Credit Terms You Should Know

Charge, credit and debit cards:

- A ***charge card*** lets you buy things on loan. The balance must be paid in full each time you receive a billing statement.
- A ***credit card*** lets you buy things on loan and pay over time. If you don't pay your outstanding balance in full during the billing cycle (usually about a month), a finance charge is added to the amount due. The finance charge depends in part on the outstanding balance and the *annual percentage rate (APR).*
- A ***debit card*** lets you make purchases in real-time by accessing the money in your checking or savings account electronically.

Interest:

- ***Interest*** is the finance charge you pay for borrowing money.
- The ***interest rate*** is usually expressed as a percent per year.
- The ***annual percentage rate (APR)*** allows you to compare the actual financial cost of a loan. The APR includes interest, fees and any other costs that are considered a finance charge. Generally, the lower the APR the better. For credit cards, the APR is the cost of credit expressed as a yearly interest rate. For each billing period (usually about a month), the company charges you a fraction of the annual rate, called the periodic rate.
- The ***prime rate*** is the lowest interest rate that a bank charges its most creditworthy customers for short-term loans. In the United States and Canada, this rate is influenced by the rate the Federal Reserve and the Bank of Canada set for banks to borrow from each other. Many lines of credit are tied to the prime rate.

Credit and debt:

- Your ***credit limit*** is the maximum amount that you can borrow on a credit card.
- A ***credit report*** is a history of your loan and bill payments, kept by a credit bureau and used by banks and other potential creditors to determine the likelihood that you'll repay any future debt. Lenders and insurers use information from credit reports, along with credit scores, to set loan and insurance rates.
- Your ***credit score*** is the number that summarizes your credit record and history. The score is based on several factors, including how quickly you pay your bills, how much debt you currently have outstanding, the kinds of loans you have, and how long it has been since you've established a credit history.
- A ***debt*** is something that you owe.
- The ***principal*** is the amount of debt you owe; this amount is used to calculate the interest you must pay.

Definitions developed by International Foundation staff using *Benefits and Compensation Glossary*, 12th edition (International Foundation) and government resources.

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