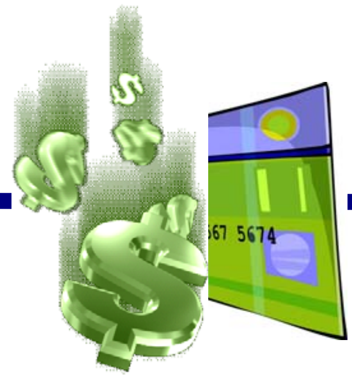

Credit Card Smarts

Credit Card Terms

Annual Fee: is a charge paid once a year for the right to use a credit card.

Annual Percentage Rate (APR): is the annual interest rate that the card issuer charges on the unpaid balance of the credit card or loan.

Average Daily Balance: a method used to determine finance charges. It is based on the average balance that existed each day. The calculation includes new purchases and payments.

Balance Transfer: is a process of moving an unpaid credit card debt from one issuer to another card, assuming the newer card has better terms and rates. Card issuers offer teaser rates to encourage cardholders to change credit card companies and charge balance transfer fees to discourage them from changing card companies.

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: is a charge for using credit cards to obtain cash. The fee is expressed as both a percentage and a flat dollar amount. There is no grace period for a cash advance, meaning that interest is charged from the moment the cash is withdrawn.

Collateral: is the asset that is pledged by a borrower to secure a loan or other credit, and subject to seizure in the event of default. It is also known as security.

Credit Card: is a card that may be used repeatedly to borrow money or buy products and services on credit. It is issued by banks, savings and loans, retail stores and other businesses.

Credit Rating: is a judgment of someone's ability to repay debts, based on current and projected income and history of payment of past debts. It is sometimes expressed as a number called a credit score.

Credit Reporting Agency (CRA), formerly called Credit Bureau: is a company that collects and sells information about how people handle credit. CRAs issue credit reports that list how individuals manage their debts and make payments, how much untapped credit they have available, and whether they have applied for any new loans. The reports are made available to individuals and to creditors who have a legitimate need for the information. The major national credit reporting agencies are Equifax, Experian, and TransUnion.

Credit Risk: is the probability that a borrower will repay a debt.

Creditor: is a person or business to which a debtor owes money.

Debtor: is a person who owes money to others.

Default: is failure to meet the financial obligations as agreed. People who do not make payments on a loan have "defaulted" on that agreement.

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

Finance Charge: is the total dollar amount a consumer pays to use credit, including interest costs, service charges, and insurance.

Fixed Expense: is an expense that cannot be adjusted or eliminated, such as a monthly car or mortgage payment.

Fixed Interest Rate: is a rate that stays the same for the life of the loan.

Flexible Expense: is an expense that can be adjusted or eliminated, such as luxury items, clothes, or entertainment.

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

Garnish: is to withhold money from a person's paycheck to make sure he or she meets a financial obligation. One example would be child support payments that are collected through a garnishment.

Grace Period: is the length of time before interest is charged on the purchases. Most companies offer 20-25 day grace periods. People who carry a balance on their credit cards have no grace period.

Lender: is the private, public or institutional entity that makes funds available to others to borrow.

Lien: is the legal right of a creditor to hold a debtor's property or sell it to repay the debt. For example, the financial institution who lent money for a car loan holds the lien on the car's title until the car is paid in full.

Method of Calculating Finance Charges: is the way the issuer computes the monthly finance charge. Most companies use the average daily balance method to figure finance charges. Beware of a "two-cycle" average daily balance method.

Minimum Finance Charge: is the least amount that is needed to be paid if there is a balance on a credit card. This amount keeps the account from going into default. Card issuers require a minimum of two to four percent of the outstanding balance.

Over-The-Limit Fee: is a fee charged when a consumer exceeds the credit limit on their credit card.

Periodic Rate: is the APR divided by 12.

Phishing: is 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 giving private information that will be used for identity theft. Typically, the e-mail recipient is told to verify or update account information to remedy a problem and is directed to click on a link provided in the e-mail. Or the person might be asked to complete a financially rewarding survey by visiting a Web site linked in the e-mail.

Pre-Approved: is when a credit card issuer offers “pre-approved” credit cards to potential customers who have passed a quick credit-information screening. The company does not have to issue the card if it does not like what it later learns about the applicant’s credit rating.

Pretexting: is the practice of obtaining personal information under false pretenses. Pretexters sell the information to people who may use it to get credit in another person’s name, steal assets, or investigate or sue a person. This is against the law.

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

Secured Debt: is a debt that is secured by a lien on the debtor’s property that can be taken by the creditor in case of nonpayment by the debtor. Examples of secured property are a car and home.

Skimming: is a high tech method by which a thief captures personal or account information from a credit card, driver’s license, or passport. An electronic device known as a “skimmer” is used to capture the information. The card is swiped through the skimmer, and the information contained in the magnetic strip on the card is stored on the device.

Strong Password: is a password that is difficult to detect by humans and computer programs. A strong password consists of at least six characters including a combination of upper and lower case letters, numbers and symbols.

Tangible Personal Property: is property that can be felt or touched, such as furniture or cars.

Teaser or Introductory Rate: is a below-market interest rate offered to entice customers to apply for or switch credit cards or lenders.

Transaction Fees: are fees that are paid for cash advances, late payments, or charging over the credit limit.

Variable (Adjustable) Interest Rate: is an interest rate that can change. How often it changes depends upon the terms of the contract and should be stated in the documents the creditor provides.

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

Universal default: is a policy of some lenders that allows them to punish borrowers who pay any creditor late. It is most commonly used by credit card companies and revealed in the fine print of their contracts with consumers.

Unsecured debt: is 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.

Source: Bankrate Glossary, www.bankrate.com

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