MODULE 3: Vocab & Key Terms

The Power & Risk Of Credit Cards

Loans
A loan is a sum of money that is borrowed and typically needs to be paid back with interest. Types of loans include personal, payday, auto, home equity, mortgage, student and consolidation loans.

Mortgages
A mortgage is a loan used to purchase a piece of real estate (i.e. a house). It is secured by the home or property purchased, meaning if the payments are not made the lender can take possession of the home. Mortgage payments are typically made over 15 to 30 years.

Consumer Debt
Consumer debt includes any debt incurred for non-business related purchases such as credit cards, medical bills, installment loans, and other consumer spending. High levels of consumer debt can lead to difficulty in making payments and delinquency or default on loans.

Fixed Rate Mortgage
A fixed rate mortgage is one in which the interest rate remains the same throughout the life of the loan regardless of external market fluctuations. This allows borrowers to plan more securely as their monthly payment stays consistent over time.

Debt Consolidation Loan
A debt consolidation loan is when multiple debts are grouped into one larger loan that has hopefully a lower interest rate and more manageable payment than multiple smaller ones.

Home Equity Loans/Lines Of Credit (HELOCs)
Home equity lines of credit are either loans taken out against an existing mortgage or lines of credit usually at relatively low interest rates based upon available equity in your home; these loans can often be used for almost anything but can be dangerous if used irresponsibly since collateral (your home) would be put at risk if not repaid fully within specified terms as part of agreement between borrower and lender when taking out loan/line of credit initially.

Payday Loans
Payday loans are short term loans with extremely high interest rates given out with minimal restrictions; these types of loans are considered very predatory due to their costliness and should be avoided unless absolutely necessary due to lack of other options as they may lead borrower into what could become an extreme cycle of debt if he/she cannot pay off loan plus associated fees/interest quickly enough without taking out new payday loans constantly just stay ahead(or even keep up) with payments due.

Credit Card
A type of payment card that allows consumers to purchase goods and services on credit. It is issued by a financial institution such as a bank or credit union, and can be used to make purchases in person or online.

Credit Limit
The maximum amount of money that a consumer can borrow on their credit card. This may also be called the “credit line” or “line of credit”.

Credit Score
A numerical representation of an individual's creditworthiness, based on their past borrowing and repayment history. Generally, the higher the score, the more likely it is that a consumer will be approved for loans and other forms of credit.

Interest Rates
The cost charged by lenders for using borrowed funds. It is typically expressed as a percentage of the principal loan amount per year (even if it’s paid monthly).

Annual Percentage Rate (APR)
Average annual cost of borrowing money, including interest charges and fees associated with a particular credit card or loan product expressed as a single percentage number.

Balance Transfer Fees
A fee charged when transferring balances from one credit card to another (i.e., when consolidating debt). This often comes in addition to applicable interest rates; however, some cards offer zero-percent balance transfer offers with no fees at all if done within a certain time period after approval/activation of the new account.

Cash Advance Fees
A fee charged when withdrawing cash from an ATM using your credit card instead of your bank account or debit card—typically 2-5% of the transaction amount, plus any applicable ATM fees from the receiving institution itself (the ATM owner).

Late Payment Fees
A fee charged by lenders for late payments on your account balance—typically $25-35 per missed payment depending on issuer policy and/or outstanding balance amount/activity since last statement date(s). The amount of time before a late payment fee is called the grace period, which is typically 25-30 days after the close of the billing cycle.

Minimum Payment Due
The smallest dollar amount that must be paid each month on your loan or credit card debt in order to avoid additional late payment penalties and keep your account current with respect to borrower obligations outlined in terms & conditions documents at time account was opened/activated/approved by lender/issuer respectively

Credit Utilization Ratio
A ratio used to measure how much of your available credit you are utilizing at any given time; lower ratios indicate better overall management of debt while higher ratios may trigger warnings or higher interest rates from lenders/issuers in some circumstances.