I’m Not Flipping Burgers When I’m 70

Chapter 9 - Consumer Loans (Amortization) Definitions

Credit Score - A number assigned to a person that indicates to lenders their capacity to repay a loan)

Credit Card Interest Formula - Take the beginning balance each day and add any new advances, unpaid finance charges and subtract any credits and payments. Then all of the daily balances in the billing cycle are divided by the total number of days in the billing cycle.

Highest Interest First Payment Method - This debt reduction strategy results in the lowest total interest, by paying off the card starting with the highest interest accumulation and then paying off the card with next highest interest until the debt is completely paid off.

Low-to-zero Interest Rate Credit Cards - Credit cards that have a temporary low introductory rate for a specified time period to pay down balances.

Minimum Payment - due each month by (an established percentage of the outstanding balance).

Minimum Payment Percentage - for each credit card can be different, but generally speaking (credit card companies simply a set percentage of the balance typically designed to cover a little more than that month’s finance charges).

Negative Amortization - which is when minimum monthly payments are less than the interest charged each month and therefore does not decrease debt).

Secure Credit - A credit card that requires a cash collateral deposit that becomes the credit line for that account. It acts like a debit card in that transactions reduce the cash balance until they reach a zero balance hence, it really isn’t a credit card rather a method to establish credit.

Snowball Effect - A psychological effect that allows the borrower to feel empowered by paying down the lowest balance from multiple credit cards first as sense of accomplishment.