APPENDIX: WORDS TO KNOW

A

ACH: Automated Clearing House. This is a national network that allows for transferring funds electronically between businesses, consumers and financial institutions.

Account Number: A unique number given to you by a creditor to identify a consumer's account with them.

Adjustable Rate Mortgage (ARM): A mortgage loan where the interest rate changes over time. ARMs usually offer lower interest rates at the start, but they also involve the risk of rates rising in the future which can mean higher payments or increasing balances. In comparison, *a fixed rate mortgage* usually offers a higher rate, but payments generally stay the same for the length of the loan. ARMs sometimes have caps that limit how much the interest rate can rise or fall with each change or over the life of the loan.

Amortization: The process of gradually repaying a debt with regularly scheduled payments.

Annual Fee: A charge sometimes required by credit card companies for use of an account. Annual fees range from $10 to $200 a year or more and are most common with rewards cards or cards for subprime borrowers.

Annual Percentage Rate (APR): The interest rate being charged on a debt, expressed as a yearly rate. Credit cards often have several different APRs—one for purchases, one for cash advances and one for balance transfers. Lenders also may increase the APR if a payment is late. (See Default Rate.)

Appraised Value: An educated opinion of how much a property is worth. An appraiser considers the price of similar homes in the area, the condition of the home and the features of the property to estimate the value.

Asset: Personal assets are things owned by a person that have cash value—meaning they can be resold. Common assets include homes, cars, boats, savings and investments, but not clothing or furniture.

Assumption: An agreement between a seller and buyer where the buyer takes over the loan payments from the seller.

Authorized User: Anyone who uses your credit cards or credit accounts with your actual or implied permission. For example, an authorized user can be someone who has a credit card from your account with their name on it. An authorized user is not legally responsible for the debt but may be reported to the credit bureaus.

B

Balance: An amount in excess especially on the credit side of an account.

Balance Transfer: The process of moving all or part of the outstanding balance on one account to another account. Credit card companies often offer special rates for balance transfers.

Bankruptcy: A proceeding that legally releases a person from repaying a portion or all debts owed. One form of bankruptcy involves setting up a repayment plan; another involves selling or transferring your assets to pay your debts. Bankruptcy damages your credit for 7–10 years or more and should only be considered as a last resort if you cannot repay your debts.

Beacon Score: The individual who is requesting the loan and who will be responsible to pay it back.

Borrower: The process of moving all or part of the outstanding balance on one account to another account. Credit card companies often offer special rates for balance transfers.

Broker: An agent who negotiates contracts of purchase and sale.

C

Certificate of Title: A written opinion or a certificate issued by a title company that states that the seller has a good marketable and insurable title to the property being offered for sale. This certificate offers no protections against hidden defects in the title, which an examination of the records could not reveal.

Charge-Off: When a creditor or lender "writes off" the balance of a delinquent debt on its books because the creditor or lender no longer reasonably expects the debt to be repaid. A charge-off is also known as a "bad debt." Charge-off records can remain on your credit report for up to 7 years or more and can harm your credit score. Just because a debt is charged-off doesn't mean that you cannot be asked to re-pay the debt. Your promise to repay continues, even if the company doubts you will keep your promise. A charged-off debt can be sold to a debt buyer for further collection.

Closing Costs: Certain costs that have to be paid when a property is sold. Closing costs include lender title and escrow fees and usually range from 1%–5% of the purchase price. Closing costs often have to be paid in cash, though they can sometimes be included in the loan balance. They can be paid by the buyer or seller or split between the two.

Collateral: An asset or property used as security against a loan. If the loan isn't paid, the lender can legally take the asset away from the borrower.

Collections: A lender may choose to collect a delinquent loan itself or hire a collection agency to collect on its behalf, or even sell a debt to a debt buyer to recover on amounts owed. Credit card debts, medical bills, cell phone bills, utility charges, library fees and video store fees are often sold to debt buyers. Collections records can remain on your credit report for up 7 years or more from the beginning of final delinquency.

Combined Loan-to-Value Ratio: The total amount you are borrowing in mortgage debts divided by the home's fair market value. Someone with a $50,000 first mortgage and a $20,000 equity line secured against a $100,000 house would have a CLTV ratio of 70%.

Consumer Credit Counseling Service: To help consumers deal with credit problems, this non-profit organization has offices throughout the United States. To locate an office, call

800.388.CCCS (2227).

Conventional Loan: A loan that is not insured by the government.

Convertible ARM: An adjustable rate mortgage that can be converted to a fixed-rate mortgage under specified conditions.

Co-Signer: An additional person who signs a loan document and takes equal responsibility for the debt. Borrowers may want to use a co-signer if their credit or financial situation is not good enough to qualify for a loan on their own. Co-signers must be very careful because they are legally responsible for the debt and the shared account will appear on the co-signer's credit report too. Having a co-signer is only helpful if the co-signer's credit or financial standing is better than the primary borrower.

Credit: The balance (as in a bank) in a person's favor.

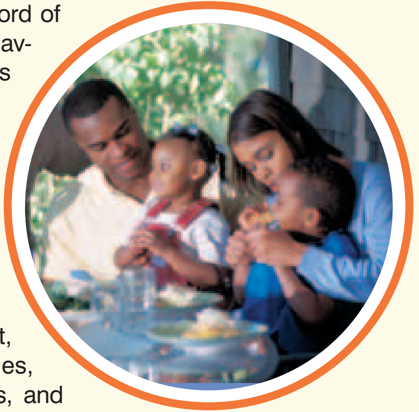
Credit Bureaus: Also known as credit reporting agencies, these companies collect information from creditors and lenders about consumer financial behavior. This data is then provided to businesses that want to evaluate how risky it would be to lend money to a potential borrower. There are three national credit bureaus—**Equifax, Experian and TransUnion**—and many smaller local and regional bureaus. FICO is not a credit bureau. Instead it is a company that develops credit scoring formulas based on the information in credit reports.

Credit Counseling: A service that can help consumers repay their debts and get into good financial health. Many of these agencies offer helpful and affordable services. *Consumers should be aware that there are also credit counseling agencies that are expensive, ineffective and even damaging to the client's credit. Consumers should carefully review the company's reputation and services before signing up.* **To find a legitimate credit counseling agency, go to www.nfcc.or or call 1-800-388-2227.**

Credit File: Another term for your credit report. The term credit file is usually used to indicate the full record of your credit history maintained by a credit bureau. Your credit report may not include all the information in your credit file.

Credit History: Another term for the information on your credit report. Your credit history is a record of how you have repaid your credit obligations in the past.

Credit Limit: The total amount that a company will allow you to charge to a credit card or credit line. If you spend more than your credit limit, you may be charged an "overlimit fee". It's a good idea to keep all of your credit card balances below 35% of your credit limits.



Credit Report: A record of an individual's financial behavior, kept by credit bureaus and provided to businesses when they want to evaluate potential borrowers, employees, tenants or insurance purchasers. Credit reports include records on: consumer name, current and former addresses, employment, credit and loan histories, inquiries, collection records, and public records such as bankruptcy filings and tax liens.

Credit Score: A score that reflects how good your credit history is. It is used by creditors to quickly understand how risky a borrower you are. Credit scores are calculated using complex mathematical formulas that may look at your most current payment history, debts, credit history, inquiries and other factors from your credit report. FICO scores usually range from 300-850, with 680 or higher generally considered to be "good" credit scores. There are thousands of slightly different credit scoring formulas (including FICO, Beacon and Empirca scores) used by bankers, lenders, creditors, insurers and retailers. Each score can vary somewhat in how it evaluates your credit data.

Creditworthiness: A consumer's ability to meet debt obligations, as determined by a creditor.

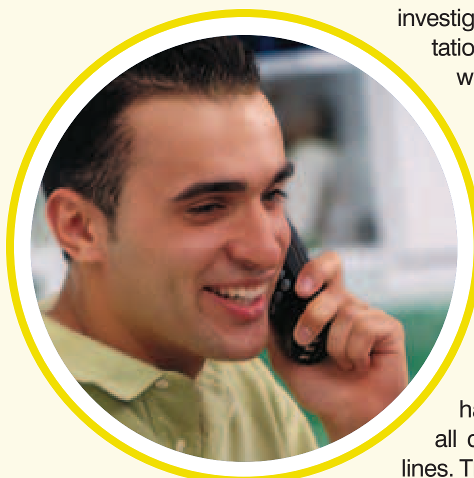
D

Debt: The amount of money owed.

Debt Consolidation: A process of combining debts into one loan or repayment plan. Debt consolidation can be done on your own, with a financial institution or through a counseling service. Student loans are often consolidated in order to secure a lower interest rate.

Debt Counseling: A type of credit counseling that focuses specifically on helping people with debt issues. Instead of consolidating debts into one loan, debt counseling agencies negotiate with your creditors using pre-set agreements and spread your payments over a longer period in order to reduce the monthly amount due. Usually non-profit companies, most of these agencies offer helpful and affordable services. Consumers should be aware that there are also debt counseling agencies that are expensive, ineffective and even damaging to the client's credit score.

Debt Settlement: A process where you pay an agency to negotiate directly with your creditors in the hopes of making significantly reduced settlements for your debts. Working with a debt settlement company can result in damaged credit from numerous late payments and collection records. Consumers should fully



investigate the practices, reputation and costs of working with a debt settlement company before signing up.

Debt-to-Available-Credit Ratio: The amount of money you owe in outstanding debts compared to the total amount of credit you have available though all credit cards and credit lines. This ratio measures how much of your available credit you are using. The higher your debt to available credit ratio, the more risky you appear to potential lenders.

Debt-to-Income Ratio: The percentage of your monthly pre-tax income that is used to pay off debts such as auto loans, student loans and credit card balances. Lenders look at two ratios: The front-end ratio is the percentage of monthly pre-tax earnings that are spent on house payments. In the back-end ratio, the borrower's other debts are factored in along with the house payments.

Default: The status of a debt account that has not been paid. Accounts are usually listed as being in default after they have been reported late (delinquent) several times. Defaults are a serious negative item on a credit report.

Delinquency: A term used for late payment or lack of payment on a loan, debt or credit card account. Accounts are usually referred to as 30, 60, 90 or 120 days delinquent because most lenders have monthly payment cycles. Delinquencies remain on your credit report for 7 years and are damaging to your credit score.

Depreciation: The decrease or decline in the value of an asset, used commonly when discussing auto loans and auto value.

Discharge: A court may release a debtor from debts included in a bankruptcy. Certain debts cannot be discharged.

Disclosures: Information that must be given to consumers about their financial dealings.

Dispute: A consumer has the right to dispute information on his or her credit report if it is believed to be inaccurate or incomplete.

Down Payment: The amount of money that is paid between the purchase price and loan amount.

E

Earnest Money: The amount of money that is paid upfront as part of the purchase price to bind a transaction that will ensure payment.

Equal Credit Opportunity Act (ECOA): A law that protects consumers from discrimination on the basis of race, sex, public assistance income, age, marital status, nationality or religion in the credit and lending process.

Equifax: One of the three national credit bureaus (also known as credit reporting agencies) that collects and provides consumer financial records.

Equity: The fair market value of a home minus the unpaid mortgage principal and liens. You build up equity in a home as you pay down your mortgage and as the property value increases.

Experian: One of the three national credit bureaus that collects and provides consumer financial records. Experian (formerly known as TRW) operates the ConsumerInfo, FreeCreditReport and CreditExpert brands.

F

FCRA, or Fair Credit Reporting Act: A federal law that regulates credit reporting agencies and users of credit reports. Among other things, the FCRA protects access to the information in your credit report. Under the FCRA, the three major national credit bureaus are required to disclose your credit report to you for free once every 12 months, or if you've been denied an application based on information in the report, upon request.

FICO Score: A specific credit score developed by the Fair Isaac Corporation. The FICO score is the most common credit score used by bankers, lenders, creditors, insurers and retailers.

Finance Charge: For federal disclosure purposes, the total cost of using credit. In addition to periodic interest charges, the finance charge may include other fees and changes, such as prepaid interest, credit insurance required for the loan and cash-advance fees.

Fixed Rate: A periodic interest rate for a credit card or loan that does not "move" or automatically change with changes in other standard interest rates. A fixed rate may, however, be increased through a change-in-terms notice or, after default, by the application of a default rate. "Fixed" means "not moving."

Fixed Rate Mortgage: A mortgage loan with a fixed rate. FRMs typically have longer terms (15-30 years) and higher interest rates than adjustable rate mortgages but generally do not involve the risk of changing interest rates or increasing payments that adjustable rate mortgages do.

Foreclosure: When a lender legally takes away an asset (such as a home or car that has been given as collateral for a loan) because the borrower isn't paying back the loan according to its terms. Foreclosure is a legal process to claim ownership of the collateral property and often involves a forced sale of the property, with the proceeds going toward paying off the debt. If the asset is not valuable enough to cover the debt owed, a "deficiency" (remaining balance) may remain. You can sometimes avoid losing an asset to foreclosure by catching up on missed payments and related fees and charges (called "redemption").

G

Garnishment: When a creditor receives legal permission to take a portion of your assets (bank account, salary, etc.) to repay a delinquent debt.

Grace Period: A period of time, often about 25 days, during which you can pay your credit card bill without incurring a finance charge. With most credit card accounts, the grace period applies only if you pay your balance in full each month. It does not apply if you carry a balance forward or in the case of cash advances. If your account has no grace period, interest will be charged on a purchase as soon as it is made.

Guarantee: An agreement by which one person undertakes to secure another in the possession of something.

H

Home Equity Line of Credit: An open-ended loan that is backed by the part of a home's value that the borrower owns outright. This type of loan is used much like a credit card. Home equity lines of credit can be effective ways to borrow large sums of money with a relatively low interest rate. These types of loans should be used with caution. If a borrower is unable to pay back the loan for some reason (loss of job, illness, etc.) they risk loosing the home they used as collateral.

Home Equity: The part of a home's value that the mortgage borrower owns outright. This is the difference between the fair market value of the home and the principal balances of all mortgage loans.

Household Income: The total income of all members of a household. An important yardstick used by credit card issuers evaluating applications for joint credit.

Housing Expense Ratio: The percentage of your monthly pre-tax income that goes toward your house payment. The general rule is that this ratio shouldn't exceed 28%. This is also known as the "front ratio."

I

Inquiry: An item on your credit report that shows that someone with a "permissible purpose" under FCRA regulations has previously requested a copy of your credit report data.

Installment Loan: Monthly payments that are applied to the actual purchase of the vehicle. A person will own the vehicle at the end of the loan by making these monthly payments.

Interest Rate: A measure of the cost of credit, expressed as a percent. For variable rate credit card plans, the interest rate is explicitly tied to another interest rate. The interest rate on fixed rate credit card plans, though not explicitly tied to changes in other interest rates, can also change over time.

Interest: The money a borrower pays for the ability to borrow from a lender or creditor. Interest is calculated as a percentage of the money borrowed and is paid over a specified time.

Interest-Only Loan: A type of loan where the repayment only covers the interest that accumulates on the loan balance and not the actual price of the property. The principal does not decrease with the payments. Interest-only loans usually have a term of 1-5 years.

Introductory Rate: A temporary, low interest rate offered on a credit card in order to attract customers. This low rate usually lasts for about six months before converting to a normal fixed or variable rate. With some offers, the introductory rate can be revoked or terminated early if you make a late payment or violate some other terms of the account.

L

Late Payment: A delinquent payment or failure to deliver a loan or debt payment on or before the time agreed. Late payments harm your credit score for up to 7 years and are usually penalized with late payment charges.

Lender: The individual or financial institution who will be providing the loan.

Liability on an Account: Legal responsibility to repay debt.

Lien: A legal claim on the property of another for the satisfaction of a debt or duty.

Loan Origination Fee: A fee charged by a lender for underwriting a loan. The fee often is expressed in "points;" a point is 1% of the loan amount.

Loan Processing Fee: A fee charged by a lender for accepting a loan application and gathering the supporting paperwork, usually about $300.

Loan-to-Value Ratio (LTV): The percentage of a home's price that is financed with a loan. On a $100,000 house, if the buyer makes a $20,000 down payment and borrows $80,000, the loan-to-value ratio is 80%. When refinancing a mortgage, the LTV ratio is calculated using the appraised value of the home, not the sale price. You will usually get the best deal if your LTV ratio is below 80%.

M

Market Value: The top dollar that would be paid for a house, vehicle or other property.

Minimum Payment: The least amount of money that you must pay on a loan. Failure to pay the minimum could result in late payment fees or a default rate.

Mortgage Refinance: The process of paying off and replacing an old loan with a new mortgage. Borrowers usually choose to refinance a mortgage to get a lower interest rate, lower their monthly payments, avoid a balloon payment or to take cash out of their equity.

MSRP: The "Manufacturer's Suggested Retail Price" on an item such as an automobile, which shows the manufacturer's recommended selling price for an item and each of its options or components. This is often just a starting price for negotiation—you may not have to pay this price.

N

Negative Amortization: This occurs when monthly payments are not large enough to pay all the interest due on the loan. The unpaid interest is added to the unpaid balance of the loan. This can result in the borrower owing more than the original amount of the loan.

Net Income: Also called "take-home pay," this is the amount of income that you actually receive from your paycheck, after taxes, insurance and other payments.

O

Open-End Credit: Line of credit that can be used over and over again. This includes overdraft credit accounts, credit cards, and home equity lines.

Original Amount: The original amount owed to a creditor.

P

Periodic Rate: The interest rate you are charged each billing period. For most credit cards, the periodic rate is a monthly rate. You can calculate your card's periodic rate by dividing the APR by 12. A credit card with an 18% APR has a monthly periodic rate of 1.5%.

Point: A unit for measuring fees related to a loan; a point equals 1% of a mortgage loan's principal amount. Some lenders charge "origination points" to cover the expense of making a loan. Some borrowers pay "discount points" to reduce the loan's periodic interest rate.

Prime rate: The interest rate a commercial bank charges to its best or "prime" customers, usually large businesses. The variable rates charged to consumers on credit cards. For example, the APR on a credit card account may be based on the prime rate plus a certain fixed percentage (or "margin"). So, if the APR on your card is "prime plus 18%", then when the prime rate is 7%, your APR will be 25%. If the prime goes up by 1% (to 8%), which it may, then your APR may increase by the same amount as the prime rate increase (by 1% in our example to 26%). credit card issuers and other lenders typically use the prime rate published in The Wall Street Journal.

Principal: The amount of money borrowed with a loan or owed on a debt, usually excluding interest and fees.

Private Mortgage Insurance (PMI): A form of insurance that protects the lender by paying the costs of foreclosing on a house if the borrower stops paying the loan. Private mortgage insurance usually is required if the down payment is less than 20% of the sale price.

R

Released: When a lien has been satisfied in full it is released by the lien holder.

Refinance: The process of paying off an old loan with a new loan. Borrowers usually choose to refinance a mortgage or other loan to get better loan terms such as a lower periodic interest rate or lower monthly payments, or to receive cash for their equity.

Revolving Account: A loan or account that allows you to borrow, pay down and re-borrow money over an indefinite period of time, also known as "open-end" credit (as distinct from "closed-end" or "installment" credit under an installment loan where there is a definite term of repayment). Under a revolving account, when you pay down the outstanding balance of your account, you have more credit available to make purchases. Credit card and home equity loans are examples of revolving accounts.

S

Satisfied: When a consumer has paid all of the money a court deems owed, the public record item is satisfied.

Secured Debt: A loan that requires a piece of property (such as a house or car) to be used as collateral. This collateral provides security for the lender, since the property can be seized and sold if you don't repay the debt.

Security: Something given as a pledge of payment.

Security Interest: The creditor's ability to take property offered as security.

Service Charge: Finance charges such as the fee for triggering an overdraft checking account into use, using balance transfer checks, or credit card checks.

Servicing: The steps a lender performs to keep a loan in good standing, such as payment of taxes, insurance, collection of payment, etc.

Settlement: An agreement reached with a creditor to pay a debt for less than the total amount due. Settlements can be noted on your credit report and are not as beneficial to your credit as paying a debt in full.

Social Security Number: Also referred to as a SSN. This unique nine digit number is meant to track your Social Security savings but is also used by creditors, lender, banks, insurers, hospitals, employers and numerous other businesses to identify your accounts. People who do not have a SSN, such as non-US citizens, use a nine digit Individual Taxpayer Identification Number (ITIN) instead.

Subprime Borrower: A borrower who does not meet the qualifications for standard credit and loan offers. Usually a subprime

borrower has poor credit (a score under 650) due to late payments, collection accounts or public records. Lenders often grade them based on the severity of past credit problems, with categories ranging from "A-" to "D" or lower. Subprime borrowers can qualify for loans and credit, but usually at a higher interest rate or with special terms.

T

Term: With respect to loans, the length of the loan period. With respect to a loan contract, a particular benefit, condition or obligation to which a borrower or lender has agreed.

Title: A legal document that shows the ownership of property (like a car or house).

TransUnion: One of the three major national credit bureaus (also known as credit reporting agencies) that collects and provides consumer financial records.

TransUnion Credit Score: The TransUnion TransRisk New Account Credit Score is provided to help you better understand how lenders view your credit report. It is not an endorsement or a determination of your qualification for a loan. Lenders use credit scores to help determine whether or not you are a good candidate for a loan and what interest rate you will pay. However, each lender has specific underwriting standards, so you should not assume that you will receive the same evaluation from each lender. As part of the underwriting process, they will incorporate additional information you provide and may obtain references. In addition, even if you are approved, the terms and conditions of loans vary from lender to lender. The information used to determine your credit score comes from TransUnion, one of the major credit bureaus. Credit reports are a compilation of credit information that is reported to the bureaus by the various lending institutions with which you have accounts. The information contained in your report reflects the latest information provided. If you recently made a payment, opened a new account, or authorized an inquiry, it may not yet be reflected in the credit report you receive. Likewise, it will not be reflected in your credit score. Also, disputed items are not incorporated in the assessment of your credit score. Your credit score will change each time new information is captured in your record. TrueCredit is not connected in any way with Fair, Isaac and Company; the credit score provided here is not a so-called FICO score. The credit scores of TransUnion may not be identical in every respect to any consumer credit scores produced by any other company.

U

Unsecured Debt: A loan for which there is no collateral. Most credit card accounts are unsecured debt.

Utilization Ratio: The ratio between the credit limits on your accounts and the outstanding balances. This ratio shows lenders how much of your available credit you are using overall.

V

Variable Rate: A type of periodic interest rate tied directly to the movement of some other rate or "index". A variable rate is typically made up of an index (the moving rate) and a "margin" or "spread" (a fixed percentage over the index). For example, a variable rate might involve the prime rate (the index) plus 15% (the margin) and would change from time to time (increase or decrease) as the prime rate changes. The frequency of changes may vary. Some variable rates can change as frequently as monthly, while others may change only yearly. A variable rate may be subject to a rate maximum ("ceiling") or rate minimum ("floor"), or both. The prime rate and London Interbank Offered Rate ("LIBOR") are commonly used as indices.

Verification of Employment: A document that is signed by the borrower's employer indicating that the borrower is employed with their company and the dollar amount the borrower makes per year.