Credit Cents Terms

Annual percentage rate (APR). A yearly rate of interest based on average compound interest and including fees and other costs paid to get credit. It is calculated in a standard way and must be disclosed by lenders so that borrowers can compare rates.

Average daily balance. A method used to determine finance charges. It's calculated by adding together the outstanding balance on each day in the billing period, then dividing that total by the number of days in the billing period. The calculation includes new purchases and payments.

Balance transfer. The process of moving an unpaid credit card debt from one issuer to another. Card issuers sometimes offer teaser rates to encourage balance transfers to come in and charge balance-transfer fees to discourage them from going out.

Borrower. A borrower is a person who either applies for, or receives a mortgage or loan. A borrower must have the intent and ability to repay the loan in full plus interest.

Cash-advance fee. A charge for using credit cards to obtain cash. This fee is often expressed as both a percentage and a flat dollar amount. For example, "2%/$10" means that consumers will either pay 2 percent of the amount of cash they withdraw or $10, whichever is greater. Generally, there's no grace period for a cash advance: interest is charged from the moment the cash is withdrawn.

Collateral. Assets pledged by a borrower to secure a loan or other credit, and subject to seizure in the event of default, also called **security.**

Credit card. Any card that may be used repeatedly to borrow money or buy products and services on credit. Issued by banks, savings and loans, retail stores, and other businesses.

Credit rating. A published ranking, based on detailed financial analysis by a credit bureau, of one's financial history, specifically as it relates to one's ability to meet debt obligations. The highest rating is usually AAA, and the lowest is D. Lenders use this information to decide whether to approve a loan.

Credit risk. The probability that a borrower will repay a debt. People who are good credit risks—based on their credit histories, credit reports, and credit scores—are more likely to repay their debts than people who are bad credit risks.

Creditor. A person or business to whom a debtor owes money.

Debtor. A person who owes money to others.

Default. Failure to meet financial obligations. People who don't make payments on a loan have "defaulted" on that agreement.

Equity. The value of property beyond the total amount owed on it.

Finance charge. The total dollar amount a consumer pays to use credit, including interest costs, service charges, and insurance.

Firewall. A system designed to prevent unauthorized access to or from a private computer network. Firewalls can be implemented in both hardware and software, or a combination of both. Firewalls are frequently used to prevent unauthorized Internet users from accessing private networks connected to the Internet, especially intranets. All messages entering or leaving the intranet pass through the firewall, which examines each message and blocks those that do not meet the specified security criteria.

Fixed expenses. An expense that cannot be adjusted or eliminated, such as a monthly car payment, opposite of **flexible expense**.

Fixed interest rate. A rate that stays the same for the life of the loan.

Flexible expense. An expense that can be adjusted or eliminated, such as for luxury items such as clothes or CDs, opposite of a **fixed expense**.

Foreclosure. The legal process by which a homeowner who defaults on a mortgage loses his or her interest in the property. This usually involves a forced sale of the property at public auction, with the sale's proceeds applied to the mortgage debt.

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Garnish. To withhold money from a person's paycheck to make sure he or she meets a financial obligation. Child support payments are often collected through garnishment.

Grace period. The interest-free time a credit card issuer allows between the transaction date and the billing date. The standard grace period is usually between 20 and 30 days. People who carry a balance on their credit cards have no grace period.

Lender. A private, public, or institutional entity that makes funds available to others to borrow.

Lien. The legal right of a creditor to hold a debtor's property or sell it to repay a debt. For example, a financial institution that lends money for a car holds a lien on the car's title until the car is completely paid for.

Minimum payment. The minimum amount a credit cardholder can pay to keep the account from going into default. Some card issuers will set a high minimum if they're uncertain of the cardholder's ability to pay. Most card issuers require a minimum payment of 2 percent of the outstanding balance.

Over-the-limit fee. A fee charged when consumers exceed the credit limit on their credit cards.

Pharming. A tactic by which criminals "hijack" whole domains to their own sites and gather the personal and financial data of users who believe they're communicating through their customary service provider. Pharming focuses on particular web domains that are frequented by mass amounts of accountholders and is rapidly becoming the most advanced and undetectable scam technique to date.

Phishing. The act of sending an e-mail to a user falsely claiming to be an established legitimate enterprise in an attempt to scam the user into surrendering private information that will be used for identity theft. The e-mail directs the user to visit a web site where they are asked to update personal information that the legitimate organization already has on file, such as passwords and credit card, social security, and bank account numbers. The web site, however, is bogus and set up only to steal the user's information.

Pre-approved. Credit card issuers often offer "pre-approved" credit cards to potential customers who have passed a quick credit-information screening. The company doesn't actually have to issue the card if it doesn't like what it later learns about the applicant's credit rating.

Pretexting. Pretexting is the practice of obtaining your personal information under false pretenses. Pretexters sell your information to people who may use it to get credit in your name, steal your assets, or investigate or sue you. Pretexting is against the law. Pretexting is usually done over the phone, where the caller poses as a legitimate agency in an attempt to get your personal information and account numbers.

Secured credit card. A credit card that a cardholder must secure with a savings deposit so that the card issuer is guaranteed payment. Generally, the amount the cardholder can charge is limited by the amount he or she deposits in the savings account.

Secured debt. Debt that's based on a creditor's right to seize specific property if a debtor defaults. Car loans and home mortgages are examples. If a borrower stops making payments on a car or house, the lender can repossess the vehicle or foreclose on the home.

Skimming. Skimming is a high tech method by which thieves capture your personal or account information from your credit card, driver's license, or even passport. An electronic device used to capture this information is called a "skimmer," and can be purchased online for under $50. Your card is swiped through the skimmer and the information contained in the magnetic strip on the card is then read into and stored on the device or an attached computer. Skimmers have been found illegally attached to ATM machines and have been used by some restaurant employees to steal credit card information.

Spam. The word "spam" as applied to e-mail means unsolicited bulk e-mail ("UBE"). Unsolicited means that the recipient has not granted verifiable permission for the message to be sent. Bulk means that the message is sent as part of a larger collection of messages, all having identical content.

Spyware. Spyware is any technology that aids in gathering information about a person or organization without their knowledge. On the Internet (where it is sometimes called a spybot or tracking software), spyware is programming that is put in someone's computer to secretly gather information about the user and relay it to advertisers or other interested parties. Spyware can get in a computer as a software virus or as the result of installing a new program. Once installed, the spyware monitors user activity on the Internet and transmits that information in the background to someone else. Spyware can also gather information about e-mail addresses and even passwords and credit card numbers.

Strong password. A password that is difficult to detect by both humans and computer programs, effectively protecting data from unauthorized access. A strong password consists of at least six characters (and the more characters, the stronger the password) that are a combination of letters, numbers and symbols (@, #, $, %, etc.) if allowed. Passwords are typically case sensitive, so a strong password contains letters in both upper and lower case.

Tangible personal property. Property that can be felt or touched, such as furniture and cars.

Teaser or introductory rate. A below-market interest rate offered to entice customers to switch credit cards or lenders.

Transaction fee. An additional fee a credit cardholder must pay for transactions other than purchases, such as cash advances. This fee is usually a percentage of the transaction, although a minimum fee may apply.

Unencumbered property. Property that is not burdened with liens or other legal claims against it.

Unsecured debt. Debt that isn't guaranteed by the pledge of specific property. Interest rates for unsecured debts, such as credit card bills, are usually higher than interest rates for secured debts like home mortgages and car loans.

Variable (adjustable) interest rate. An interest rate that can change. How often it changes depends upon the terms of the credit and should be stated in the documents the creditor provides.