

# Glossary of Finance Terms

## **Amount Financed**

The dollar amount of the credit that is provided to the buyer.

## **Agreed-Upon Selling Price**

The dollar amount the buyer agrees to pay the dealer for the vehicle.

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The dollar amount of the credit that is provided to the buyer.

## **Annual Percentage Rate (APR)**

The cost of credit for one year expressed as a percentage.

## **Assignee**

The financial institution that purchases the finance contract from a dealer.

## **Budget**

A tool commonly used to measure expenses against income, to help people prioritize their spending and manage their money.

## **Co-Buyer**

An individual who assumes equal responsibility for the contract. The account history will be reflected on the co-buyer's credit history as well as the buyer's. For this reason, consumers should exercise caution if asked to be a co-buyer for someone else. Since some co-buyers are eventually asked to repay the obligation, individuals need to be sure that they can afford to do so before agreeing to be a co-buyer.

## **Collateral**

An asset pledged to the creditor until the financing is paid off. For example: If you own your home, it may be used as collateral to secure automobile financing.

## **Credit Application**

The information that a buyer submits when applying for credit. It typically requires such items as name, Social Security number, date of birth, current and previous addresses and length of stay, current and previous employers and length of employment, occupation, sources of income, total gross monthly income, and financial information on existing credit accounts. This can be done in person, over the phone, or electronically via the Internet.

## **Credit Insurance**

There are two common types of credit insurance. Credit life insurance is optional insurance that pays the scheduled unpaid balance if the buyer dies. Credit disability insurance (sometimes called credit accident and health insurance) is optional insurance that pays the scheduled monthly payments if the buyer becomes disabled. As with most

contract terms, the cost of optional credit insurance must be disclosed in writing, and if the buyer wants it, the buyer must agree to it and sign for it.

**Credit Report**

A report containing information about the buyer's current and past credit obligations, payment record, and data from public records (e.g., a bankruptcy filing obtained from court documents). For each account, the credit report shows the applicant's account number, type and terms of the account, credit limit, most recent balance, and most recent payment. The comments section describes the current status of the applicant's account, including the creditor's summary of past-due information and any legal steps that may have been taken to collect.

**Credit Reporting Agency**

A firm that collects, sorts, maintains, and sells information about an individual's credit history.

**Credit Score**

A numerical score that reflects the credit risk you present based on information contained in your credit file. The better your history of credit, the higher your score.

**Creditor**

A person or organization that regularly extends credit, subject to a finance charge.

**Creditworthiness**

The ability of a consumer to satisfy a credit obligation.

**Dealer Finance Income**

A portion of the finance charge that is paid to or retained by the dealer as compensation for the dealer's participation in providing financing to the buyer.

**Delinquent Accounts**

Credit accounts that are past due. They usually are classified as 30, 60, 90 and 120 days past due.

**Depreciation**

The amount by which a vehicle is expected to decrease in value over a specific period of time.

**Down Payment**

An amount paid at time of purchase that reduces the amount financed. This includes any combination of cash, trade-in value of a previously-owned vehicle, rebates, and other non-cash credits.

**Extended Service Contract**

Optional protection on specified mechanical and electrical components of the vehicle. It

is available for purchase to extend and/or supplement the warranty coverage provided when purchasing or leasing a new, or in some cases, a used vehicle.

**Finance Charge**

The dollar amount that the credit will cost the buyer.

**Fixed Rate Financing**

An annual percentage rate that remains the same over the life of the finance contract.

**Length of Contract**

The total number of months the borrower has to pay his or her credit obligation.

**Lien**

A legal claim on ownership of the vehicle stemming from a debt. If the buyer does not make the payments, the lienholder can repossess and sell the vehicle as full or partial payment of the debt.

**Repossession**

In the event that a credit obligation is not satisfied, the legal right a [creditor](#) has to take the asset pledged as collateral (typically the automobile) and sell it to pay off the credit obligation. Depending on state laws, this process is typically subject to rights to redeem (pay off the entire balance and get your vehicle back) or reinstate (pay any delinquent payments and get your vehicle back to start the contract again).

**Secured Credit**

Financing for which some form of acceptable collateral, such as a house or automobile, has been pledged.

**Trade-in Allowance:** The amount the dealer agrees to pay for a trade-in vehicle, which consumers often apply towards the purchase of a new vehicle.

**Unsecured Credit**

Credit for which no collateral has been pledged.

*These were brought to you by AWARE, a non-profit organization seeking to build a greater understanding about how auto financing works. [www.autofinancing101.com](http://www.autofinancing101.com)*