

Math for Financial Literacy © 2013

Chapter 7: Credit Cards—Glossary

annual fee. Fee charged by many credit cards for the privilege of having the card.

annual percentage rate (APR). Rate of return on an investment, or interest on a loan, for a one-year period.

available credit. Amount of money that can be used for purchases with the credit card.

average daily balance method. Method of calculating finance charges using an average balance for the period as a basis for the finance charge.

cash advance. Loan against the available credit on a credit card.

collateral. Any asset that is pledged as security for a loan.

convenience check. Paper check that will be charged against a person's credit card account.

credit. Term that describes the contractual agreement between a borrower and a lender in which the borrower agrees to pay back the lender for money that the borrower receives, usually with interest.

credit card. Plastic card that allows a person to borrow money from the bank or financial institution that issued it.

credit card statement. Report that shows the purchases made with a credit card, the current balance, and the amount of money that is owed by the due date.

credit limit. Maximum amount of money available on a line of credit.

credit report. Summary of all the companies that have extended credit to a person.

credit score. Number that shows how well a person handles credit.

current balance. Total amount of money owed to a lender.

debt-to-income ratio. Amount of money required each month to pay debts divided by the debtor's (or borrower's) monthly gross income.

disclosure statement. Document that details finance charges, annual percentage rate, and cardholder rights.

effective annual rate (EAR). Nominal rate compounded.

FICO score. Most common credit score, named for the Fair Isaac Corporation, which provides the calculation for the score.

finance charge. Fee associated with credit.

grace period. Time during which you can pay off the balance of your card and not incur finance charges.

late fee. Fee charged if a person fails to make at least a minimum payment before the due date.

line of credit. Maximum amount of money a person may borrow with a credit card.

nominal APR. Simple interest rate for the year.

periodic rate. Annual percentage rate divided by the number of periods in the year that finance charges will be applied.

previous balance. Balance on a credit card the last time finance charges were calculated, typically the last time a statement was issued.

revolving line of credit. Line of credit with a balance that is constantly changing.

unpaid balance method. Method of calculating finance charges based on the portion of the previous balance that is unpaid at the time of the calculation.