FinFit

20 Need-to-know terms for your debt management journey

We hear terms like APR, Principal, and creditworthiness often when navigating our finances, but what do all of these words mean? Inside, we break down some common terms that you'll likely come across along your debt management journey. Familiarizing yourself with these terms and their meanings will help you to navigate your repayment strategy with confidence.

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Annual percentage rate (APR)

The cost of borrowing money on a yearly basis, expressed as a percentage rate. APRs can be variable or fixed, though lenders can even change fixed rates subject to notification requirements and the terms outlined in your loan agreement. Your monthly statement will specify which APR applies to you.

Available credit

Your available credit is how much you can spend with your credit card without going over your credit limit. Available credit is equal to the credit limit minus balance and pending transactions. [For example, if you have a $3,000 credit limit and $750 in charges/ pending transactions, you have $2,250 in available credit].

Amount due

When referring to credit, the minimum monthly payment you must make by a specified date. [Tip: Learn How to Avoid the Minimum Payment Trap] The minimum payment is the smallest amount of money that you have to pay each month to keep your account in good standing

- The statement balance is the total balance on your account for that billing cycle.
- The current balance is the total amount of your most recent bill plus any recent charges.
- If you do not pay the statement balance in full each month, you will be charged interest on the unpaid balance, and your credit score may suffer if your unpaid balance continually increases.
- It's important to make at least the minimum payment so your account stays current and you don't incur any late fees or penalties.

Annual fee

The annual membership fee to have a credit card. Not all credit cards have an annual fee, but it's important to be aware of how much this fee is and when you are responsible for paying it each year.

Automatic deductions

Authorized deductions from your checking account, such as for insurance premiums, safe deposit box fees, or loan repayments.

Avalanche method

A debt repayment strategy in which you pay the debt with the highest interest first, and then pay the minimum payment on any other balances until the highest interest debt is repaid.

Billing cycle

The number of days between your last bill and your current bill. Keeping track of your billing cycles can help you prepare for upcoming bills, and avoid late payments and extra fees,

Budget

An organized plan where by you match your expected income to your expected outflow to prevent overspending and meet financial goals and obligations.

- How to budget using the envelope method
- How to Budget when you Really Dislike Budgeting
- Monthly Budget Calculator

Collateral

An asset that secures a loan or other debt that a lender can take if you don't repay the money you borrow. For example, if you get a home loan, the bank's collateral is typically your house.

Credit bureau

An agency that collects data from creditors regarding your credit history. That data is then made available to companies, financial institutions, etc. to help determine your creditworthiness. The three major credit bureaus are Equifax, Experian, and TransUnion.

Creditworthiness

Creditworthiness is a term that refers to how much confidence a lender can have in a borrower's ability to repay a loan. Creditworthiness is primarily determined by attributes such as the applicant's credit history, income, and financial situation.

Debt consolidation

When you use a loan to pay off some or all of your other unsecured debts. A debt consolidation loan can be used to pay off higher cost debt or multiple high-cost debts with one lower rate loan [Check out our Debt Consolidation Guide to learn more.]

Default

When a borrower is unable to meet the obligation of debt repayment. Default is the second and more serious stage of nonpayment that follows the stage of delinquency. Once a loan enters default, the lender typically reports it to the credit bureaus and sells the debt to a collection agency.

Discretionary income

Money that is left over when your bills are paid. Once you've met your financial obligations including saving, you can use your discretionary income to pay for other expenses, like entertainment and shopping. Discretionary income should also be factored into your budget to avoid overspending.

Grace period

The number of days you have to pay your bill in full before finance charges start. Without this period, you may have to pay interest from the date you use your card or when the purchase is posted to your account.

Inflation

An increase in the general level of prices you pay for goods and services. A popular measure of inflation is the consumer price index.

Interest

A fee charged by a lender, and paid by a borrower, for the use of money. A bank or credit union may also pay you interest if you deposit money in certain types of accounts.

Past due

The status of a bill when the minimum payment has not been received by the due date. When an account is in a past-due state, it might start to incur additional charges for late payments.

Snowball method

A debt repayment strategy in which your order you pay off your smallest balance first (while maintaining the minimum payment on all other debts).

Principal

In the lending context, principal is the amount of money that you originally received from the lender and agreed to pay back on the loan with interest. In the investment context, it is the amount of money you contribute with the expectation of receiving income.