

Credit is a common term in economics, commerce and finance. In commerce, it is one of the fundamental accounting concepts along with debit. Both credit and debit are the [bookkeeping](#) entries in commerce, while in economics and finance, credit is the money or wealth which is made available for borrowing. It is a type of legal contract or agreement, where one party receives resources or [loans](#) from another party with a commitment or obligation to pay the sum at a future stipulated date, along with the interest rate. To put it in a more simplified manner, credit can be an agreement for deferred payment as well as the terms and conditions associated with such an arrangement. The party which has borrowed money or resources is known as 'debtor' or 'borrower', while the party which makes the resources available for borrowing is called 'creditor' or 'lender'.

Credit Terms and Credit Definitions

Everyday we come across a lot of financial and credit terms and lack of a proper understanding about them can lead to some really big mistakes. This article is an attempt to make you familiar with credit terms and definitions that are an integral part of day to day financial transactions, so that some common mistakes can be avoided, particularly with the widespread use of credit cards.

Credit Terminology - Glossary of Credit Terms and Definitions that begin with A

Account: A record or statement of the financial transactions that take place between two economic units. A unique number, known as 'account number' is assigned by the banking institutions or creditors to each account holder for the proper identification of ownership. A fee is also charged by the banks or other institutions to set up or start your account, which is called "account setup fee".

Account Condition: It refers to the present status of an account but does not indicate the history of the account, i.e. the previous transactions that led to the current state.

Accounts in Good Standing: It means that all the necessary dues have been paid and the credit items have (current) positive status. This term reflects positive creditworthiness.

Account Monitoring: This refers to the regular monitoring of credit reports of borrowers by lenders or creditors, in order to manage their financial risk. The credit report of a borrower is scanned on a regular basis to look for the presence of certain risk characteristics, as defined by the lenders.

Account Reconciliation: This refers to the act of checking whether the balance in ones' checkbook confirms with the corresponding bank statement.

Account Review: It refers to the act of reviewing the credit history of a consumer by a creditor or lender.

Activate: Usually, on receiving a new credit card, the owner has to make a call to the card issuer to inform them about it. Only then does the issuer activate the card or make it functional. It is a precautionary step to confirm that the correct person has received the card, in order to prevent fraudulent activities.

Active Account: An account characterized by many transactions, with transaction activity having been reported in the last 90 days to a Credit Reporting Agency.

Acquiring Financial Institution: Refers to the financial institution or bank that acts as a negotiator or intermediary between the credit card issuer and the merchant. The Acquiring Financial Institution processes and settles daily credit card transaction of the merchant and then settles them with the card issuer. It acquires funds or daily card transaction totals and deposits the same in the merchant's account after settlement and debits the end-of-month processing fee

from the merchant's account.

Additional Cardholder / Cardmember: A credit card owner can add another card to his / her account to be used by someone else. The person holding the additional card is known as additional card holder or cardmember. The responsibility of making payment on all charges incurred by both the cardholders lies on the original cardholder and not on the additional cardholder.

Adjusted Balance Method: It is a method devised by credit card issuers to estimate finance charges or the costs of borrowing, like interest charges, commitment fees, etc. Generally, the issuer of the card makes adjustment for all the payments and credits during the billing period and then calculates the finance charges.

Adjustable Rate Mortgage: A type of mortgage where the interest rate changes during the term of the loan. This change can be influenced by factors, like, interest rate on treasury securities. Know more about [adjustable rate mortgage](#).

Advance-Fee Loan: A type of loan where all the finance charges as well as credit expenses are deducted before providing principal amount to the borrower.

Affinity Card: A type of credit card made available by the credit card issuer in association with another non-financial group or organization. The affinity group can be a nonprofit organization, universities, sports franchisee, etc, to which a part of the revenue (generated in the form of finance charges) is donated. From the cardholders point of view, they get special discounts or deals when they use their affinity credit cards. This type of credit cards are generally provided to those who are members or have some affinity for the sponsoring organization.

Agreement: An agreement is a formal contract or written document regarding the terms and conditions on which credit is provided. It generally includes the terms that are applicable to credit card, interest rate and how it is calculated as well as transaction fee.

Alternative Methods of Payment: This term refers to methods of payments which do not involve money. Basically, it covers non-cash payment options, like, credit and debit card, value access services and billing extensions.

Alternative Mortgage: A term used to signify any home loan except fixed-rate mortgage.

Air Miles: Air miles is a reward scheme related to air travel, where the credit cardholders earn points and miles for every purchase they make by using their credit card. These collected miles can be exchanged for free air travel or discounts and for other retail goods and gift cards.

Amount Due: It is not the total amount you owe to your creditor, instead it is the minimum monthly payment that you have to make.

Amount Past Due: Refers to the current amount that has not been paid at the scheduled time, i.e. past dues.

Amortization: It is the process where a loan or debt, along with the interest charged, is paid off by regular installment payments over a stipulated time period. Know more about [amortization](#).

Annual Fee: This is the annual fee that a credit card issuer charges for providing the privilege of owning and using a credit card. However, many credit card issuers provide cards with no annual fee.

Annual Percentage Rate (APR): It is the annual rate that depicts the cost of credit in the form of interest rate charged for a whole year. It is basically a finance charge expressed in terms of an

annual rate. This can give an idea of how much the credit or loan is going to cost you, by way of interest payment, so that you can compare the costs of different types of loans.

Annual Interest Rate: This refers to the amount of interest that you are going to pay in a year. It is generally expressed as a percentage of your balance.

Application: It is the document that one has to sign, to apply for a loan or credit. Such documents usually require the person requesting a loan or the 'applicant' to furnish some personal and financial information to the creditor. The fee usually charged for processing a loan or credit application is called 'application fee'. Many credit card companies also charge this type of fee for providing credit cards to people with bad credit.

Application Scoring: It is the process of evaluating credit applications and assigning scores to them by using statistical models, in order to estimate their future performance. Application score helps the creditor to calculate the risk associated with a loan and thereby decide whether to accept or refuse an application for loan.

Appraisal: An estimation or assessment of the value of a real estate property or other assets offered as security to get a loan. It is usually carried out by the creditor with the help of an independent professional before approving a loan. The person who does the appraisal is called 'appraiser' and the fee charged by the appraiser for estimating the value of a property or assets is known as 'appraisal fee'.

Appraised Value: It is the value of a property or assets as estimated by a professional appraiser.

Asset: Anything possessed by an individual or firm that has cash or monetary value. Examples include land, house, vehicles, goods and savings / investment.

Approval: It refers to the formal act of approving a request or application for loan or credit card by the provider or lender. An authorization statement or response is usually received by a merchant when the transaction requested by him gets approval and is known as 'approval response'.

Arbitrage: Arbitrage is the act of taking advantage of the price difference that can exist between two markets to make profit. It can involve taking a loan at a low or minimal interest rate and depositing it in savings account that gives a high rate of interest. So, the amount that he receives as interest payment from his savings account is higher than the amount he has to pay for taking the loan and this difference is the profit. A person who engages in arbitrage is known as 'arbitrageur'. Know more about [arbitrage trading](#).

Arbitration: Arbitration is an alternative dispute resolution technique that requires both parties involved to resolve the dispute out of court. Here, the judgment is pronounced by one or more person (arbitrator) agreed to by both the parties. The parties involved in a dispute are bound to accept the decision given by the arbitrators or arbitral tribunal. In credit card industry, the consumers have to accept a mandatory and binding arbitration to receive a card, which requires both the parties to keep any dispute out of the court.

Authentication: Authentication is the act of confirming or establishing authenticity or genuineness of a transaction, to make sure that it is initiated by an authorized user and the information provided by him are valid.

Authorization: It is the act of giving sanction or controlling access and rights to resources and services. A code is provided by the issuer of a credit card or account which is required for approving an authorization request. This code helps to identify an authorized user and is known as 'authorization code'. As for example, a vendor requires an authorization code to process a credit card transaction on behalf of the customer paying for goods or services.

Authorization Only: It is a special type of transaction wherein a certain amount of funds is kept reserved against a cardholder's available credit limit for an intended purchase. It ensures that the credit card maintains a limit, which will allow a future intended transaction.

Authorized Account User: A person who is authorized by the credit card holder to use the account and the card. The main card holder would be responsible for all the charges made by the authorized user. So, the authorized user can use the card but is not legally responsible for the payments.

Authorized Transaction: An approved transaction.

Automated Teller Machine: A machine that allows debit or ATM cardholders to draw cash from their savings or checking account or also to make deposits and transfer money from one account to another anytime. To perform all these transactions, a person has to use his magnetically encoded debit or ATM card.

Automatic Payment: Automatic payment is the process that provides the facility to automatically transfer money from the savings or checking account to pay credit card bills. However, a consumer should have an account with the same bank that issues the card in order to avail this facility.

Automated Clearing House: A nationwide fund transfer network that allows the participating businesses or financial institutions to electronically transfer funds among each other within United States.

Available Credit: Available credit is the unused portion of credit, i.e. the amount that remains after deducting the current balance from the credit limit.

Average Daily Balance Method: It is a method of calculating financial charges based on the average daily balance. The average daily balance is obtained by adding the balance amount at the end of each day of the billing cycle and dividing the final figure by the number of days in the billing cycle. The number thus obtained is the average daily balance, which is then multiplied by APR or interest rate to calculate the financial charges of a month or a year.

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Glossary of Credit Terms and Definitions that begin with B

Bad Credit: Refers to poor credit rating due to bad credit history. Late payment, exceeding card limit, skipping payment and declaring bankruptcy are some of the common practices that can have negative impact on credit rating.

Balance: The total amount of money that one owes to a creditor that includes everything like purchases, fees, interest and transaction charges. It can also be said as the amount of money in savings or checking account, which is equal to the difference between credits and debits.

Balance Transfer: It is the act of transferring a part or all of the existing balance from one credit card to another. This is usually done with a view to take advantage of lower interest charged on another card. Generally a fee is charged for moving balance from one card to another, which is called 'balance transfer fee'.

Back-End Ratio or Back Ratio: It is the ratio obtained by dividing the total of all monthly debts by total monthly gross income. Total debts can include every type of debt that a person owes, including, mortgage, credit card payments, personal loans, etc.

Balance-to-Limit Ratio: It is the ratio of the amount of credit being used to the total credit

available and is used to calculate credit score. A low balance to limit ratio is considered as good for credit score as it implies low amount of debt and lots of available credit. Balance to limit ratio is also known as credit utilization ratio.

Balloon Mortgage: A type of mortgage that is characterized by small monthly payments for certain period of time and one final lump sum payment for the remaining amount, to be made at the end of the term. The monthly payments are usually calculated on the basis of 30 year amortization, but the actual term for paying the entire amount is generally five to seven years. The large final payment to be made at the end of the term is called 'balloon payment'.

Bank Account: A record of financial transactions that take place between customer and banking institutions. Know more about [types of bank accounts](#).

Bank Credit: The borrowing capacity or credit provided to a customer by the banking system.

Bank Identification Number (BIN): It is the account number provided by the credit card issuing institution. Usually it is a six digit number that helps to identify the card issuing institution.

Bank Card: A payment card (debit or credit card) that is issued by a bank.

Bankruptcy: [Bankruptcy](#) is a legal proceeding that releases an individual from the obligation of repaying a part or the entire debt. Bankruptcy law generally contains several chapters, like, Chapter 7, 11, 12 and 13, all of which are concerned with different methods of relief. Bankruptcy usually remains for seven to ten years in the credit report and damages the credit report of the individual or organization.

Bankruptcy Code: The federal laws that govern bankruptcy proceedings and conditions for granting debt relief to individuals and organizations who are unable to pay their debts. Know more about [bankruptcy code](#).

Bankruptcy Discharge: '[Bankruptcy discharged](#)' refers to a court order that ends bankruptcy proceedings as old debt and hence releases the debtor from the responsibility of repaying certain types of debt.

Bankruptcy Dismissed: A court order that dismisses a petition for bankruptcy, in which case the debtor is still liable to repay the debts.

Beacon Score: A branded credit score calculated and used by Equifax Credit Bureau to rank creditworthiness of different individuals. Different lending and financial institutions use credit scoring rating under different names, as for example, Experian uses the term 'FICO', while TransUnion uses 'Empirica'.

Big 3: Equifax, Experian and TransUnion are the three largest credit reporting companies and they are generally referred to as 'Big 3'.

Bill: A statement that describes the list of charges for the services provided, to the person who is responsible for paying their cost.

Billing Cycle: It is the time between two bills or statements, i.e. the days between the last bill and the current bill. Billing cycle is generally a period of 28 to 31 days.

Billing Period: The number of days that are used for calculating interest on loan or credit card.

Bi-Weekly Mortgage: A type of mortgage where one has to make the payments every two weeks.

Blocks: A block or 'hold' is generally placed on a part of the credit limit or debit balance of a credit or debit card to make provision for the final amount of transaction, especially if it is not known properly. It can limit an account holder's access to his funds.

Bounced Check: A check which is not payable due to lack of sufficient funds in the account on which it was drawn, which a bank returns without honoring.

Business Card (Business Credit Card): [Business credit cards](#) or simply business cards are a type of credit card that is meant for business purposes. This type of card helps to keep business expenses separate from personal expenses and charges. Many a times, such cards also offer business oriented rewards.

Buydown: Buydown is the lump sum amount paid by a borrower or by a third party to the creditor in a bid to obtain lower interest rates, at least for some years. It is like a mortgage subsidy, but a temporary one.

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Glossary of Credit Terms and Definitions that begin with C

Card member: An individual who owns a card or who is authorized to use a card. Also called 'cardholder'.

Card member agreement: A written agreement between card issuers and their consumers that provides all the necessary information regarding terms and conditions of a credit card account. It generally includes the details regarding interest rate, annual percentage rate, monthly minimum payment, all types of fees and charges as well as dispute resolution procedures.

Carders: It is a term used for criminals that steal, sell or try to gain illegal access to information related to credit or debit card accounts of other individuals. The activities of a carder is termed as 'carding' in the credit card world, while the websites that exchange information and provide necessary details for technical understanding about this trade is called 'carding forums'.

Cash Advance: Cash advance is cash withdrawal on credit cards at a bank office or ATM. This amount is usually deducted from the available credit and a fee is charged, which is known as 'cash advance fee'. The interest that is charged for using a credit card to obtain cash is higher than that charged for using a card to make purchases.

Cash Advance Check: It is a check that is drawn against a credit line/credit limit and not against a checking account balance. Cash advance checks are also known as 'convenience checks' and a cash advance fee is charged for using them.

Cash Card: A type of plastic card with a set amount of value, which can be used by the cardholders to draw money from ATMs. Some card issuers also provide the facility of making purchases with a cash card. A cash card is quite different from a check card in the sense that it is not connected with the bank account of an individual.

Cashing: Cashing or 'PIN cashing' is a form of carding where illegally obtained credit or debit card information is used to draw cash from another individual's credit line or account.

Ceiling Rate: The maximum interest rate that can be charged by a lender, which gets automatically imposed in case of delinquent payment.

Certified Check: A check guaranteed for payment by the issuing bank after verifying that sufficient funds exist in the account of the person who has issued that check. The concerned banking institution usually keep aside the amount of the check from the account of the person issuing the check holders', so that the check can be honored. A fee is also charged by the

banking institutions for certifying a check.

Certificate of Deposit: A type of short to medium term debt instrument that requires the customers to deposit a certain amount of money for a fixed time period. The interest offered in a certificate of deposit is usually higher than most of the other types of investment, but the money deposited cannot be withdrawn before the date of maturity; if you do so, you have to pay a penalty. It is also known as 'time deposits'.

Chapter: A section of the bankruptcy code. Bankruptcy code includes three chapters, known as [chapter 7 bankruptcy](#), chapter 11 bankruptcy, chapter 12 bankruptcy and [chapter 13 bankruptcy](#). Chapter 7 bankruptcy releases a debtor from the debt liabilities in exchange for liquidation of some personal property. [Chapter 11 bankruptcy](#) provides protection to the business entities from their creditors during the reorganization phase, while chapter 13 provides the facility to repay the debts according to a plan within a three to five year period. Chapter 12 bankruptcy is about addressing the financial crisis faced by the farming community. Know more about [types of bankruptcy](#).

Charge Back: It refers to billing back credit card transactions to the merchant, which is initiated by the issuing banks in the event of a dispute regarding the purchase or the charges on the bills. The number of days from the date of processing the transaction during which a charge back can be initiated by the issuer is known as 'charge-back period'.

Charge Card: A type of credit card where no interest rate is charged, but requires the cardholders to pay the full amount of the bill in each month. However, an annual fee is charged in this type of credit card.

Charge Off: A debt or loan that is no longer deemed as collectible by the creditor and hence the account is transferred to the category of bad debt or loss. However, the debt is still valid and therefore the bank may choose to turn the account over to a collecting agency to recover the debt. Charge-off rate is the amount of charge offs divided by the average outstanding credit card balances owed to an issuer. This rate can serve as an economic indicator, as a high charge off rate means a stressful condition for the whole economy and vice versa. A charge off can have a negative impact on a consumer's creditworthiness.

Check: A check or cheque is a negotiable instrument that can be drawn from funds deposited in a demand account held in the depositor or check maker's name with a financial institution.

Closed Account: An account closed by a creditor or borrower. The particular date on which an account has been closed, either at the request of the creditor or the consumer, is called 'closed date'.

Closed by grantor: A credit account closed on the request of the credit grantor. A 'credit grantor' is a person or business entity that lends money or grants any credit transaction to a credit receiver.

Closing Date: The last date on which transactions are posted on an account, for a particular month.

Collateral: Any property that can be offered as security, to obtain a loan or credit. In the case of default or inability to repay the debt according to the agreement, the property offered as collateral becomes subject to seizure by the creditor. Collateral is also known as 'security'.

Collection: Collection is the attempt made by a collection department or agency to recover past-due credit obligation. An account that has been transferred from routine debt to a collection agency or department, to recover bad debts, is called 'collection account'. Collection agency is a firm that provides collection service to creditors, to recover overdue amounts. The collection

agency usually gets paid an amount equal to an agreed percentage of the total amount collected.

Co-maker: A person who signs the loan document along with the borrower and assumes responsibility to repay the debt, if the borrower defaults is known as 'co-maker'. In a situation where the qualification of the person who applies for a loan or credit is marginal or has not been established properly, the creditor may ask for a co-maker, i.e. a person with creditworthiness, to grant the loan. A co-maker is also known as 'guarantor' or 'co-signer' and the act of signing the loan document along with the borrower is known as co-sign.

Commercial cards: This is a generic name used for credit or charge cards issued for business expenses, like, travel, procurement and entertainment. Corporate cards, business cards, entertainment cards and purchase cards belong to the category of commercial cards.

Compound Interest: It is the interest rate that is calculated by adding the accumulated interest of prior periods to the principal amount so that the previous interest amount that has been added can also earn interest. Know more about [how to calculate compound interest](#).

Consolidation: Consolidation is the act of combining multiple loans with high interest rate into one single loan with a lower interest rate. This is basically done with a view to reducing interest rate or the loan payment. Many borrowers also do this to alter the term of the loan and to change a variable-rate loan to a fixed rate one. The loan that is taken for the purpose of consolidating all debts, i.e. combining multiple loans into one single loan is called 'consolidation loan'. Know more on [debt consolidation](#).

Consumer Credit Counseling Service Organization: A non-profit organization that assists consumers in handling their credit problems. It mainly provides counseling service or guidance to customers about budgeting and fund management, which is called '[credit counselling](#)'.

Consumer Credit File: A credit bureau report on a given individual that generally contains information, like, name of the consumer, address, credit history, inquiries, social security number, collection records and public records such as bankruptcy filings and tax liens.

Consumer Debt: [Consumer debt](#) or credit that is mainly incurred to fund consumption and not investment. So, consumer debt is one that is primarily used for purchasing consumer goods, that are not considered as tangible investment. Examples include credit card debt, car loans, family loans and store-financed consumer purchases. An individual usually incurs consumer debt for personal or household purposes.

Cramdown: It refers to enforcement of a reorganization plan by a bankruptcy court inspite of the objections of some creditors. It involves reduction of the various classes of debt with the approval of the bankruptcy court.

Credit Accounts: It is a formal agreement where a customer can avail the facility of buying goods and services on credit and make payments at a later time period. An interest is charged if payment is not made, i.e. the account is not settled within a month.

Credit Availability: It is the amount of credit available on your credit account, which can be calculated by subtracting credit balance from the credit limit. Also known as 'credit available' or 'percentage of credit currently available'.

Credit Bureau: Credit bureau is also known by the name 'credit reporting agency' and it keeps and maintains credit ratings and history of individuals and business firms. There are three major credit bureaus in United States, namely Equifax, Experian and TransUnion.

Credit Bureau Risk Score: This is a measure of credit risk, estimated on the basis of the credit report information available with the major credit bureaus. This number is calculated with the help

of statistical models and it helps the creditors to evaluate the risk involved in giving a loan to a particular individual or business firm. Generally, credit bureau risk score is also referred to as '[credit score](#)' or 'score'. Credit scores are generally arranged in different categories or [credit score ranges](#) to evaluate credit risks. Know more about [credit score scale](#) and [credit score ranges and what they mean](#).

Credit Card: A type of payment card that can be used repeatedly by the cardholders to borrow money or make purchases on credit. This type of cards are usually issued by banking institutions, credit unions, retail stores and businesses and they generally charge specific interest rates on the amount owed. The amount owed on a [credit card](#) is known as 'credit balance' and the annual interest rate that has to be paid on outstanding credit card balances is called 'credit card rate'.

Credit Company or Issuer: A company or institution that provides a line of credit through a card called credit card. The institution can be a bank, a credit union, department store or savings and loan associations. Know more about [credit card companies](#).

Credit Crunch: A state of affairs characterized by short supply of credit or loan and high interest rates. It is also known as finance crunch or credit crisis. Know more about [credit crunch](#).

Credit Freeze: Credit freeze or credit report freeze is a facility which allows the consumers to ask the credit bureaus to stop releasing their credit history information to financial institutions and merchants and freeze their credit reports. This is usually done when identity theft has occurred or is suspected. It also prevents the opening of new accounts until consumer make a request to release the freeze. The credit bureaus usually charge fees for both putting a freeze and withdrawing it, except in cases where identity theft has been established.

Credit History: A record that throws light on the past borrowings and repayment history of an individual or business. This record is of great help to the creditors in determining whether or not to provide credit to a particular customer or business. Find out more information about [credit history](#).

Credit Limit: It is the maximum amount of credit extended by a lender or the maximum amount that one can charge on a credit card. However, some credit card issuers may allow the cardholders to spend more than credit limit by charging a fee.

Credit Rating: [Credit rating](#) is a measure for estimating the ability of a borrower to repay debts. It is calculated on the basis of the past payment behavior, income as well as some other factors that can affect the ability of an individual to repay debts. Know more about [credit score rating scale](#).

Credit Repair: [Credit repair](#) is the process of improving creditworthiness with creditors. The companies or agencies that help to legally clean-up bad credit information in order to give a fresh start to the consumers are known as credit repair companies/agencies or credit clinics.

Credit Report: It can be termed as a record or file that provides information on the past payment habits of a consumer as reported by his or her creditors. The agency or company that collects this information and sells it to the creditors, to help them determine the creditworthiness of prospective borrowers, is known as 'credit reporting agency'. Know more about [credit reports](#).

Creditworthiness: An assessment of the credit history or the past credit behavior of a borrower that helps the lenders to decide whether or not to extend credit or loan to that particular individual.

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Glossary of Credit Terms and Definitions that begin with D

Daily Balance: This is the amount that a borrower owes on a credit card, or other types of open-end credit, at the end of the day.

Date Opened: The date on which an account or credit agreement is established.

Date Closed: The date on which an account or credit agreement is closed.

Debit Card: A card that allows the holder to withdraw money or deduct the cost of purchases directly from the bank account of the holder.

Debt Consolidation: It is the act of repaying multiple debts with the help of a single loan, known as a 'consolidation loan'.

Debt Settlement: It refers to the process of negotiating the amount of debt with the creditor. Here, both the parties, i.e. the debtor and the creditor, agree on an amount lesser than the full amount of the debt. It is also known as 'debt arbitration' or '[debt negotiation](#)'. Know more about [debt settlement](#).

Debt-to-income Ratio: A ratio obtained by dividing the monthly debt payment obligation of a borrower by his or her gross monthly income. This ratio is usually expressed as a percentage, and hence shows what percentage of the monthly gross income would go towards debt repayment. More about [debt ratios](#) and [how to calculate debt-to-income ratio](#).

Debt-to-limit Ratio: Debt-to-limit ratio is commonly known as 'credit utilization ratio' or simply 'utilization ratio', as it compares the amount of credit that is utilized, to the total available credit. This ratio is used in the calculation of credit scores. Low debt and large amount of available credit, i.e. a low ratio, is considered good for credit scores.

Default: Failure or unwillingness to repay a debt is called default. In case of late payment, the credit card issuer usually charges a very high interest rate on the outstanding balance, which is generally known as 'default rate' or 'penalty rate'.

Delinquency: Failure to repay a debt on time or on due date. The fee which is charged for delinquent or late payment is called 'delinquency assessment'. If a card holder fails to make the minimum payment for the credit card account for more than 30 days past the due date, then such an account is termed as a delinquent account.

Demand Deposit: A type of bank account, from where money can be withdrawn on demand, without any notice. Also known as a checking or transactional account.

Disclosure: The act of providing a credit report to the consumers as outlined by the Fair Credit Reporting Act (FCRA).

Dispute or Credit Dispute: Challenging the accuracy of the information on a credit report by requesting an investigation.

Double-cycle Billing: Double-cycle billing, or 'two-cycle billing', is a method employed for calculating finance charges. In this method, both current balance and balance of the previous billing period are used to compute financial charges.

Down Payment: A partial payment usually made for the purchase of some expensive items like a house or a car. Down payment is usually paid in cash, at the time of finalizing the transaction.

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Glossary of Credit Terms and Definitions that begin with E

Effective Date: The date on which a card is activated, or when new terms come into force.

Electronic Funds Transfer: It refers to a transfer of funds through the electronic media. The

procedures, as well as the rights and liabilities of the consumers who avail the facility of electronic fund transfers, are established by a federal legislation, known as 'The Electronic Funds Transfer Act'.

Encryption: Encryption is the process of encoding credit card information.

Equal Credit Opportunity Act (ECOA): A federal law that requires creditors and lenders to avoid discrimination on the basis of race, color, religion, age, sex, national origin, marital status, as well as income received from public assistance program, while providing credit.

Equifax and Experian: Both are two of the three major credit reporting agencies of the United States, the third one being TransUnion.

Escrow: A written agreement, property or money, that is temporarily deposited with a third, neutral party, until the conditions of the contract are fulfilled.

Expired Card: A card with an encoded or printed expiration date that has passed.

Extended Warranty: Extended warranty is a program with which the life of a purchase, or the warranty period protection, can be prolonged. It can be offered by the manufacturer, retailers, or the warranty administrator.

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Glossary of Credit Terms and Definitions that begin with F

Fair and Accurate Credit Transactions Act (FACTA): A federal law of the United States, which is an amendment to the Fair Credit Reporting Act. This act provides additional protection to the consumers, especially in the context of prevention, as well as remediation, of identity theft, and accuracy of credit reports. The law governs how to store, share and monitor consumer information, and also empowers the consumers to request and obtain a free copy of their credit reports once in a year, from each of the three major credit reporting agencies.

Fair Credit and Charge Card Disclosure Act: An amendment to the 'Truth in Lending Act', which mainly requires the cost involved in credit card plans to be disclosed.

Fair Credit Billing Act: A federal law passed in 1975 to provide protection to the consumers against some billing problems or errors. This act requires the creditors to investigate any type of billing error, as complained by the consumers. The creditors also have to make a written acknowledgment of any billing complaint made by the consumers, and refund or credit the amount of overpayment to their accounts.

Fair Credit Reporting Act: A federal legislation of the United States that regulates the activities of the credit reporting agencies in order to maintain accuracy, confidentiality, and proper use of the information available with them. It limits access to credit bureau information, and also enables the consumers to know information about themselves that is available with the credit bureaus, so that they can dispute inaccurate information.

Fair Debt Collection Practices Act (FDCPA): A federal law that prohibits certain methods employed for collecting debts. It mainly prohibits abusive, unfair and deceptive debt collection practices.

Fair Isaac Corporation: It is the name of the company that created the famous FICO credit score, that is widely used in measuring creditworthiness, and the risk associated with extending credit. In March 2009, the company renamed itself after the name of its credit score, as FICO.

Federal Funds Rate: It is the interest rate that is set by the Federal Open Market Committee of

the Federal Reserve Board.

Federal Reserve: It generally refers to the central bank that monitors supply of money and credit, by various actions that include setting interest rates, maintaining the flow of cash to other banks, as well as ensuring security and stability of the entire banking system.

Finance Charges: Finance charges typically include interest, service, and transaction fees, and other charges, all of which constitute the total cost of loan or credit.

Financial Aid: Financial aid usually takes the form of scholarships, loans and grants, that are mainly given for pursuing higher education. These aid programs are usually financed by the national and state universities, and also by some private sources.

Financial Institution: An institution that renders financial services like deposit taking and providing loans, or investment funds and insurance. Financial institutions primarily act as financial intermediaries and maintains the flow of money in the economy. They are regulated by government bodies.

Fixed APR: Fixed APR, also known as fixed rate refers to an annual percentage rate (or interest) that is fixed throughout the year or the entire term of the loan.

Fixed-Rate Mortgage: It refers to mortgage loans with fixed interest rate, i.e. interest rate which remains the same throughout the term of the loan.

Flagging an Account: This involves suspending the activity on an account temporarily, until the specific issues which triggered the suspension are resolved.

Floor: Floor or interest floor is the minimum annual percentage rate that is set by the card issuer to be charged on variable credit cards.

Forbearance: Forbearance is the act of postponing foreclosure, so as to allow time to the borrower to pay overdue payments.

Foreclosure: Foreclosure takes place in case of default, i.e., when a debtor fails to meet his repayment obligations. In such a situation, the lender can initiate legal proceedings to take the possession of the property that has been pledged as security to obtain the loan, which is termed as [foreclosure](#).

Fraudulent Transaction: Fallacious or unauthorized transactions by the card holder. Generally, when fraudulent activities are experienced or suspected, the customer or the issuer can place a security alert, known as 'fraud alert', on the credit card account to avoid further malpractices.

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Glossary of Credit Terms and Definitions that begin with G

Garnishment: A legal process that grants a creditor the judgment on a debt, to receive full or partial payment, by taking possession of a portion of a debtor's assets. Find out more about [wage garnishment](#).

Generation Identifier: An addition to the name of a person, which indicates that there are others in the family who bear the same name. Examples are Jr., Sr., III, IV, etc.

Gift Card: A type of payment card, preloaded with a set value, which is issued by either a bank or a retailer. There are two types of gift cards, closed loop and open loop. Closed loop gift cards can be used only in a store chain or in one location, while the open loop cards can be used everywhere.

Gold Card: A type of credit card with some added benefits which may not be available with standard credit cards.

Go-to Rate: It is the interest rate that is applied to some credit cards, or a specific balance on a particular card, after the expiration of the introductory rate.

Grace Period: It is the time period within which if one pays off the balance in full, he or she can avoid finance charges. The grace period is typically between 25 to 30 days.

Graduated Payment: A loan repayment scheme, where the payments begins with small installments, and then gradually rises at a predetermined rate over time.

Guide to Benefits: A document with elaborate information about the benefits as well as services, which are provided to MasterCard cardholders.

Guarantor: The individual responsible for paying a bill.

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Glossary of Credit Terms and Definitions that begin with H

Hard Inquiry: Sometimes, a potential lender checks the credit report of the person applying for a loan, in order to assess the risk involved in extending the loan to him or her. It can create a negative impact on the credit score of the consumer. A hard inquiry is also known as 'hard pull'.

Home Equity Loan: A loan based on the difference between the equity paid on a house, and the current market value of the house. In this type of loan, the equity paid on a home is used as a collateral. Know more on [home equity loans](#).

Home Equity Closing Costs: Costs excluding interest rate that are added to a home equity loan. Such costs can include appraiser fees, points paid, and some other fees.

Home Equity Interest Rate (APR): The annual percentage rate or interest rate charged for a home equity loan.

Home Equity Line of Credit (HELOC): A mortgage loan, where the borrower can get multiple advances within an agreed period, to an amount equal to a certain percentage of the equity paid on the house. So, this type of loan differs from other conventional loans, due to the fact that the entire sum of the loan is not advanced up front, instead it offers a line of credit to borrow over a definite period of time.

Home Ownership and Equity Protection Act: It is an amendment to the Truth in Lending Act, and it basically deals with some unfair practices in the area of home equity lending.

High Balance: It is the highest amount that has been owed on a particular account to date.

High Risk: The customers with a history of delinquencies, bankruptcies, charge-offs, are often categorized as high risk customers, which indicates that they are not responsible or trustworthy debtors.

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Glossary of Credit Terms and Definitions that begin with I

Identity Confirmation: Verification of the identity of a consumer.

Identity Theft or Credit Theft: Stealing some key personal information like social security

number, credit card details, etc., of an individual and using it for acquiring credit or making purchases. More on [identity theft](#).

Inactive Account: A bank account with very less or no activity. Also known as a 'dormant account'.

Index: A rate that is used in calculating variable interest rate after applying a margin to it.

Inquiry: A credit report usually contains an inquiry section that records if anyone requested a copy of the credit report of an individual or business. Inquiries are of two types, hard inquiries and soft inquiries. A soft inquiry is one which does not affect an individual, and does not create any negative impact on the credit score of an individual or business. It generally includes personal requests for credit reports, promotional inquiries made by potential creditors, etc. On the other hand, hard inquiries made at the time of applying for a loan can adversely affect credit scores.

Installment Credit or Debt: Credit or debt that has to be repaid in parts or in installments at regular intervals.

Insurance Bureau Score: The credit information available with credit bureaus is also used in insurance rating or calculating insurance bureau score. It provides an idea about the insurance risk, which in turn helps the insurer to evaluate both new applications as well as renewal applications of insurance policies.

Interchange Fee: It is the charge paid by the merchants to the credit card processors for accepting credit cards. It is also known as a 'discount rate'.

Interest: It is the cost of borrowing or lending, which is expressed as an annual percentage of the principal or the total amount borrowed. Also known as 'interest rate' and 'interest charge', this rate is influenced by several factors including value of money, credit risk and inflation rate.

Interest Rate Cap: It is the maximum amount that can be charged as interest, and is generally imposed either by the credit card agreement, or the state and federal laws.

Introductory Period: This is the period in which introductory rate is applied on the outstanding balances of an account. The 'introductory rate' or 'teaser rate' is an interest rate that is lower than the standard interest rate that is usually charged by the credit card companies. This rate generally remains applicable only for the initial 6 to 12 months from the date of opening an account.

Investigation: If the credit report information is disputed by a consumer, the credit reporting agency or credit bureaus have to undertake a verification process by contacting the credit grantor who has supplied the information. It is called an investigation, where the credit grantor is asked to review the information, and report whether it is accurate, or give the correct information to update the report.

Investigative Consumer Reports: These are consumer reports that contain information about the character, habits, and mode of living of individuals. They are required for security clearance and background checks. These reports may also contain credit report information.

Involuntary Bankruptcy: Sometimes, petition for declaring an individual or business as bankrupt is filed by the credit grantors instead of the borrower. If bankruptcy is granted by the court, it is known as involuntary bankruptcy.

Issuer Identification Number (IIN): The first six digits of a credit card's numbers are known as issuer identification number, as they help to identify the particular issuer of the card.

Item-specific Statement: A term used to refer to the statement or explanation offered by the

consumer to a particular public record item or account in his or her credit report. The consumer can add only one item-specific statement per item. It is also known as a 'consumer statement' and is among the important credit report terms.

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Glossary of Credit Terms and Definitions that begin with J

Joint Account: A bank account shared by two individuals. Both the individuals share the associated rights and liabilities.

Joint Credit: A credit shared by two or more individuals, where all the parties involved are responsible for repaying the debt. Generally, such a credit or loan is extended on the basis of the combined income, assets and credit reports of all the individuals involved.

Joint Credit Report: A credit report for two individuals. It is normally delivered as two separate reports.

Judgment: As a credit term, it refers to a court decision about an action or lawsuit related to money or debts. It can be listed on the credit report of the individual or business involved in the lawsuit.

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Glossary of Credit Terms and Definitions that begin with L

Last Reported: It refers to the date on which the creditor last reported information about an account on the credit report.

Late Payment: Payment not made on due date, i.e. delinquent payment. A fee is usually charged on the payments that are not paid on time, which is known as a 'late payment fee'.

Lease: A written document with detailed information about the terms and conditions under which the owner gives the possession and use of his real estate or other personal property to another individual, for a specific period of time, for a stated consideration. Known more about [lease agreement](#).

Liability: Liability means the obligation or responsibility to pay money to another party. As a credit term, it means the legal obligation to settle a debt by repaying the creditor. The amount for which a person is obliged to pay is known as 'liability amount'.

LIBOR: It is the acronym for London Interbank Offered Rate, which is regarded as a benchmark rate for calculating rates for adjustable rate loans. This rate is, in turn, based on the interest rate at which banks carry out borrowing and lending of unsecured funds with other banks in the money market.

Lien: It refers to the legal claim on the property (real estate or personal) of another individual, as a security for a debt, so that if the borrower fails to fulfill his repayment obligation, the creditor can claim the particular property to satisfy the debt.

Line of Credit: [Line of credit](#), or credit line, can be termed as a type of credit, which is provided to a client for a specified time period, by banks or vendors.

Linked Transfer Account: An account in which the checking account of a consumer is linked to another account at the same bank. Both savings and credit card accounts can be linked to a checking account, so that whenever overdraft occurs in the checking account, funds can be transferred from the linked account to the checking account.

Loan Origination Rate: In addition to interest, lending institutions also make some charges in order to cover the processing or originating costs of a loan. This charge is calculated as a certain percentage of the loan amount, and is known as a 'loan origination rate'.

Loan Type: Loans can be of various types, such as home, personal, home equity and auto loans. The different types of loans vary in fees, interest rates, as well as tax deductibility of interest.

Loan-to-Value Ratio (LTV): It is the ratio obtained by dividing the total amount for the mortgage or loan, by the total appraised value of the property. It is a lending risk ratio that enables the lenders to evaluate the risk involved in lending.

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Glossary of Credit Terms and Definitions that begin with M

Major Purchase: A purchase that involves a significant amount of money.

Mail/Phone Order Merchant: A merchant who conducts credit card business by mail or phone. Usually credit card processors charge higher fees from such merchants to process transactions that take place over phone or mail. This is because the credit card is not physically present at the time of transaction, and therefore the merchants cannot check the card. This type of transaction is known as 'mail or phone order transaction'.

Mandatory Binding Arbitration: This is a contract clause which requires the card holder and the card issuer to opt for out of the court settlement of dispute before an arbitrator. This clause eliminates the right of a credit card holder to sue the card issuer.

Margin: Margin is the number of percentage points that are added to the index or prime rate, in order to estimate the variable interest rate.

Medium-High Risk: The customers with a few instances of delinquencies, charge-offs, and public record items are regarded as medium-high risk consumers. The lenders can charge a higher interest rate for providing credit or loan to them.

Medium-Low Risk: Medium-low risk consumers are those who have so far shown credibility in debt repayment, with one or two instances of delinquencies.

Medium Risk: The consumers with a few delinquencies, and a high outstanding debt are categorized as medium risk consumers. The creditors usually charge a higher interest rate for providing loans to such individuals.

Merchant Agreement: This is a formal written agreement between a merchant and a card processing bank. Merchant agreement covers all the terms and conditions, as well as rights, duties and warranties, related to the acceptance of a bank card and bank card activities.

Merchant Bank: A financial institution that provides financial services and advice to businesses. It is a bank that enters into a formal merchant agreement with a merchant, to process bank cards and accept deposits generated by bank card transactions.

Merged Credit Report: A credit report made by merging the information obtained from two or more major credit bureaus.

Minimum Finance Charge: The minimum charge that has to be paid for using a credit card.

Minimum Payment: The minimum sum required to be paid by the borrower to the credit card issuer

Monthly Periodic Rate: The monthly interest rate that is calculated by dividing the annual percentage rate, by the number of months in a year.

Monthly Statement: An account statement that contains a detailed list of transactions that have taken place in a month, along with the service charges. It is usually mailed, or sent by electronic mail, to the customers every month.

Mortgage: A legal claim on the real estate or the personal property given by the borrower to the lender as a security for the debt. Mortgage can be either first mortgage or second mortgage. 'First mortgage' is a mortgage that has priority over all the other mortgages, in the sense that the lender has the first claim on the proceeds of the sale of the property. A '[second mortgage](#)' on the other hand, is an additional mortgage on the same property, and it is subordinate to the first mortgage. More on [mortgage lenders](#) and [home mortgage](#).

Mortgage Brokers: A broker or intermediary who brings both the lenders and borrowers together to originate a mortgage loan. Know more about [commercial mortgage brokers](#).

Mortgage Companies: Companies that finance mortgage with their own funds. [Mortgage companies](#) generally borrow from a bank to provide funds to the consumers, to buy home or real estate property, and then sell the loans to investors. Know more about [mortgage financing](#) and [mortgage refinance](#).

Mortgage Loan: A [mortgage loan](#) is secured by pledging a real estate property as collateral. Also known as [mortgage debt](#). Read about [mortgage marketing](#).

Mortgage Identification Number (MIN): A number generated by the Mortgage Electronic Registration Systems Inc., at the time mortgage registration, which helps in the identification of a mortgage.

Mortgage Rate: [Mortgage rate](#) is the interest rate charged on a mortgage loan. Find out more information about [mortgage payments](#) and [commercial mortgage lending](#).

Most Recent Date: The most recent date on which account information have been updated.

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Glossary of Credit Terms and Definitions that begin with N

National Issuers: A group of banks that issue credit cards to all the 50 states of the United States. First USA, MBNA America and Bank of America are the present members of national issuers.

Net Home Price: It is the selling price of a home after making all deductions for sale commissions.

New Balance: It is the new balance owed by a credit card holder, calculated by adding the previous unpaid balance, the new purchase balance, and all fees and finance charges.

Nondischargeable Debt: A debt that cannot be discharged or cleared through bankruptcy proceedings. Examples of such debts include debt for child and family support, unpaid taxes, criminal charges, etc.

No Pre-set Spending Limit: The consumers with good credit history are sometimes rewarded with 'no pre-set spending limit cards', where the spending limit is not predetermined. Instead, the limit is set by the card issuer, who takes into account payment history or pattern of the consumer, while setting this limit.

Notice of Results: Notice of results is an updated copy of the credit report, that is sent to a consumer who has requested an investigation of the information on his or her credit report. It contains any change in the credit report in the form of updates and deletion of information. The result of notice is not sent, if the investigation does not result in any change in the credit report of the particular customer.

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Glossary of Credit Terms and Definitions that begin with O

Obsolescence: It refers to how long negative information should be present in the credit file before it becomes irrelevant to the decision of credit granting. Presently, obsolescence period is 10 years for bankruptcy, and 7 years for all other instances, as determined by the FCRA. The negative information on the credit report which is considered as no longer relevant for granting loan is called 'obsolete information', which is automatically removed from the credit report.

Office of the Comptroller of the Currency (OCC): This is a government agency with the responsibility of controlling all the national banks that issue credit cards. It is a division of the Treasury Department of the United States.

Office of Thrift Supervision: Office of Thrift Supervision acts as the controller of federal and state savings and associations, as well as companies.

Online Banking: Also known as [internet banking](#), it is a system that allows the consumers to carry out banking or financial transactions via the internet.

Online Bill Presentment and Payment: A process through which a consumer can receive and pay bills online by transferring money from the checking account.

Open Account: An active account.

Opt In and Opt Out: 'Opt out' is a term used to refer to the ability of consumers to ask for removal of their names from the future lists of the credit bureaus, direct marketers, as well as list compliers. On the other hand, 'opt in' refers to the ability of the consumers who have opted out, to request to add their names to some pre-screened lists for credit and insurance offers, and also direct marketing lists.

Origination Fee: The fee charged by a lender to cover the processing costs of a loan, like preparing documents, checking credit reports, etc.

Outstanding Balance: The remaining unpaid portion of a debt or a loan.

Outstanding Debt: The unpaid portion of a debt.

Over Limit: It refers to the act of accessing an amount of money greater than the available line of credit or borrowing limit. A fee is generally charged whenever the balance of a borrower goes over the credit limit, which is known as 'over limit fee' or 'over the limit fee'.

Overdraft: Overdraft means that withdrawals from the bank account have exceeded the available credit balance.

Overdraft Protection: A service provided by many financial institutions, wherein funds are transferred from one bank account to another, if enough funds are not available in a particular account. The customers have to pay a fee for availing this facility.

Overdrawing an Account: Withdrawing an amount of money, which is in excess of the amount available in the account.

Overdue: Past dues, i.e. the dues not paid on the due date.

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Glossary of Credit Terms and Definitions that begin with P

Paid Accounts: Accounts that have been paid satisfactorily, either on due date or after being delinquent.

Paid As Agreed: Credit accounts have been paid satisfactorily, as per the terms and conditions of the agreement.

Partial Payment: Payment less than the total amount due. In the case of partial payment, the remaining amount due is added to next month's statement along with the interest charged on that amount. Paying the entire balance or amount due is termed as 'full payment'.

Passbook: A book that records all financial transactions like deposits, withdrawals, and also interest earned in a savings account. It is issued by the concerned banking or savings institutions with whom the savings account has been opened.

Password: A sequence of characters that allows customers to access a system. 'Personal identification number' or PIN is an example of a password that allows consumers to access their accounts to carry out banking transactions at an ATM machine.

Past Due: Payments not made on due date.

Payment Cards: Payments cards is a term that is used to refer to credit, debit and charge cards, which allow customers to make purchases without using cash.

Payment Options: It refers to the choice given to the customers to either pay a part, or the entire monthly balance on their credit cards.

Payment Status: It reflects the status of an account, i.e. whether payments have been made on time. It includes delinquent payments, and any unfavorable condition that has occurred in the last seven years, all of which reflects the previous history of an account.

Platinum Card: A type of credit card that offers a higher credit limit and perks, usually provided to people with good credit history and higher incomes.

PLUS Score: A type of credit score generated by Experian Credit Bureau to estimate credit risk. This score can range from 330 to 830, where a high score is suggestive of low credit risk.

Periodic Interest Rate: It is a fraction of the annual interest rate that is used for calculating interest for a period less than one year.

Permissible Purposes: These are the legally defined permissible purposes for which the credit report of a consumer can be requested and obtained. Permissible purposes mainly include credit transactions, employment purposes, underwriting of insurance, court orders, lawful business needs, etc.

Personal Information: Information, like, name, social security number, date of birth, contact number, residence, driver's license number, etc, of a consumer, which are available in the credit report as reported by the consumer himself or his creditors.

Personal Line of Credit: It is the maximum amount which can be borrowed by a consumer. It is based on the income level and the credit history of the consumer.

Personal Loan: A loan taken for personal use and extended on the basis of income and credit history of an individual. No collateral or security is required for such a loan, i.e. it is an unsecured loan. Know more on [personal loans](#) and [unsecured loans](#).

Personal Statement: It is the statement that a consumer can add to his or her credit report. Personal statement gives a general explanation about the information available on the credit report, and it usually appears at the beginning of the report.

Phishing: A term used for signifying internet fraud, where personal details like user name, password, and other information related to credit card or bank accounts are acquired by creating fake web pages or e-mails that closely resemble those of the banks' websites. Read on [phishing](#).

PIN Cashing: A fraud that involves withdrawal of cash using stolen credit or debit card information.

PITI Percent of Annual Income: It is the percent of annual income, that is allowed by the financial institutions, to use for making "Principal, Interest, Tax and Insurance" payment for your home. PITI should be ideally 28%, but can vary depending on the lenders.

Points: Fees or charges paid to a mortgage lender at the beginning of a loan. Typically, one point is equal to one percent of the loan. Also known as a 'discount point'.

Potentially Negative Items: Any credit item or public record having a negative impact on the creditworthiness of an individual.

Posting: Entering financial transactions like sales, cash advances, payments, credit, charges, etc. in the account. The date on which a transaction is recorded in the account is called the 'posting date'.

Pre-approval: Refers to the act of committing a loan after checking and reviewing the credit report of a borrower. It also refers to the offer of credit made to a potential borrower, whom the lender considers to be worthy, on the basis of his or her credit bureau report.

Prepaid Cards: A type of payment card, which can be used for making purchases and payments against the money that has already been deposited by the issuer. Find out more about [prepaid credit cards](#).

Prepayment Penalty: As the name suggests, it is the fee or penalty for paying off a loan before the due date. This is charged by the lender to compensate for the loss of interest payment that the loan would have paid for the full term.

Primary Account Number (PAN): A number encoded on plastic cards, which helps to identify the issuer, and the particular account to which funds are electronically deposited. 'Plastic card' is a generic term used to refer to various types of payment cards like credit, debit and charge cards, etc.

Primary User: The user or the person in whose name a credit card is issued. The primary user has the authority to allow other users to use his account, but the payment obligation lies solely with him.

Prime Borrower: A term used to refer to borrowers with good credit history.

Prime Rate (or Prime Interest Rate): Also known as the prime lending rate, it is the interest rate charged by the banks for lending purposes. Originally, this term specifically referred to the interest rate charged by the banks to lend money to their favored or highest rated customers.

Prime rate serves as a major economic indicator, and it mainly depends on the demand for money, and rate set by the Federal Reserve's member banks.

Principal: The actual amount borrowed, which does not include the rate of interest.

Public Record: The information obtained from the court records by the credit reporting agency. The information which is related to the debt obligation of the individuals or businesses is included in their respective credit reports, which are called 'public record data'. Examples include information about tax lien, [bankruptcy filing](#) and judgment. Know more about [bankruptcy public records](#).

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Glossary of Credit Terms and Definitions that begin with Q

Qualifying Ratio: A ratio used for assessing whether a loan applicant would be able to meet the repayment obligation, before approving a loan. It also helps to determine how much an applicant can borrow. The most commonly used qualifying ratios are front end ratios and back end ratios. The Front end ratio, also known as a housing-expense ratio, compares the monthly proposed house payments to the gross monthly income, while back-end ratios shows the percentage of the monthly income that goes towards repayment of debts.

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Glossary of Credit Terms and Definitions that begin with R

Rate cap: It is the maximum amount to which interest rate on an adjustable rate mortgage can rise annually over the life of the mortgage loan.

Rebate Card: A card that contains a certain fraction of the total amount expended by using it. By using rebate cards, the cardholders can earn points, which can be used to get cash, goods or services by using such cards.

Recent Balance: It is the most recent balance on an account. The most recent payment made on an account is, on the other hand known as recent payment.

Recurring Billing: Billing that takes place at specific intervals. Usually a card holder allows the merchant to charge his or her account periodically, for some recurring transactions.

Reference Number: Generally, a number is assigned to every monetary transaction in a monthly statement, so that the document can be easily retrieved, in case the card holder raises any questions regarding its accuracy.

Refinancing: It refers to the act of repaying an existing loan by taking a new loan with more favorable terms, i.e. it involves replacement of an existing loan with a new one. This is done mainly to reduce interest cost, lengthen the repayment time, and reduce the monthly payment obligation and the risk involved. Know more about what is [refinancing](#) and [mortgage refinance](#).

Regular APR: It is the regular or ongoing annual percentage rate that becomes applicable on all purchases and balance transfers, once the introductory period ends.

Regulation DD: A regulation in the Truth in Savings Act, which basically requires disclosure of some important information pertaining to deposit accounts of the consumers, by the depository institutions like banks, savings and loan associations, etc. Under this law, depository institutions have to provide some key information, like the interest rate that will be paid, as well as any fees or charges, so that consumers can compare different types of accounts.

Regulation X: A regulation that puts a limit on the amount of credit that can be granted for

purchasing securities from brokers, dealers or lending institutions.

Regulation Z: A regulation that implements the Truth in Lending Act, and requires the lenders to give written disclosure about the terms and conditions, interest rate, and other charges applicable to a loan, to the prospective borrowers.

Released: A lien has been satisfied, because of which it ceases to be effective.

Re-loadable Card: Also known as prepaid credit cards, these are re-loadable with monetary value from time to time. Another important feature of re-loadable cards is that they need to be associated with a bank account with the issuer of the card.

Report Number: A number assigned to a particular credit report for its identification.

Repossession: The act of taking possession of the property offered as collateral by the borrower. Repossession can be voluntary or the creditor may forcibly gain possession of the property, when the borrower fails to meet his repayment obligation.

Request an Investigation: The credit information available on the credit report with the credit bureaus can be inaccurate in some instances, in which case, the concerned individual or business can always request an investigation of such information. The credit bureaus, in turn, would ask the sources or parties that have provided the information to verify it. On the basis of the result of the verification, the inaccurate information will be corrected, while the one that cannot be verified would be deleted.

Residual Percent: Residual percent is the remaining value of a property, that is being leased, at the end of the term.

Reverse Mortgage: Also known as lifetime mortgage, [reverse mortgage](#) is a special type of home equity loan for seniors, especially those who are 62 years of age or older. Reverse mortgage allows senior individuals to take loan against the value of their home, or convert a part of home equity to multiple annual payments, or one lump sum payment. The repayment can be postponed till the death of the owner or until the property is sold.

Revolve: The act of carrying over a debt or balance from month to month, by paying less than the full amount due each month. The customers who carry balance or debt in this way are termed as 'revolvers'.

Revolving Account: A type of account that requires regular payment of at least a minimum amount each month along with a service charge on the balance. The total balance on all revolving credit accounts is known as revolving balance.

Revolving Charge Account: Same as revolving account.

Revolving Debt: A debt that can be repeatedly available, and so, the borrower does not have to reapply for credit again and again. Instead, the creditor approves a credit limit, which is the maximum amount that the debtor can borrow, as periodic repayments are made. Revolving debt usually has a variable interest rate, and the repayments are based on a percentage of the balance. The most common example is borrowing using credit cards.

Revolving Line of Credit: It refers to an amount of credit repeatedly available for borrowing, for an undetermined time period. It can be repaid periodically, and it can be borrowed again, once it has been repaid.

Rewards Program: A program offered by some credit card companies, to reward purchases or transactions made by using their credit cards. In a reward program, points are assigned to each

transaction, which can be redeemed through the particular reward program.

Risk Scoring Models: Statistical models with complicated formulas, that are used for measuring the risk involved with loans or debt. In other words, they evaluate the creditworthiness of the individuals or businesses, on the basis of their credit history.

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Glossary of Credit Terms and Definitions that begin with S

Satisfactory Accounts: Accounts that have been paid regularly according to the accepted terms and conditions.

Satisfied: A judgment given by the court, when the debtor has fulfilled his or her repayment obligation.

Savings Account: An account that pays interest rate on the money deposited, but places restrictions on the number of withdrawal and the amount to be withdrawn. Moreover, customers cannot withdraw money by writing checks. Know more about [savings account](#).

Scheduled Payment: Payment that are due at a scheduled time.

Score Factors: The factors like total debt, late payments, account types, and age, that determine the credit score of an individual or business.

Scoring Model: A statistical model that helps to evaluate the creditworthiness of a borrower, on the basis of the information obtained from the credit reports.

Secured Credit or Loan: A credit or loan, for which a property has been pledged as collateral or security, so that the lender can claim this property in case of default. Mortgage loan is an example of a [secured loan](#) or credit. Know more about [secured debt](#).

Secured Credit Card: A credit card that is connected to a savings account that has already been established by the borrower. The credit limit offered on this type of credit card is determined by the amount present in the account to which it is linked. More on [how to apply for a secured credit card](#), and the [difference between secured and unsecured credit cards](#).

Security Alert: In case of a credit fraud, a customer can notify the credit bureaus, which in turn, add a security alert statement on his credit report. This statement warns the creditors about credit fraud, and suggests them to ask for identification proof before granting credit in the name of the concerned person, so as to avoid fraudulent transactions.

Security Code: The numbers printed on the back or front of a credit card, which help to verify its authenticity.

Security Deposit: Money paid in advance as guarantee or protection, before commencement of a transaction, in order to cover possible losses. Security deposits are mainly paid to the landlords by the tenants, at the time of signing the lease agreement, to protect the landlords against non-payment or possible future damages caused by mishandling of the property.

Security Freeze: It is the right which allows the customers to freeze their credit reports with the credit bureaus, to prevent the release of credit information to the third parties, like credit grantors and other agencies. Security freeze, also known as credit report freeze or credit report lock down, can be exercised by the consumers in case of identity theft or credit fraud.

Seller's Points: A lump sum payment made by the seller to the creditor of the buyer, so as to lower the cost of the loan to the buyer. One point is usually equal to one percent of the amount of

the loan. This payment can be either voluntarily paid by the seller, or required to be paid by the creditor.

SET Protocol: SET protocol stands for 'secure electronic protocol' and is a technology for ensuring safe and secure electronic transactions.

Service Charge: Finance charges for a particular service provided by financial institutions.

Settlement: Also known as 'closing', it is the finalization of the sale of a property, wherein the ownership of that particular property is transferred from the seller to the buyer. The buyer is required to complete the formalities by signing the mortgage document and paying all the closing costs. 'Closing' or 'settlement cost' is the term used to refer to all the expenses, like, taxes, attorney's fees, origination fees, and some other costs, all of which are incurred during the transfer of the ownership of a property.

Simple Interest: It is the rate of interest calculated on the principal amount only, and not on the earned interest or the compound interest.

Skimming: Stealing credit card information with an electronic device, which is then transferred to another card. It can be done either by placing the skimming device on the top of a regular credit card reader, or by swiping the card through an electronic device that can copy the information on the credit card.

Smart Cards: Electronic prepaid cash cards that contain a microprocessor where information is stored, and which can also be used for recording card transactions. Read more on [smart cards](#).

Spoilage: Refers to lost or unused gift cards, and the amount left on partially used gift cards. It is also known as 'breakage'.

Standard APR: It is the annual percentage rate that becomes applicable, after the introductory period expires.

Statement: A document or bill that records all the activities or transactions that have taken place within a specified time period. The date on which a statement is created is known as the 'statement date'.

Status: Condition or position of an account as described by the credit report.

Stock Exchange: [Stock Exchange](#) is a corporation or organization, where stock brokers and traders can carry out trading of stocks and other securities. Know more about [Stock Trading](#) and [Stock Investing](#).

Stock Index: It is an index that measures a section of the [stock market](#), or any changes in the share prices of a group of stocks.

Stop Payment: An order given by the depositor to the bank to not pay a particular check that he or she has written.

Surcharge: An additional fee charged for availing a service. Also referred to as 'convenience fee'.

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Glossary of Credit Terms and Definitions that begin with T

Taxable Fees: Fees that are subject to sales tax.

Tax Lien: A legal claim on real or personal property registered by the government taxing authority for the unpaid property taxes.

Tax Savings: The amount that can be saved in taxes, and also the items that reduce the taxable income. For example, the interest paid on home loans is tax deductible. Know more about [income tax](#).

Term: The time period of a loan within which it has to be repaid. 'Term in months' is the number of months within which a loan has to be paid back, while 'term in years' refers to the number of years over which one has to repay a loan.

Thin File: A term used for referring to the credit reports with very few credit accounts or a brief credit history.

Three C's: Three C's refer to character, capacity and capital, which are considered as the three basic criteria by the lenders for granting loans.

Third-Party Collectors: Third party collectors are collection agencies that are bound by a contract to collect debts for a credit department or credit company.

Thrift: A financial institution established for taking deposits and funding mortgages. Also known as savings and loan association.

Time-Barred Debt: A type of old and unpaid debt. Generally, there is a time limit for the creditors to get, or force, repayment from the debtor by a court order. If a debt becomes older than that specific time period then is declared as 'time-barred debt'.

Titanium Card: A type of credit card that has higher credit limit than platinum cards, and is usually offered to people with good credit history and higher incomes.

Total Finance Charge: It is the total of finance charges, which is generally calculated by multiplying the average daily balance, by the daily periodic rate, and the number of days in the billing cycle.

Tradeline: An entry in the credit history of a consumer, that describes the status and activity of an account. Examples of tradeline information include companies with which one has accounts, the date of opening the account, types of accounts, credit limits, payment profile and balance owed.

Tranche: Tranche refers to related securities offered at the same time, as a part of the same transaction, but which vary in terms of risk, rewards, as well as the maturities.

Transaction Date: The date on which a transaction like cash withdrawal or purchase has taken place.

Transaction Fee: A fee charged for some specific transactions or uses of credit line and credit card. For example, a fee is charged for withdrawing cash on credit cards.

Transactor: It is a term used for the card holder who carries out transactions by using credit a card.

Tribureau Credit Report: A credit report compiled with the information available with all the three major credit bureaus. Also known as a 'merged credit report' or a '3-in-1 credit report'.

Truncation: Generally, only a few digits of a credit card are displayed on a receipt by the merchant. This is done mainly for security concerns, but without hampering the identification of

the card used. This practice is known as truncation, and is required by the federal laws.

Truth in Lending Act: A federal law that requires the lenders to disclose some key information related to credit transactions, like interest rates, finance charges, and cost of the loans to the borrowers, so that they can compare various types of loans.

Truth in Savings Act: A U.S. Federal law passed on 19th December, 1991, that basically requires uniformity in the disclosure of terms and conditions, interest rates, and fees associated with a savings account, so that customers can compare the different types of accounts.

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Glossary of Credit Terms and Definitions that begin with U

Unauthorized Use: Use of a credit card by someone who is not the authorized user. It can happen when a credit card is lost or stolen, which can then be used for making purchases without the knowledge of the authorized users.

Universal Default: It is the practice of increasing the interest rate on the credit provided to a particular customer, on receiving information that he or she has defaulted with other lenders.

Unsecured Card: A credit card that is not secured by collateral or security.

Unsecured Credit or Loan: A loan or credit not secured by collateral or security. Such types of loans generally require the customer to sign a written agreement, promising to pay the loan amount.

Unused Credit: The portion of credit that is not used, or is still available to the customer.

Up-Front Costs: The fees or costs that are required to be paid in advance, before receiving a loan. Examples include origination fee, appraisal fee, etc.

User Authentication: The process of verifying, as well as validating, the identity of the credit card user.

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Glossary of Credit Terms and Definitions that begin with V

Vacated: A court judgment that has been dismissed or rendered void.

Vantage Score: It is the latest addition in the credit scoring models, the methodologies of which are developed by all the three major credit bureaus, i.e. Equifax, Experian and TransUnion.

Variable APR: Variable annual percentage rate is often referred to as 'variable rate', which is the interest rate that changes periodically, over the life of a loan, in accordance with the changes in the interest rate in the market. The changes in variable interest rate are determined by the changes in the prime rate, which is the lending rate of the banking system.

Verification: Verifying or confirming the information on a credit report. Verification is initiated by the credit bureaus when a customer challenges the authenticity of the information on his or her credit report.

Victim Statement: It is the statement that can be added to the credit report of an individual in case of a credit or identity theft, to warn the potential creditors not to grant credit in the name of the concerned individual, without carrying out proper identification checks. The victim's statement can remain on the credit report for 7 years, if the individual concerned does not request to eliminate it before the expiry of this term.

Visa: A major processor of credit and debit transactions in the United States. The payment cards with the symbol of Visa are generally termed as 'Visa cards', though they are actually issued by the financial institutions that partners with Visa, and enables Visa cardholders to carry out transactions and purchases from Visa merchants or acquirers. The transactions are then processed by Visa payment networks. The financial institutions that tie up with Visa for issuing credit and debit cards are called 'Visa issuers', while the merchants that accept Visa cards are known as 'Visa merchants'.

Void transaction: Refers to invalidation or deletion of transaction information recorded for settlement.

Voluntary Bankruptcy: Bankruptcy petition filed by the debtor.

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Glossary of credit Terms and Definitions that begin with W

Wage Assignment: An agreement signed by the borrower, whereby the creditor is authorized to collect a certain part of the borrower's wage from his employer, if the borrower fails to meet his debt obligation.

Wage-Earner Plan: A repayment schedule in Chapter 13 bankruptcy, where individuals unable to repay their debts can suggest a repayment plan in the court. The repayment schedule can be of 3 to 5 years duration, and the debtor can use wage earnings and property as the sources for repayment. The entire repayment program is supervised by the bankruptcy trustee, who receives funds from the debtor and then repays the creditors.

Wage Garnishment: A technique of debt recovery ordered by the court, where the lender can obtain a part of the monetary compensation, including salary, directly from the employer of the borrower, until the debt is repaid completely. Read about [wage garnishment](#).

Withdrawn: A decision to not pursue a bankruptcy, a lien, etc.

Writ of Replevin: A legal document authorizing the repossession of debtor's property, which has been pledged as security to obtain a loan.

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Glossary of Credit Terms and Definitions that begin with Z

Z score: A model developed by Edward Altman, professor of New York University, for predicting bankruptcy.

Zero Balance: Refers to no outstanding balance and no activity in the current month, i.e. no debt on the credit card account.

Zero Liability: A policy to protect customers from fraudulent charges or unauthorized transactions. If a particular account is in good standing, and the account holder has taken adequate care in safeguarding his card, and not reported two or more unauthorized events in the last 12 months, then that account holder is not held accountable for unauthorized transactions or fraudulent charges.

Zombie Debt: Refers to very old debts and credit cards, for which creditors cannot approach the court to collect them. However, these debts can be recovered by other means.