

Glossary of Terms

Annual percentage rate (APR)—The cost of credit on an annual basis and the total cost of credit to the consumer.

ATM (automated teller machine) card—A form of debit card that you use in an ATM by punching in your personal identification number. Using an ATM card, bank customers can access a computer to get cash, make deposits or transfer money between accounts.

Automated electronic transfer—An online payment that is automatically deducted from an account balance on a reoccurring basis.

Bank account register—A tool in which an account holder lists his or her initial balance in an account and then records all debits and credits in order to maintain an accurate record of account activity and an accurate balance.

Bank statement—A statement given to you by your bank or credit union to keep you informed of all transactions you made during the statement period. These statements are sent on a regular basis or posted online.

Balance transfer—The process of moving an unpaid credit card balance from one credit card to another.

Benefit—Something that is favorable to the decision-maker.

Billing cycle—The number of days between the last statement date and the current statement date.

Cash advance—Obtaining cash from a credit card instead of using the card to make a purchase. The grace period does not apply to cash advances. The advance is an instant loan and finance charges will be levied on this money from the time it is obtained until the loan is paid in full.

Caveat emptor—A Latin phrase meaning “let the buyer beware.”

Check—A printed form directing a bank to withdraw money from an account and pay it to another account.

Checking account—An account held at a bank or credit union in which account owners deposit funds. Account owners have the privilege of writing checks on their accounts and are able to use ATM cards and debit cards to access funds.

Collateral—Property required by a lender and offered by a borrower as a guarantee of payment on a loan. A borrower's savings, investments or the value of the asset purchased that can be seized if the borrower fails to repay a debt.

Consumer—A person who buys and/or uses goods and services.

Consumer credit—Use of credit for personal wants as opposed to business wants.

Contract—A legally binding exchange, promise or agreement between parties that is enforced by law.

Credit—The ability of a consumer to obtain goods or services before payment, based on an agreement to pay later.

Credit Card Act of 2009—This act provided new credit card rules and amended previous acts with regulations prohibiting unfair credit card practices. This law, among other things, requires changes on credit card disclosures, places restrictions on credit card companies with limits on fees and rate increases, and requires consistency in payment dates and times.

Credit cards—Cards that represent an agreement between a lender—the institution issuing the card—and the cardholder. Credit cards may be used repeatedly to buy products or services or to borrow money on credit. Credit cards are issued by banks, savings and loans, retail stores, and other businesses.

Credit responsibilities—Refers to the actions or behaviors in which people should engage when they use credit.

Creditor—A person, financial institution or other business that lends money.

Credits—Additions or deposits to an account. In a bank account register, credits are added to the balance.

Debits—Charges to an account. In a bank account register, debits are subtracted from the balance.

Debit card—A card provided as a service by a bank that allows a point-of-sale transaction to replace cash and checks; transaction amounts are deducted electronically from a cardholder's bank account.

Deposit—An addition of funds to an account balance..

Down payment — A portion of the total cost of an item that must be paid at the time of purchase; also an initial payment used to reduce the amount financed.

Expenses—Payments for goods and services.

Fair Credit and Billing Act of 1974—This Act is an addition to the Truth and Lending Act. It requires prompt credit for payments made. It also allows cardholders to dispute billing errors on a credit card and withhold payment for damaged goods.

Fair Credit and Charge Card Disclosure Act (1989)—Part of the Truth in Lending Act that mandates a box on credit card applications describing key features and costs.

Fees—Money charged to service an account, such as late fees, overdraft fees, over-the-credit limit fees and maintenance fees.

Finance charge—The total dollar amount you pay to use credit, including interest, late charges and other fees.

Fixed interest rate—An interest rate that does not change during the term of the loan.

Foreclosure—In the case of non-payment of a credit obligation, the creditor has a legal right to take an asset pledged as collateral and sell it to pay the debt owed.

Grace period—A time period during which a borrower can pay the full balance of credit due and not incur any finance charges.

Gross pay—The amount earned per pay period before any deductions or taxes are subtracted.

Incentives—Perceived benefits that encourage certain behaviors.

Income—Money received for resources provided in the marketplace. People commonly earn income for providing labor (human resources). People also earn income when they provide natural, capital and entrepreneurial resources.

Interest—The price of using someone else's money; the price of borrowing money.

Interest rate—The price paid for using someone else's money, expressed as a percentage of the amount borrowed.

Introductory rate—A low interest rate that is offered for a limited time as an incentive to use credit cards.

Late payment fee—In a credit arrangement, a fee is charged when payment is received after the due date.

Lien—The legal right to take or sell property as security for a debt.

Loan—A sum of money provided temporarily on the condition that the amount borrowed be repaid, usually with interest.

Minimum payment—The minimum amount a card holder must pay each month to remain a borrower in good standing.

Net pay—The amount received after all deductions and taxes have been subtracted from a paycheck.

Opportunity cost—The highest-valued alternative given up when a decision is made.

Overdrawn—A condition that occurs when a checking account does not have enough money to cover transactions from checks, ATM withdrawals, debit card purchases or electronic payments.

Overdraft fee—A fee required for having a negative balance (being overdrawn) in an account.

Overdraft service—A fee-based service provided by financial institutions to generally approve and pay transactions when the account holder does not have enough funds to cover the transactions.

Over-the-credit-line fee—Consumers are assigned a credit limit by the credit card company. This is the maximum amount a consumer may borrow. When a consumer exceeds this limit, a fee is charged.

Periodic rate—The interest rate described in relation to a specific amount of time. The monthly periodic rate is the cost of credit per month; the daily periodic rate is the cost of credit per day.

Principal—The original amount of money borrowed or still owed, on which interest is charged; also the original amount of money deposited or invested, excluding any interest or dividends.

Repossess—To take back goods or property from a buyer who has failed to keep up payments for them.

Revolving credit line—This means an unlimited number of purchases can be made up to a specific dollar amount. This dollar amount is determined by the credit card company based on a customer's credit history.

Rule of 72—A method to estimate the number of years it will take for an investment or debt to double in value. Divide the number 72 by the percentage rate of interest being paid on a debt or being earned on an investment to determine the approximate number of years.

Saving—The amount of income not spent on consumption or taxes. Giving up some current consumption for future consumption.

Secured loan—A loan that is backed with collateral.

Truth in Lending Act (1969)—Federal law that mandates disclosure of information about the cost of credit. It also protects you against unauthorized use of your credit card. If it is lost or stolen, the maximum amount you have to pay is \$50.

Unsecured loan—Loan that is not backed with collateral.

Variable interest rate—An interest rate that can increase or decrease during any period of the loan term as written in the contract.

Withdrawal—The removal of cash from an account, either at a bank or ATM.