

Module 6 - Credit Basics

HANDOUT 6-7

Glossary

Annual fee: A fee charged once a year by many credit card companies

Collateral: Items of value that are promised to the lender in the event the borrower does not repay the credit; acts as a form of security for the loan; may be seized and sold if the repayment agreement is not followed

Credit: The ability to borrow money or receive items or services now while paying for them later

Credit card: A card issued by a financial institution that lets you buy things and pay for them later. The credit card company pays the seller. You repay the credit card company monthly

Creditor: A person or company that lends money or sells you goods that you pay for later

Debt: Money that you owe

Grace period: The amount of time you have to pay a credit card balance before you are charged interest

Interest: The amount paid by a borrower to a lender for the use of money

Line of credit: A type of pre-approved loan that allows you to borrow money when you need it, up to a maximum amount

Loan: Money that you have borrowed and have to repay on a set schedule, with interest

Mortgage: A loan to buy property. If the loan is not repaid on time, the lender can take possession of the property

Overdraft: A shortage in a bank account caused by taking out more money than you had in the account. Banks will sometimes allow good customers to make overdrafts for a short time, but they charge fees and interest for the service

Payday loan: A small, short-term loan from a lender with high interest rates

Prepaid card: A card you pay cash for in advance. The balance goes down as you make purchases or withdrawals

Principal: The money invested or loaned, not counting the interest

Secured - A loan with collateral attached to it as a form of security, the collateral (i.e. house) may be seized if the repayment agreement is not followed

Unsecured - A loan issued and supported only by your credit worthiness, rather than collateral. You must have good credit. Typically higher interest rates than secured loans.