

Standard 4: Resource

Credit Terms

Credit—The ability to borrow money or to purchase and use items now in exchange for your promise to pay it back later, usually with interest

Minimum payment-- The lowest amount creditors will allow a customer to pay for purchases

Principal—The cost of the item bought on credit or the amount of money borrowed

Annual Percentage Rate (APR)—The cost of credit expressed as a yearly rate that includes the interest rate, fees and loan costs

Maturity Date—The date the final payment is due for a loan

Capital—Cash to cover some of the loan costs

Capacity—Regular income that is sufficient to meet your financial obligations

Character—Trustworthy to repay the loan

Collateral—Something of value that can be taken if you do not repay the loan

Conditions—What is happening in the local economy or an individual's personal situation that might affect the repayment of the loan

- **Debt** is the entire amount of money you owe to lenders.
- **APR** (Annual Percentage Rate) is the total cost to use credit in a year.
- **Term** is how long you have to repay a loan, often expressed in months.
- **Fees** are charged to use credit. Examples: Annual Credit Card Fee, Loan Origination Fee, Over-the-Limit Fee
- **Credit History** is a record of your behavior related to borrowing and repaying loans.
- **Credit Report** is a detailed record of your personal credit and financial transactions.
- **Credit Score** is a rating used by credit reporting companies to help lenders decide whether and/or how much credit can be extended to a borrower.
- **Credit Limit** is the maximum amount that can be charged to a specific credit account.

- **Due Date** is the date your payment must be received and posted to avoid late fees or interest if you pay your account in full.
- **Interest Rate** is the amount the creditor will charge you. Interest can be a fixed amount--stays the same for the life of the loan, or variable--can change based upon the prime rate.
- **Grace Period** is the amount of time you must pay your balance before interest is calculated
- **Bankruptcy** is a legal process to get out of debt when you can no longer make all your required payments.