

Dictionary of Credit Terms

Agreement: Your credit or charge card issuer will send you a cardholder agreement that describes the terms that apply to your card, including the interest rate charged, method of calculating interest, and any transaction fees.

Annual Fee: Card issuers may charge you a yearly fee in addition to the interest that accumulates when you make purchases.

Annual Percentage Rate (APR): The APR measures the cost of credit expressed as a yearly interest rate.

Average Daily Balance: The most common method of calculating interest. To figure out your average daily balance, the bank will add up your daily balances for the billing cycle and divide that number by the number of days in the billing cycle.

Billing Cycle: The billing cycle is the time between your latest bill and your previous bill.

Cash Advance: You can use your credit card at a bank or an automatic teller machine to get a cash loan. The interest rate will be higher than for normal purchases, and there will be no grace period. There can also be a handling fee.

Credit Bureau: A credit bureau keeps a record of your credit history for any creditor to review when considering your application for credit. They supply this information when you apply for credit.

Credit Card: A credit card is a short-term loan. It allows you to make partial payments for purchases, but charges interest on the amount owed.

Credit Limit: Your credit limit is the maximum amount you may charge on a credit card.

Credit Report: A credit report is a record of your present and past credit use. Under the Fair Credit Reporting Act, you have the right to see your credit history. If you are denied credit, you are entitled to a free copy within 60 days of the denial.

Deferred Payment: Payment put off to a future date or extended over a period of time.

Delinquency Assessment: A fee that is charged for a late payment.

Finance Charge: The cost of credit expressed as a dollar amount.

Fixed Interest Rate: An interest rate that remains the same.

Grace Period: The time in which you can pay off all new purchases without incurring finance charges.

Late Payment: Any payment received after the due date listed on your credit card statement.

Over-The-Limit Fee: A fee you must pay for charging more than your credit limit allows.

Past Due: When you do not pay at least the minimum payment on time.

Posting Date: The date that a purchase or cash advance is recorded on your account.

Prime Rate: The interest rate banks charge for loans to their biggest and highest-rated customers.

Principal: The amount of debt owed before interest charges or fees are included.

Revolve: To carry over a debt from month to month, paying interest on the amount owed.

Transaction Date: The date a purchase is made or cash is withdrawn.

Transaction Fee: A fee that is charged each time certain transactions take place, for example, cash advances.

Two-Cycle Average Daily Balance: A two-month period used to calculate your interest. This means interest is included on purchases made from the previous statement.

Variable Interest Rate: A variable interest rate is based on fluctuating rates in the banking system, such as the prime rate.