just what they intend with greater clarity.

A word can take on different meanings in different contexts. There may be as many meanings as there are areas of specialty. A goal of this dictionary is to be broad and to establish core definitions that represent the variety of individual meanings. My purpose is to enhance parsimony and clearness in the communication process within the banking and financial fields.

Many terms are used in different ways. I have tried to unite them without bias of giving one advantage or dominance over another. Whenever possible (without creating a controversy), I have stated the connection among multiple usages.

Commonly used symbols, acronyms, and abbreviations are given. Foreign words and phrases are included only if they have become an integral part of our English vocabulary.

Other dictionaries that deal with a similar subject tend to define their task rather narrowly, whereas this work pur-

ports to reach throughout all departments within banks and financial institutions by acknowledging that the sum of an organization is greater than any of its individual parts—the result, an all-inclusive dictionary of banking and financial terms.

The broad base in the banking and financial fields necessitated inclusion of terms within this dictionary from accounting, banking, brokerage, capital structure, capitalization, collections, commercial banking, commodities markets, computer systems, credit, credit unions, financial institutions, financial law, financial management, financial planning, financial reports, foreign trade, funding, government regulations and agencies, import-export, insurance, investments, lending, methods of financing, manpower and human resources, money concepts, mortgages, organization, personal finance, public finance, savings and loan associations, savings banks, securities markets, services, sources of bank and financial information, systems, transfers, and trusts.

ORGANIZATION

This is a defining work rather than a compilation of facts. The line is not easy to draw because in the final analysis meanings are based on facts. Consequently, factual information is used where necessary to make a term more easily understood.

All terms are presented in the language of those who use them. Obviously, the level of complexity needed

for a definition will vary with the user; one person's complexity is another's precise and parsimonious statement. Several meanings are sometimes given—relatively simple for the layman, more developed and technical for the specialist.

I have organized the dictionary to provide information easily and rapidly. Keeping in mind two categories of user—the experienced person who demands precise information about a particular word, and the newcomer, support member, teacher, or student who seeks general explanations—I have in most cases supplied both general and specialized entries. This combination of “umbrella” entries and specialized definitions should make this dictionary an unusually useful reference source.

FORMAT

Alphabetization. Words are presented alphabetically. Compound terms are placed where the reader is most likely to look for them. They are entered under their most distinctive component, usually nouns, which tend to be more distinctive than are adjectives. Should you fail to locate a word where you initially look for it, turn to a variant spelling, a synonym, or another, differing word of the compound term.

Entries containing mutual concepts are usually grouped for comparison. They are then given in inverted order; that is, the expected order of words is reversed to allow the major word of the phrase to appear at the beginning of

the term. These entries precede those that are given in the expected order. The terms are alphabetized up to the first comma and then by words following the comma, thus establishing clusters of related terms.

Headings. The currently popular term is usually given as the principal entry, with other terms cross-referenced to it. Some terms have been included for historical significance, even though they are not presently in common usage.

Cross-References. The rule followed for cross-references calls for going from the general to the specific. Occasionally, "see" references from the specific to the general are used to inform the user of words related to particular entries. "See" references to presently accepted terminology are made wherever possible. The use of "Cf." suggests words to be compared with the original entry.

Synonyms. The word "synonymous" following a definition does not imply that the term is exactly equivalent to the principal entry under which it appears. Usually the term only approximates the primary sense of the original entry.

Disciplines. Many words are given multiple definitions based on their utilization in various fields of activity. The definition with the widest application is then given first, with the remaining definitions listed by area of specialty (iden-

tified in boldface italic type). Since the areas may overlap, the reader should examine all multiple definitions of a term.

ACKNOWLEDGMENTS

No dictionary can be the exclusive product of one person's effort. Even when written by one individual, such a work requires the tapping of many sources, which is especially true of this book. By the very nature of the fields included, I have had to rely on the able and extensive efforts of others, especially the members of the Advisory Board.

When I have quoted a definition from another copyrighted source, a number in brackets appears at the end of the definition. This number indicates the primary reference used in defining the term which is identified in Appendix K of the dictionary. When no reference source is shown following a term, this suggests that I have not deliberately quoted the definition from any copyrighted source. Any apparent similarity to existing, unreleased definitions in these cases is purely accidental and the result of the limitations of language.

Much assistance has come indirectly from authors of books, journal articles, and reference materials. They are too numerous to be named here. Various organizations have aided me directly by providing informative source materials. Some government agencies and not-for-profit associations have provided a considerable amount of usable information.

On a more personal level, I thank the various individuals whom I used as a sounding board to clarify my ideas and approach; they offered valuable suggestions and encouraged me to go on with the project. Stephen Kippur, my editor, of John Wiley & Sons, had the foresight to initiate this book, and with sensitivity and creativity followed it through to publication. And I thank, once again, my wife Ellen and my daughters Lauren and Elizabeth, who showed understanding and offered full support during the preparation of this book.

FEEDBACK

The definitions given here have been reviewed by bank and finance specialists, and educators. However, I am solely responsible for choosing the terms to be included. The vast range of material makes it inevitable that definitions may vary based on perspective, background, and connotation. I welcome critical comments bringing errors to my attention, to make it possible to correct them in later editions, thus evolving a greater conformity of meaning for all.

JERRY M. ROSENBERG, PH.D.

New York
January, 1982

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A

A:

- (1) see *account*.
- (2) Class "A" or Series "A."
- (3) the total average dollar inventory.

A1: the highest class rating.

AA:

- (1) see *active account*.
- (2) see *active assets*.

AAD: at a discount.

AB: see *bond adjustment*.

ABA:

- (1) see *American Bankers Association*.
- (2) see *American Bankers Association number*.

abandonment

- (1) **general:** giving up a facility without the intention of regaining possession at some later time.
- (2) **finance:** the elimination from use of a fixed asset. The total retirement of a fixed asset from service, following salvage or other reclaiming of removable parts.
- (3) **law:** with a patent, trademark, or copyright, the cession of rights by the owner, wherein his invention, design, or name falls into the public domain.

abandt: see *abandonment*.

abatement

- (1) **finance:** the cancellation of part or all of an expenditure.
- (2) **finance:** the cancellation or reduction of an assessed tax.

- (3) **law:** a reduction or pulling down, as with a nuisance.

abator: one who gains illegal possession of an estate, thus preventing the rightful heirs from obtaining possession.

ABA Transit Code: see *American Bankers Association number*.

ABC Agreement: when buying a New York Stock Exchange seat, the applicant's membership can be bought by a member firm for his use with monies advanced by the member firm.

Abe's cace: slang, a \$5 bill.

abeyance

- (1) **banking:** a temporary suspension of title to property before the correct owner is determined. See *cloud on title*.
- (2) **law:** the state of not having been settled.

ability: skill, aptitude, and other factors essential in job performance. It is measured by work records, performance measures, and other ratings designed to identify an employee's day-to-day handling of his work.

ability test: a test of performance, prepared to reveal a level of present ability (e.g., a bank teller test or a typing test).

ability to pay

- (1) **general:** the ability of the bank or financial organization's management to meet the financial demands

of a union. This capacity depends on the financial condition of the institution and is often disputed.

(2) **general:** also used regarding a borrower—that is, capacity to pay back.

(3) **finance:** a criterion used to ascertain who shall bear the cost of government programs; the rationale for taxing individuals in the form of a progressive income tax.

ab initio: “from the beginning” (Latin). For example, an individual who enters the land of another person by permission and thereafter abuses that right becomes a trespasser *ab initio*—that is, becomes a trespasser from the first time he walked on the property.

above par (value): the price of a stock or bond, higher than its face amount.

abrasion: weight loss in coins that results from wear in circulation.

abrogation of agreement: the cancellation or setting aside of a contract or any portion of it.

absence: an employee’s temporary unavailability for work lasting for one or more days or shifts.

absenteeism: being absent from work, especially when deliberate or habitual.

absenteeism, chronic: the constant recurrence of absences.

absolute address

(1) **computers:** the actual address of a location described in terms of a machine code numbering system.

(2) synonymous with “specific address” and *machine address*.

absolute advantage: an advantage of one nation or area over another in the costs of manufacturing an item in terms of used resources.

absolute code

(1) **computers:** coding designed so that all instructions are described in basic machine language.

(2) synonymous with “specific coding”.

absolute error

(1) **computers:** a form of error in which the magnitude of error is determined without regard for the algebraic sign or direction.

(2) **statistics:** the amount of error expressed in the same units as the quantity holding the error.

absolute ownership: where the interest or exclusive right of possession of the insured is so free from limitations, restrictions, or qualifications that it cannot be taken from him without his consent. [56]

absolute priority rule: the concept that creditors’ rights must be satisfied prior to stockholders’ equities following liquidations or corporate reorganizations.

absolute title: a title without any conditions. An absolute title is usually critical to the granting of a mortgage by a bank.

absorb

(1) **general:** to merge by transfer all or portions of an account with another account, resulting in the loss of identity of the first account.

(2) **finance:** to include pertinent actual costs in determining a price or standard cost.

(3) **investments:** to assimilate sell orders of stock with offsetting requests to buy.

absorbed: designates a security, no longer in the hands of an underwriter, and now with a shareholder.

absorption account: see *adjunct account*.

absorption point: the point at which the securities market rejects further offerings unaccompanied by price concessions. see *digested securities*, *undigested securities*.

abstinence concept: a theory according to which a postponement in the use of an item involves a cost that should be reimbursed by a payment such as interest.

abstract: a brief summary of a potential employee's background, interests, and other relevant information.

abstraction of bank funds: laws dealing with criminal offenses in the banking field. For example, embezzlement, abstraction, or willful misapplication of bank funds are misdemeanors and punishable by fine up to \$5,000 and/or imprisonment for five years.

abstract of title: an attorney's prepared statement tracing the history of the ownership of real property to determine the present title. see *deed*, *encumbrance*, *search*, *title deed*, *title insurance*.

abutting: joining or adjacent; contiguous to another property. This variable is clearly identified in the granting of a bank mortgage.

AC

(1) see *account current*.

(2) see *active capital*.

A/C: see *account*.

ACB: see *Associated Credit Bureaus of America, Inc.*

Acc.

(1) accept.

(2) accepted.

(3) see *account*.

accelerated depreciation: deprecia-

tion at a larger than expected rate; makes the depreciation allowance, therefore the tax allowance, available sooner, resulting in a benefit to the owner.

accelerating premium pay: a wage incentive system under which the bonus or premium is progressively higher as the production standard is exceeded.

acceleration: by law, when an installment obligation goes into default, all remaining installments become immediately due and payable; thus suit can be brought for the entire unpaid balance. see *recomputation*. [55]

acceleration clause

(1) **banking:** the statement that a debt must be paid in total in the event of default of any of its covenants.

(2) **law:** a clause included in the body of a contract, stipulating that the entire balance shall become due immediately and payable in the event of a breach of certain other conditions of the contract, such as insolvency or the debtor's failure to pay taxes on the mortgaged property.

accelerator: see *marginal propensity to invest*.

acceptability: an attitude toward money resulting in its acceptance as a medium of exchange in the marketplace. see *eligible paper*, *rediscount*.

acceptance: a time draft (bill of exchange) on the face of which the drawee has written "accepted" over his signature. The date and place payable are also indicated. The person accepting the draft is known as the acceptor. A "bank acceptance" is a draft drawn on and accepted by a bank. see *bank acceptance*, *draft*, *trade acceptance*.

acceptance credit: commercial banks and foreign banking institutions are able to participate in the acceptance practice to assist in financing import-export and domestic transactions by establishing an acceptance credit with a bank. see *bank acceptance*, *letter of credit*.

acceptance for honor: the receiving of a draft or bill of exchange by another party when collection has been rejected by the drawee and protest for nonacceptance has been claimed. cf. *notice of dishonor*.

acceptance house: an organization that specializes in lending funds on the security of bills of exchange or offers its name as an endorser to a bill drawn on another party.

acceptance liability: a bank's full liability that has been accepted in handling bills drawn on it by customers for financing domestic, import, or export business. Banks are required by law to keep a record of the total of the liability by such acceptances in an account called liability on account of acceptances. see *acceptance credit*, *acceptance line*, *letter of credit*.

acceptance liability ledger: a ledger listing the bills accepted for each bank customer entered under an account containing his name, including name and address of customer, line, date, letter of credit number, acceptance number, expiration date, bill amount, total amount accepted or expired, and payment date. see *acceptance liability*.

acceptance line: the maximum limit in monies that a bank commits itself to accept for a single client.

acceptance maturity tickler: an accounting where acceptances are

listed in order of maturity dates so that the amount of daily maturities can be grasped quickly. One page is usually given to the maturities for each day. see *tickler*.

acceptance register: a record containing details on all bills accepted by a bank for its depositors. Listed by date, these entries include date of acceptance, bank's acceptance number, name of bank representative giving authorization, signature of representative, customer's number of bill, date, tenor, maturity, drawee, payee, amount, list of document collected, affixed original or duplicates, number, and credit date.

acceptance supra protest: following a protest, the payment of a bill to preserve the reputation or credit of the drawer or endorser.

acceptor: the drawee of a note for acceptance, who upon signing the form, agrees to pay a draft or bill when due.

access: the process or act of putting financial data into computer storage or retrieving data from the computer.

accession

(1) **general:** the hiring of a new employee or the rehiring of a former worker.

(2) **banking:** elevation to a higher office within the bank.

(3) **law:** the doctrine that the property owner is entitled to all that is added or affixed to the property.

accession rates: the average number of persons added to a payroll in a given period per 100 employees. see *turnover*.

access right: the right of an owner of property or another person with the owner's approval to enter, enjoy, or

leave the property without obstruction. If the property abuts on a public way, this is called a direct access right. If there is other property intervening between the owned property and the public way, the right is known as an easement right.

access time

(1) **computers:** the time interval between the instant at which data are requested from a storage device and the moment delivery begins.

(2) **computers:** the time interval between the moment data become ready for storage and the instant storage is terminated.

accidental death benefit: a benefit in addition to the face amount of a life insurance policy, payable if the insured dies as the result of an accident. Sometimes referred to as *double indemnity*. [58]

accident severity: a measure of the amount of time lost as the result of an accident.

accommodation: historically, the lending of currency by a person who has it to another who has need of it, without collateral. More popularly, the lending of a person's honor or credit, without any consideration, to enable another to obtain borrowed money.

accommodation bill (of lading): a bill of lading issued by a common carrier before receipt of items for shipment. see *bill of lading*.

accommodation charge: a single purchase when credit is arranged on a temporary basis without the need to open a regular credit account. synonymous with "this transaction only."

accommodation check: a check

drawn by an association on its account with a bank, payable to a third party named by the saver making the withdrawal. [59]

accommodation endorsement: the signature or endorsement of a note or draft solely for the purpose of inducing a bank to lend money to a borrower whose personal credit is not substantial enough to warrant a loan.

accommodation endorser: a person who endorses a negotiable instrument for the accommodation of another person or parties, having no ownership right but simply guaranteeing the fulfillment of the contract to subsequent holders of the instrument. see *endorsement*; *endorser*.

accommodation note: any note that has received an accommodation endorsement.

accommodation paper: a promissory note, endorsed by an individual(s), allowing the original signer of the note to receive bank credit; thus the second or other signer(s) accept the guarantee of credit.

accommodation party: one who signs a note as maker, drawer, acceptor, or endorser without receiving value, although remaining totally liable for the purpose of lending the credit worthiness of his or her name to another person. see *accommodation paper*.

accord and satisfaction: an agreement between two people, one of whom has a right of action against the other, that the latter should do or give, and that the former accepts, something in satisfaction of the right of action that is different from, and often less than, what might be enforced by law.