

Glossary of Financial Terms

Bad Debt: Loans or debts that have been unpaid by the borrower or have gone into default.

Charge-offs: Loans or debts that have gone unpaid by the creditor, which they report to the credit bureau for inclusion on an individual's credit report. Essentially, the creditor has given up on collecting payment, however, most lenders view charge-offs as debts which are still owed.

Credit Report: A history of your use of credit; a file maintained by a credit bureau which contains information about a person, such as where they live, where they work, whether they have filed for bankruptcy, and behaviour concerning money borrowed and payments made.

Credit Risk: A term used to refer to the level of risk or likelihood of an individual borrower's future or potential for default.

Credit Score: A numerical value determined by a statistical model based upon past credit behaviours which predicts the likelihood of future loan default.

Creditworthiness: People who have established credit and maintained a positive credit history are considered to be credit worthy.

Debt-to-income Ratio: The mathematical calculation of debts to income. Debts divided by income gives you the ratio. The credit industry recommends that no more than 20% of one's net income should be spent on long-term debts, excluding home mortgages.

Default: Failure to meet a payment or fulfill a credit obligation.

Fixed Expense: Expenses that are the same every month

Guaranteed Investment Certificate (GIC): Where a considerable deposit is made, and a payout is starting from 30 days to five years.

Good Credit: Term used to show that one's credit has been handled responsibly and that payments have been made on time.

Gross Income: Amount of income earned prior to any deductions.

Impaired Credit: Term used when payments have been made late and/or that credit reports contain things such as bankruptcies, charge-off accounts and other things viewed negatively by the credit industry.

Incidental Expenses: Expenses that happen once in a while like a birthday or holiday during the year.

Line of Credit: Preauthorized amount of credit offered to an individual, business, or institution that is usually secured against an asset.

Loan: Money you borrow from a bank with a written promise to pay it back later, with fees and interest.

Margin: An amount expressed as a percentage added to the index for an Adjustable Rate Mortgage (ARM) to establish the interest rate on each adjustment date.

Money Order: Used to pay bills or make purchases in cash where cash is not accepted; looks like a check but it's not.

Needs: Things that are required for basic survival, such as food.

Net Income: Amount of money paid to the employee after taxes and other deductions have been subtracted.

PITI: Acronym for principal, interest, taxes and insurance.

Principal: The actual amount of money borrowed or the amount of the loan that has not been paid back yet to the lender.

Revolving Account: A type of credit account where you are given the choice to pay the debt in full each month or make a minimum monthly payment based on the outstanding balance. This includes credit cards and department stores.

A Registered Education Savings Plan (RESP): A savings account used by parents, guardians or relatives to save for the child's post-secondary education in Canada.

Registered Retirement Savings Plan (RRSP): A retirement savings plan enabling Canadian citizens to establish tax-sheltered accounts to accumulate money toward retirement.

Secured Credit Card: A credit card that is backed by collateral, usually cash.

Secured Loans: A loan which is backed by collateral and secured by something tangible, such as a home.

Truth-In-Lending Act (TILA): A federal law which requires disclosure of a truth in lending statement for consumer loans. This statement includes a summary of the total costs of credit, such as APR.

Unsecured Debt: A loan that is not backed by collateral.

Variable Expenses: A cost or payment which may vary from month to month, such as grocery bills.

Wants: Things which are not essential for survival but are desired for comfort, convenience or status.