
Important Credit Terms

Accrued Interest - interest that has accumulated since the last payment.

Adjustable Rate Mortgage - a real estate mortgage in which the parties agree to predetermined intervals at which the interest rate being charged may be changed by the lender, based on an index.

Adjustment Service Company - a firm that, for a fee, will help a person set up a budget. Customers generally make one payment to the company and the company in turn distributes the available money to the customer's various creditors.

Amortization - the reduction of debt through regular payments, or the reduction in value of an asset through depreciation.

Annual Percentage Rate (APR) - the cost of credit, expressed as a yearly rate. Federal law requires this rate be disclosed in a way that makes it stand out from the rest of the text.

Balloon Payment - the final payment on a debt, which is much larger than the standard payments.

Bankruptcy - the discharge or forgiving of one's debts by a federal court. There are different types of official bankruptcy under federal law.

Charge Off - when an account or loan is removed from the business's or the financial institution's current credit files; however, the customer remains liable for the debt and may face collection action.

Closed-end Credit - a loan or account in which a specific amount is borrowed for a specific period of time. No further purchases or loans may be added to the original amount without further agreement.

Collateral - items of value that are pledged as security for a loan. If the loan is not paid, the items are forfeited.

Compound Interest - a method by which interest is calculated on the principal amount and on the interest that was earned earlier.

Consolidation Loan - a loan that combines and refinances other obligations to achieve smaller monthly payments, usually at a lower interest rate or for a longer term.

Consumer Credit - credit extended for personal, family, or household purposes; amount of credit extended must be \$25,000 or less.

Consumer Credit Transaction - a consumer transaction in which something is acquired on credit, and a) a finance charge may be imposed, or b) the debt may be paid in more than four installments.

Consumer Credit Sale - a sale in which the debt is payable in more than four installments, or a finance charge is imposed, and in which the person owns the goods when the terms of the agreement are complete.

Cosign - to cosign a loan means to guarantee the payment terms for another person and to become personally liable for those terms.

Credit - the ability to borrow money from a lender; also the ability to purchase goods and pay for them later.

Credit Bureau - a firm that maintains credit reports on individuals and the use or abuse of the credit extended to them.

Credit Insurance - insurance offered in conjunction with credit, which makes the person's payments if death or injury occurs.

Credit Rating - an evaluation of the credit history of an individual or firm to determine if worthy of the extension of additional credit.

Credit Scoring - a system of scoring credit worthiness based on factors such as income, whether you own or rent, length of residence at an address, etc.

Default, Closed-end - when an amount exceeding one full payment remains unpaid for more than 10 days after the scheduled due date.

Default, Open-end - the failure to make two required payments when due within a 12-month period.

Deficiency Judgment - when the sale of property in a foreclosure or repossession action does not cover the debt outstanding, a court may issue such a judgment declaring the debtor liable for the remaining balance.

Delinquency - failure to pay on an obligation when due.

Escrow - a fund used to set aside monies paid by the debtor for eventual payment of things like property taxes or property insurance. The financial institution holds the funds for eventual transmittal to a third party at a date in the future.

Equal Credit Opportunity Act - enforced by the Federal Trade Commission, the federal legislation protects individuals from discrimination in the granting of credit on the basis of race, sex, religion and other factors.

Fair Credit Reporting Act - 1971 federal law ensuring easier access to personal credit records and the opportunity to both correct inaccurate entries and challenge disputed entries in writing.

Finance Charge - the total cost of obtaining credit.

Fixed Rate Loan - a loan or mortgage in which the interest rate is determined at the beginning of the term and stays constant throughout.

Foreclosure - a court action in which, because of missed payments, the owner loses title to a property.

Garnishment - a court order requiring an employer to deduct monies from a person's paycheck, or, which deducts monies from a financial institution account for a specific purpose.

Home Equity Line of Credit - an account which allows a homeowner to use the equity in property which has built up over time as a line of credit for purchases, cash advances and loans to him or herself.

Inflation Rate - an indication of how much the cost of consumer goods has risen over a specified period of time, usually a year.

Interest - the cost of credit; usually a percentage of the total loan that is charged for the benefit of using the funds borrowed.

Judgment - a court order requiring that some person or firm pay an amount of money or surrender property to another.

Lease (consumer, motor vehicle) - the transfer of the right of possession and use of a motor vehicle primarily for a personal, family, or household purpose, for a period longer than four months, and when the amount of the lease does not exceed \$25,000.

Lien - a claim by a creditor or other party against an asset. If an obligation is not fulfilled, the property may be seized through a court order to satisfy the lien.

Line of Credit - an amount of credit that a financial institution makes available to a business or consumer during a specified period of time.

Loan - 1) in general, the use of something of value for a period of time by someone other than the owner; 2) an agreement to borrow money, most often in writing and for a specific period of time, at a stated interest rate and repaid according to a specified plan.

Mortgage - a type of debt in which the borrower gives the lender a lien against the property until the funds are paid back. When involving personal property as opposed to real estate, the term is "chattel mortgage."

Net Loan Charge-Off - the portion of a loan considered uncollectible after any recovery amount gained through the sale of repossessed or seized goods or property. This amount is charged off as an expense to the business or financial institution.

Net Worth - the value of an individual or business, determined by subtracting all liabilities from all assets.

Non-Sufficient Funds Check - a check that cannot be cashed because not enough funds are on deposit in the account. When the check is presented to the financial institution, it may be stamped NSF and returned.

Notice of Right to Cancel - a formal written notice that must meet certain legal requirements, informing a consumer of their right to cancel a contract (see right to cancel).

Open-end Credit - a credit plan that allows a consumer to make repeated credit transactions under one agreement, provides for a finance charge and permits payment in full or in installments.

Overdraft Checking - a checking account with a pre-approved line of open-end credit to avoid NSF checks and overdrafts.

Points and Origination Fees - special fees charged at the beginning of a mortgage loan that pay for various approvals, forms and paperwork needed to process the transaction. One point is the equivalent of one percent multiplied by the principal amount of the proposed loan.

Post-dated Check - a check issued for a date later than the day on which it is written; the recipient should not deposit it prior to the written date.

Pre-computed Interest - interest that is determined at the time a loan is granted, and which is added to the amount borrowed, the total of which is paid in equal installments.

Pre-payment - the ability to pay the balance of an extension of credit before it is due.

Prime Rate - the interest rate which a financial institution charges its largest and best corporate customers, often used as a basis to price other loans.

Principal - the amount of money borrowed.

Promissory Note - a written promise to pay a certain sum under terms acceptable to both the borrower and the lender.

Refinancing - entering into a new credit agreement which replaces one or more prior agreements.

Reorganization - a term in bankruptcy proceedings in which a firm and its debts are reorganized under federal law to allow the firm to continue operating.

Repossess - the seizing of collateral by a financial institution or merchant because of nonpayment, usually with the intention of selling it to recover at least a portion of the loan balance.

Retail Installment Contract - an agreement between a merchant and a consumer to purchase goods or services, to be paid for in installments.

Revolving Credit - a credit account to which additional purchases may be made, to which finance charges are assessed on any outstanding balance, and which may be paid in full at any time (see open-end credit).

Right to Cancel - under certain circumstances, the consumer's right to cancel a contract within a specified period of time.

Right to Redeem - the right of a consumer to buy back, within a specified period of time, an item of collateral that was seized for nonpayment.

Rule of 78's - a method used to compute the refund due the consumer under a pre-computed transaction.

Secured Credit Card - a card for which the financial institution requires a collateral deposit to be kept to cover purchases made with the card (also called a collateralized credit card).

Security Interest - a right to collect or foreclose on property listed as collateral if the debt is not paid according to terms.

Service Charge - any of a number of different fees charged by financial institutions that help defray the costs of processing checking and savings account transactions.

Simple Interest - a method of calculating the earned finance charge by applying the annual percentage rate to the unpaid balances for the actual time those balances were unpaid up to the date of prepayment. The basic concept is that the finance charge is computed only on that portion of the original amount financed which is still owed.

Surety Bond - a type of guaranty or insurance which protects a person, firm, or government if a party fails to perform a contract as agreed, or is guilty of misconduct.

Tattletale Notice - under the Wisconsin marital property laws, notice provided to a married person by a firm or lending institution that the person's spouse has signed a contract, taken on debt or opened an account.

Three Day Right to Cancel - (see right to cancel) under state and federal law, consumers have three days to cancel a contract under certain conditions.

Truth in Lending Act - a key federal statute which provides for important disclosures of terms and ensures various consumer rights in lending transactions.

Unsecured Loan - a loan for which no collateral is taken as security (also called a signature loan).

Variable Rate - A periodic rate that may change based on some type of index. If the rate is subject to change, this must be disclosed to you in writing.

Voluntary Surrender - when a debtor gives up property, without a request or order to do so by the creditor.

Wage Assignment - an agreement signed by a debtor requesting that a certain amount of her or his wages be deducted to pay another person or firm, for a debt or obligation.

Wisconsin Consumer Act - a body of law enacted in 1973 that sets forth the rights of consumers in transactions involving credit (Chapters 421-427 of the Wisconsin Statutes).

Write-off - see Charge-off.