

**FEDERAL RESERVE BANK
OF NEW YORK**

Circular No. 8599
July 11, 1979

HANDBOOK OF CONSUMER TERMS

*To All Financial Institutions, and Others Concerned,
in the Second Federal Reserve District:*

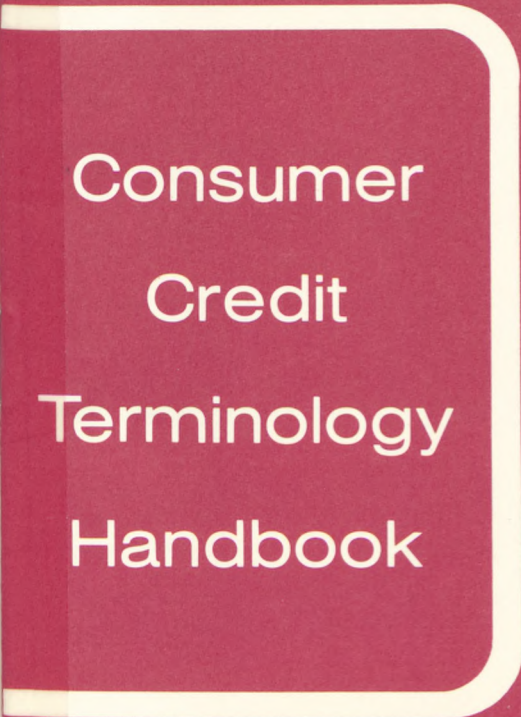
Enclosed is a new booklet entitled "Consumer Credit Terminology Handbook," issued as part of this Bank's Consumer Credit Information (CCI) Program.

This collection of consumer credit terms and definitions is offered as a guide for consumers using credit. It is not intended to provide legal interpretations.

Limited supplies of the handbook are available, without charge, from our Public Information Department. Large orders of the handbook should be requested in writing.

CCI materials are intended as a resource to help creditors and borrowers understand their rights and responsibilities. Comments are welcome and should be directed to the Public Information Department.

PAUL A. VOLCKER,
President.



Consumer
Credit
Terminology
Handbook

Preface

In today's marketplace everyone uses credit at one time or another...charging merchandise at a department store, buying gas with a credit card or taking a personal loan at a local bank.

Because the use of credit generally results in the use of forms, responsible consumers should watch for meaningful information which, the law states, must appear in credit contracts.

This information will not only tell you the conditions and cost of the credit you are applying for, but will enable you to compare the conditions and costs offered by other lenders. In other words, you may be able to get a better buy for your money.

Of course, in order to understand credit contracts, one must be familiar with credit terminology

This booklet was designed to assist you in your future credit dealings.

Adverse Action—(1) refusal to grant credit in the amount or under terms requested or (2) termination of an account or (3) refusal to increase the amount of an existing credit line when the applicant requested it in accordance with the creditor's procedures or (4) an unfavorable change in terms that affect only some of the debtors.

Amortize—provision for repayment of a loan in periodic payments over a stated period of time.

Annual Percentage Rate (APR)—finance charge over a full year, expressed as a percentage, reflecting all costs of the loan as required by the Truth in Lending Act.

Appraisal—an estimate of value of property.

Appraisal Fee—charge for estimating the value of collateral being offered as security.

Asset—something of value that can be used to repay debt.

Balloon Payment—any payment which is more than twice the amount of any other regularly scheduled equal payment.

Billing Cycle—time interval—often a month—between regular periodic billing statement dates.

This collection of consumer credit terminology is not intended to offer legal interpretation. Its purpose is to assist consumers in everyday credit transactions.

Billing Error—mistake in a periodic statement due to a charge made by someone not authorized by the cardholder, an error in arithmetic, failure to reflect a credit, a charge for which the cardholder requests clarification or other instances defined by the Fair Credit Billing Act and Regulation Z.

Cash Discount—price reduction offered by merchants to customers paying in cash or by check instead of by credit card.

Charge Account—line of credit that may be used repeatedly up to a certain specified limit.

Closing Statement—an accounting of funds in a real estate sale.

Collateral—something of value pledged to assure loan repayment and subject to seizure upon default.

Co-maker or Co-signer—a person, other than the borrower, who signs a note in order to give additional protection to the creditor granting the loan, because of the uncertain credit quality of the borrower.

Community Reinvestment Act (CRA) Statement—a description available for public inspection at each bank office indicating, on a map, the communities served by that office and the types of credit the bank is prepared to extend within the communities served.

Comparison Shopping—evaluation of a lender's annual percentage rate (APR), which tells borrowers the relative cost of credit, against the APRs quoted by other lenders.

Conditional Sales Contract—document used in installment sales credit arrangements, which withhold ownership title from the buyer until the loan has been paid in full.

Contract—agreement between two or more parties. Certain legal formalities must be met.

Contractual Liability—obligation to repay all debts made in accordance with a contract.

Credit—an arrangement to receive cash, goods or services now and pay for them in the future.

Credit Application—a form filled out by a borrower wanting credit, or an interview, which seeks information about an applicant regarding residence, employment, income and existing debt.

Credit Bureau—a reporting agency which assembles credit and other information on consumers to supply such information to others concerning a consumer's creditworthiness, credit standing and/or capacity.

Credit Card—a plastic card issued by a

creditor, representing a type of charge account which allows individuals to obtain cash, goods or services, according to (and within the dollar limits of) an established credit arrangement.

Credit History—a continuing record of a borrower's debt commitments and how well these have been honored.

Credit Investigation—an inquiry undertaken by a lender to verify information supplied by a borrower on a credit application.

Credit Life Insurance—insurance covering the unpaid balance of a loan in the event of a borrower's death.

Creditor—a person or a business who, in the ordinary course of business, regularly extends or arranges for the extension of consumer credit or lends money.

Credit Rating—evaluation of a person's previous credit experience.

Credit Scoring System—a statistical measure used to rate credit applicants on the basis of various factors relevant to creditworthiness.

Creditworthiness—ability to repay debts.

Current Asset—assets which may be con-

verted into cash on short notice, such as stocks and bonds and savings deposits in a bank.

Debt Collector—anyone, other than a creditor or his attorney, who regularly collects debts for others.

Declining Balance—the decreasing amount owed on a debt as monthly payments are made.

Default—failure to perform that which is required by the terms of a credit agreement.

Delinquent—a credit account which is past due and for which no satisfactory repayment arrangement has been made.

Discharge of Lien—recorded release of a lien when debt has been repaid.

Disclosure—information lenders must give to borrowers before a credit contract is signed.

Discretionary Income—what remains of disposable income, after essential living costs are paid.

Disposable Income—take-home pay or net pay.

Down Payment—a cash sum required at the

outset of a credit transaction, which together with the outstanding loan balance comprise the total cost.

Due Date—a day of the month by which payment must be made.

Durable Goods—commodities which serve consumers over an extended period of time, such as cars.

Elderly Applicant—a person aged 62 or more, as defined in the Equal Credit Opportunity Act.

Electronic Fund Transfer—movement of funds initiated other than by check. Withdrawals or transfers at automated teller machines and debits to accounts at point of sale are EFTs.

Empirical Credit System—credit scoring system, based on creditors' experience with borrowers, allotting certain points to attributes describing the applicant.

Escrow—funds to be paid by a second party to a third party for expenses on property held by the first party: for example, funds held by a bank—often collected together with monthly mortgage payments—to meet tax bills and insurance premiums.

Finance Charge—cost of a loan in dollars and cents as required by the Truth in Lending Act.

Garnishment—court-sanctioned procedure by which a portion of a debtor's wages is set aside to repay creditors.

Grace Period—a period of time after a due date not subject to late charges.

Gross Income—total earnings prior to deductions for taxes, health insurance, employee benefit plans, etc.

Holder In Due Course—someone acquiring in good faith a purchaser's note. A legal doctrine previously separated the purchaser's obligation to pay the note from the seller's obligation to meet the terms of the sale.

Inadvertent Error—mechanical, electronic or clerical error that is not intentional.

Installment Cash Credit—a one-shot loan involving two parties: the borrower and the lender. The debt is repaid in equal installments over a specified period of time.

Installment Sales Credit—a one-shot loan used to buy "big ticket" items, such as cars or appliances. A down payment is usually required and a contract is signed for the balance due, plus interest and service charges. The

debt is repaid in equal installments over a specified period of time. Generally involves three parties: the buyer, the seller and the lender.

Interest—one component of the finance charge; interest is the periodic charge for use of credit.

Joint Account—a credit arrangement for two or more persons, enabling all to use an account and assume liability to repay.

Judgmental System—a nonstatistical measure of evaluating creditworthiness.

Land Contract—installment contract drawn between buyer and seller for the sale of property. Occasionally used as a substitute for a mortgage, except ownership of property doesn't pass until payment of the last installment.

Late Charge—a percentage of the payment due which is charged for being late or paying after a predetermined grace period.

Late Payment—a payment on which an additional charge may be imposed, since it was made after the due date.

Lessee—one who rents real or personal property from a lessor for a fee, called rent.

Lessor—one who owns real or personal property which is leased.

Liability—legal responsibility to repay debt.

Licensed Lender—a consumer finance office authorized to operate in the state in which it is located.

Lien—a claim which one person has upon property of another person, as security for debt; may also be created by law, as a mechanic's lien for unpaid bills due a home contractor.

Lien Placement Fee—cost of recording with the Secretary of State the security interest of a bank on the title of any new or used car.

Mortgage—a legal instrument by which a borrower gives a creditor a lien on property as security for a loan; the lien created by the instrument.

Mortgage Loan Commitment—written statement by lender to grant a specific loan amount, at a given rate, for a certain term, secured by a specific property, if the real property transaction is closed before the expiration date.

Mortgagee—lender of money on the security of a mortgage, e.g., a bank.

Mortgagor—an owner of property who executes a mortgage covering property as security for a loan.

Net Worth—difference between total assets and total liabilities.

Note—a written document which is a recognized legal evidence of debt, promising payment of a specified sum of money on a certain date.

Open Account Credit—credit arrangement used by many retailers. Customer may purchase goods at any time, up to a certain limit. Payment may be made for all purchases within 30 days with no interest charge applied, or in stated monthly payments, based on the current account balance, plus interest.

Open End Credit—see, “open account credit.”

Open End Lease—lease which may involve an additional payment based on the value of property when returned.

Overdraft Checking—line of credit permitting a person to write checks for more than the account balance, with interest charged on the amount borrowed.

Payment—total sum of money borrowed, plus all finance charges, divided by the number of months in the term of the loan.

Personal Finance Company—see, “sales finance company.”

Points—a loan discount, which is a one-time charge, used to adjust the yield on the loan to what market conditions demand. Each point equals one percent of the principal amount.

Promissory Note—see, “note.”

Punitive Damages—court award above the actual damage as punishment for violating the law.

Rebate—portion of unearned interest returned to borrower if loan is repaid before the date designated for full payment.

Recording Fee—cost of recording necessary documents with the appropriate state or county administrative office.

Rescission—cancellation of a contract.

Refinance—revision of the payment schedule of existing debt.

Repossession—act of reclaiming durable goods purchased on credit, for which payment is past due.

Revolving Account—line of credit that may be used repeatedly up to a certain specified limit.

Sales Finance Company—lenders specializing in installment credit used to purchase durable items.

Security—something of value pledged to assure loan repayment and subject to seizure upon default.

Service Charge—finance cost related to certain conditions of a credit contract, such as the fee when overdraft checking is activated.

Service Credit—a credit arrangement allowing bills to be paid at month-end, for services provided during the month. Utility companies and medical professionals extend this type of credit.

Single Lump Sum Credit—a closed-end credit arrangement where the total outstanding balance is due on a specified date.

Small Loan Company—see, “sales finance company.”

Special Bank Credit Plans—“lines of credit” extended to borrowers by banks. Based upon a prearranged limit, borrower may use all or part of the credit by writing a check. Interest charges are based on the amount of credit used during the month and the total amount outstanding.

Statutory Fee—administrative cost of closing a loan.

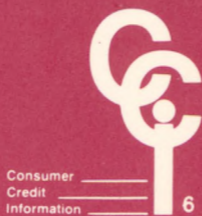
Surcharge—an increase in the regular price of an item.

Term—length of time designated for total repayment of loan.

Third-Party Transaction—involving a buyer, a seller and a lender.

Title—legal ownership.

Title Search—a check of public records to determine current ownership of a parcel of real estate.



FEDERAL RESERVE BANK OF NEW YORK
1979