

Credit Card Glossary

There are quite a few terms you may not be familiar with when it comes to credit cards and credit card applications. We have put together a glossary to help you better understand commonly used words, phrases, and acronyms in the credit card industry.

Account number -- A unique number assigned by a financial institution to a credit card customer. On a credit card, this number is embossed and encoded on the face of the plastic.

Acquiring financial institution-- An acquiring financial institution is a bank that processes and settles a merchant's daily credit card transactions, and then in turn settles those transactions with the card issuer/association. Merchants must maintain such an account to receive credit for credit card transactions.

Daily card transaction totals are deposited in the merchant's account after settlement and discount fees are deducted. In this way, such a financial institution acquires, or serves as the intermediary, to facilitate the credit transaction and pays the merchant, less a discount fee for the service.

Adjusted balance-- The method by which many issuers subtract payments during the month made on a credit card account along with adding finance charges incurred.

Additional cardholder-- When you have a credit card, it is often possible to add an additional card to the account for use by someone else. The main cardholder holds responsibility for ensuring payments on the additional card are made. Purchases are shown on the credit card statement, which is sent monthly.

Affinity card-- A credit card offered in conjunction with two organizations, one a card issuer and the other a non-financial group with which consumers have an affinity. Universities, sports franchises and non-profit organizations are examples of affinity groups that often offer special discounts or deals for using their credit cards issued in partnership with a major bank.

American Express-- Also known as AMEX, this company is one of the main international credit card issuing schemes. It issues its own credit cards—unlike Visa and MasterCard—and is responsible for its own relationships with retailers.

Annual Fee- An annual (yearly) fee associated with having a credit card. This is a separate fee from interest rate on purchases.

Annual Percentage Rate (APR)- The yearly percentage rate charged when a balance is held on a credit card. This rate is applied each month that an outstanding balance is present.

Approval Response-- An authorization response that is received when a transaction is approved.

ATM-- See automated Teller Machine below.

Authentication-- The process of assuring that data has come from its claimed source, or a process of corroborating the claimed identity of a communicating party.

Authorization-- Every retailer has a purchase limit above which they must seek authorization from the card issuer before they can complete the sale. Such authorization can be done by telephone or electronically at the cash till. Authorization is used to control credit card fraud. The cardholder's available credit limit is reduced by the authorized amount.

Authorization Amount-- Currency amount approved.

Authorization Code-- A code that an issuer or its authorizing processor provides to indicate approval or denial for an authorization request.

Authorization Date-- Date and time when the transaction was authorized.

Authorization Only-- A transaction that is created to reserve an amount against a credit card's available limit for intended purchases; the actual settlement may occur within three to five days, depending on the card type.

Authorized Amount-- Currency amount approved.

Authorized Transaction-- Transaction that has been approved.

Automated Teller Machine (ATM)-- an interactive terminal with a touch screen or keypad that allows consumers with credit cards or debit cards to withdraw cash, check balances and/or make deposits using the magnetically encoded card to perform transactions. Most ATMs are interconnected via networks, allowing consumers to conduct banking or credit card business anywhere in the world.

Automatic payment-- A process that authorizes regular withdrawals to be made from a checking or other deposit account to pay bills, usually regular fixed periodic payments such as mortgage or car payments.

Average daily balance-- This is the method by which most credit cards calculate your payment due. An average daily balance is determined by adding each day's balance and then dividing that total by the number of days in a billing cycle.

Balance Transfer-- When the outstanding balance of one credit card (or several credit cards) is moved to another credit card account.

Balance Transfer Fee-- A fee charged by a credit card company to transfer a balance from one account to another. This fee can be anywhere from 1%-5% of the balance amount. However, many credit card companies do not charge this fee. Contact the credit card issuer for their specific fees.

Bad Credit-- A term used to describe a poor credit rating. Common practices that can damage a credit rating include making late payments, skipping payments, exceeding card limits or declaring bankruptcy. "Bad Credit" can result in being denied future credit.

Bank Account-- Bank account number for the merchant to which funds will be deposited.

Bank Identification Number (BIN)-- The first six digits of a Visa or MasterCard account number. This number is used to identify the card-issuing institution.

Bankcard-- A payment card issued by a bank.

Bankruptcy-- A legal process of consumers or businesses seeking federal protection from creditors when the borrower is unable to repay debt obligations

Billing Cycle-- The time between billing statements, usually 28-31 days.

Billing statement-- A written record prepared by a financial institution, usually once a month, listing all transactions for an account, including deposits, withdrawals, checks, electronic transfers, fees and other charges, and interest credited or earned. The statement is usually mailed to the customer (also simply called a statement or monthly statement).

Business Card (Business Credit Card)-- Usually issued to corporate executives or business owners in order to more easily keep business expenses separate from personal charges.

Card Issuer-- Any association member financial institution, bank, credit union, or company that issues, or causes to be issued, plastic cards to cardholders.

Card member-- An individual to whom a card is issued, or who is authorized to use an issued card.

Card member agreement-- The printed agreement that provides the terms and conditions of a credit card account. This agreement is required by Federal Reserve banking law as a consumer disclosure to be the binding agreement between card issuers and their customers. It must include the Annual Percentage Rate, the monthly minimum payment formula, annual fees and dispute resolution processes. Changes in the cardholder agreement can be made, with written advance notice, at any time by the issuer. Cardholders have the right to cancel their cards if they do not accept such changes in terms, and pay off existing balances under the previous account terms in such instances. The state in which a bank is chartered laws apply to that bank's card member agreements.

Card Reader-- A device that is capable of reading the encoding on plastic cards.

Cash Advance-- A cash loan from a credit card using an ATM or bank withdrawal.

Cash advance fee-- The fee that a credit card issuer charges a customer for accessing the cash credit line on his or her account, either through an ATM, convenience check or at a bank's teller window. The fee is typically 3% of the amount withdrawn, with a minimum

dollar amount charged for smaller transactions. Finance charges typically accrue from the date of the advance, without a normal grace period as with purchases.

Cash advance rate-- Cash advances typically are viewed as riskier for banks and issuers and carry a significantly higher interest rate that typically accrues from the date of the advance

Cash Back-- Cash back returns to you a percentage of the total amount spent on your credit card over a specific period of time, usually monthly or quarterly. This feature is particularly useful if you normally pay your credit card bills in full each month, as it means you get an effective discount on the products bought with your credit card.

Chapter 11 Bankruptcy-- A bankruptcy classification that typically involves reorganization of a corporation or other business entity that seeks to keep the organization in tact while seeking protection from creditors.

Chapter 7 Bankruptcy-- The classification that involves liquidation of a company's or individual's assets to settle debts with creditors.

Chargeback-- A transaction returned through interchange by an issuer to an acquirer. A transaction may be returned because of it was non-compliant with the association rules and regulations or because it was disputed by a cardholder.

Charge card-- A payment card that requires a full payment of the charge each billing cycle by the statement due date. Unlike credit cards, which give borrowers a revolving line of credit that can be accessed and paid down over time, charge cards do not allow balances to be carried forward and do not charge an interest rate. American Express began as a charge card and continues to offer these types of products (like the Green, Gold and Platinum American Express cards) in addition to general use credit cards.

Chargeback Period-- The number of days from the transaction's processing date or endorsement date, during which the issuer may initiate a chargeback.

Co-Branded Card-- A co-branded credit card is sponsored by both the issuing bank and a retail organization, such as a department store or an airline. Cardholders may get benefits, such as discounts or free merchandise, from the sponsoring merchant, based on account usage and terms.

Co-signer-- A person who signs a credit card agreement along with another account holder/borrower that may not be of sufficient age to qualify for credit. The co-signer becomes either the primary or secondary responsible party on the account.

Commercial Cards-- A general name for cards typically issued for business use and which may include Corporate Cards, Purchase Cards, Business Cards, Travel and Entertainment Cards.

Credit bureau-- A company that catalogs and sells information regarding the payment behavior of consumers and issues credit reports with related information. The three major national credit bureaus are Experian, Equifax and TransUnion.

Credit card-- A plastic payment card that is accepted by a merchants worldwide with an encoded magnetic stripe on the back that can be read at the point of sale. Credit Cards offer card members the ability to pay balances over time by applying an interest rate to outstanding balances.

Credit Card Number-- Unique number assigned to a credit card.

Credit freeze-- A term that refers to placing a security alert on a credit card account or at the credit bureau, thus preventing any additional charges or new accounts to be set up without the customers consent.

Credit History-- A partial profile of your financial life, given within a particular time frame (usually measured in years). Your credit history shows the extent to which you pay your bills on time and how much you may owe particular parties. Credit card issuers use this information to decide whether to provide customers with credit cards.

Credit life insurance-- A version of insurance sold by affiliates of credit card issuers that can repay the outstanding card balance in the event of the death of the primary card member.

Credit Limit-- How much total money can be charged to a credit card account, for example \$5,000 (also known as a credit line).

Credit monitoring service-- A service that monitors credit card accounts for suspicious or out-of-pattern activity and sends an alert to the card member if such activities occur. Typically there is an annual or monthly fee for the service that is billed directly to the primary card being monitored.

Credit rating-- A rating calculated by the credit bureaus based on past payment behavior, income, employment and other factors that serve as a general predictor of ability and propensity to repay debts.

Credit report-- A report that is compiled by one or more of the credit bureaus that details credit history, credit inquiries and facts about all accounts ever opened with respective credit lines and on-time or late payment behavior.

Credit score-- A three digit numeric value calculated by the credit bureaus using a formula that applies various weighting toward factors that predict future debt repayment behavior. Factors such as employment, income, credit lines outstanding, debt to income ratio, past payment behavior factor in to a persons credit score (also known as a FICO score).

Debit-- A charge to a customer's bankcard account. A transaction, such as a check, automated teller machine (ATM) withdrawal or point-of-sale (POS) debit purchase that debits a demand deposit account.

Debit card-- A type of payment card used for transactions carrying one of the major association brands that is linked directly to a customer's bank demand deposit account. ATM and some point of sale transactions require input of a four digit personal identification number, while other transaction may require a customer's signature. Debit card transactions don't involve credit, but rather transfer money directly from the customer's checking account to pay for the product or service involved.

Debt consolidation-- The combination of multiple loans with a new, single loan offering a lower monthly interest rate and payment or a longer repayment period. In the context of credit card debt, this often involves a balance transfer from several high interest cards to a single lower interest card.

Debt-to-income ratio-- The ratio of all personal debt to gross (personal income

Discount rate-- The fee paid by merchants to credit card processors as a fee associated with accepting general use credit cards (like Visa, MasterCard, American Express and Discover Card). Typically this fee runs between 1% and 3%, depending on the nature of the transaction.

Discover Card-- Newest of the payment card brands, began in 1986. Company now has over 50 million card members, but is the smallest of the four payments brands in terms of market share. Discover Card's payments networks-- Discover Network and PULSE-- together processed more than 3 billion transactions in 2006. Discover Network connects millions of merchant and cash access locations throughout the U.S., Canada, Mexico, Central America and the Caribbean. PULSE serves more than 4,400 financial institutions and includes nearly 260,000 ATMs, as well as POS terminals nationwide.

Encryption-- The process of encoding personal information for secure transmission across the Internet.

Expired Card-- A card on which the embossed, encoded or printed expiration date has passed.

Finance Charge-- Fees and other costs billed to you on your statement for using the credit cards (i.e., balance transfer fees, cash advance fees, late fees, overlimit fees, etc.).

Fixed Rate (or Fixed APR) -An annual percentage rate that does not change throughout the year, unlike an introductory APR that changes after a specific period of time.

Floor Limit-- An amount that Visa and MasterCard have established for single transactions at specific types of merchant outlets and branches, above which authorization is required.

Fraud alert-- A security alert placed on a credit card account or credit bureau listing by either the customer of the issuer when an fraudulent account activity is either experienced or suspected (also known as a credit freeze).

Fraudulent Transaction-- A transaction unauthorized by the cardholder of a bankcard. Such transactions are categorized as lost, stolen, not received, issued on a fraudulent application, counterfeit, fraudulent processing of transactions, account takeover or other fraudulent conditions as defined by the card company or the member company.

Fraudulent User-- An individual who is not the cardholder or designee and who uses a card (or, in a mail/phone order or recurring transaction, an account number) to obtain goods or services without the cardholder's consent.

Grace Period-- A period of time during which you are allowed to pay your credit card bill without being charged a finance and/or late fee. This period is usually 10-28 days.

Gift card-- A stored value general use credit card (that can be used anywhere that accepts credit cards) or private label retail card (that is only redeemable at the store from which it was purchased) that can be given as a gift.

Interchange-- Synonymous with the discount rate, which is the rate paid by merchants to the credit card processor as a fee for accepting credit cards (typically between 1% and 3%, depending on the type of transaction).

Interest rate cap-- The maximum amount of interest that can be charged to a customer, typically established by state or federal law.

Index-- The benchmark rate, such as the prime rate or LIBOR, to which a margin is applied to calculate a variable interest rate.

Introductory Rate (or Intro APR)-- A temporary, lower annual percentage rate, after which the APR is raised.

Issuer-- Any association member financial institution, bank, credit union or company that issues, or causes to be issued, plastic cards to cardholders.

LIBOR-- LIBOR is a daily reference rate based on the interest rates at which banks offer to lend unsecured funds to other banks in the London wholesale money market (or interbank market).

Line of credit-- Usually an open-ended, evergreen revolving loan that is accessed by special checks rather than a credit card

Magnetic Stripe-- A stripe of magnetic information that is affixed to the back of a plastic credit or debit card. This stripe contains customer and account information that is required to complete electronic financial transactions. The physical and magnetic characteristics of this

stripe are specified in the International Organization for Standardization standards 7810, 7811 and 7813.

Mail/Phone Order Merchant-- A merchant that transacts business by mail or phone.

Mail/Phone Order Transaction-- A transaction where a cardholder orders goods or services from a merchant by telephone, mail or other means of telecommunication, and where neither the card nor the cardholder is present at the merchant outlet.

MasterCard-- MasterCard is a global bank card payments brand and network that provides its services to banks and merchants as follows:
Franchisor: Through the thousands of financial institutions that are MasterCard's customers, the company markets a strong portfolio of brands and products worldwide, including MasterCard, Maestro®, Cirrus® and MasterCard® PayPass™. With these, MasterCard offers a network of more than 24 million acceptance locations around the world and, in many cases, guarantees payment through its system. (It does not, however, issue cards, set annual fees, determine annual percentage rates on cards, or solicit merchants to accept cards. MasterCard's customers, a myriad of financial institutions worldwide, manage the relationships with their cardholders and with merchants.)
Processor: MasterCard's processing enables efficient commerce on a global scale.

MasterCard Acquirer-- A member that signs a MasterCard merchant agreement or disburses currency to a MasterCard cardholder in a cash disbursement, and directly or indirectly enters the resulting transaction receipt into interchange.

MasterCard Card-- A card that bears the MasterCard symbol, enabling a MasterCard cardholder to obtain goods, services or cash from a MasterCard merchant or acquirer.

MasterCard Issuer-- A member that issues MasterCard cards.

Merchant-- An entity that contracts with merchant banks or ISO's to originate transactions.

Merchant Agreement-- A written agreement between a merchant and a bank that contains their respective rights, duties and warranties, with respect to acceptance of the bankcard and matters related to the bankcard activity.

Merchant Bank-- Bank that has a merchant agreement with a merchant to accept (acquire) deposits generated by bankcard transactions.

Minimum Payment-- The lowest amount of money that you are required to pay on your credit card statement each month.

Monthly periodic rate-- The rate and balance calculation method (typically a formula) that applies to a card member's outstanding credit card balances used to determine finance charges.

Office of the Comptroller of the Currency (OCC) - The government agency, a division of the Treasury Department, that is responsible for regulating the national banks that issue credit cards in the U.S.

Online bill presentment and payment-- A process that allows consumers to receive, view and pay certain bills online via computer, by transferring money from their checking accounts or charging bills to their credit card.

Online Financial Transaction-- A transaction that is authorized, cleared and settled in a single online message.

Overlimit-- This refers to a cardholder account that has surpassed its credit limit with a transaction (i.e., the cardholder's outstanding balance is beyond his/her credit limit).

Overlimit Fee-- A fee charged when your balance goes over your credit limit (also known as Over the Limit Fee).

Password-- A sequence of characters that allows users access to a system. Although they are supposed to be unique, experience has shown that most people's password choices are highly insecure. Humans tend to choose short words, such as names, which are easy to guess.

Per Transaction Fees-- Fees paid by the merchant to the merchant bank or other contracted party on a per-transaction basis.

PIN (Personal Identification Number)-- A sequence of digits used to verify the identity of the holder of a token. The PIN is a kind of password.

Plastic (Card)-- This is a generic term that is used to identify any of the various cards issued to cardholders.

Point Of Sale (POS)-- Location in a merchant establishment at which the sale is consummated by payment for goods or services received.

Policy-- An informal, generally natural language description of desired system behavior. Policies may be defined for particular requirements, such as confidentiality, integrity, availability, safety, etc.

Posting-- The process of updating individual cardholder account balances to reflect merchandise sales, instant cash, cash advances, adjustments, payments and any other charges or credits.

Pre-approved-- A conditional offer of credit from a credit card issuer based on a pre-qualification of the individual's credit from an abbreviated credit bureau report. Upon acceptance of such an offer, the issuer makes a credit decision (usually after obtaining more detailed credit information) and assigns an annual percentage rate based on the most up to date credit profile of the customer.

Primary Account Number (PAN)-- The number that is embossed and/or encoded on a plastic card that identifies the issuer and the particular cardholder account.

Prime Rate (or Prime Interest Rate)-- The interest rate at which banks lend to their most credit worthy (prime) customers. The prime rate is known to change but not on a regular basis.

Processing Date-- The date on which the transaction is processed by the acquiring bank.

Receipt-- A hard copy document that records when a transaction took place at the point of sale. The receipt contains a description of the transaction, which usually includes the date, the merchant name/location, the primary account number, the amount and the reference number.

Recurring Billing-- Transactions for which a cardholder grants permission to the merchant to periodically charge his account number for recurring goods or services.

Reference Number-- Number assigned to each monetary transaction in a descriptive billing system. Each reference number is printed on the monthly statement to aid in retrieval of the document, should it be questioned by the cardholder.

Refund – The creation of a credit to a cardholder account, usually as a result of a product return or to correct an error.

Regulation Z-- Under Reg Z, credit card issuers are required to disclose the terms and conditions to potential and existing cardholders at the point of account opening and at regular intervals. Upon soliciting and opening new credit card accounts, credit card issuers must generally disclose key information relevant to the costs of using the card, including the applicable interest rate that will be assessed on any outstanding balances and several key fees or other charges that may apply, such as the fee for making a late payment. In addition, issuers must provide consumers with an initial disclosure statement, which is usually a component of the issuer's card member agreement, before the first transaction is made with a card. The card member agreement is the governing document for the account and provides more comprehensive information about a card's terms and conditions than would be provided as part of the application or a solicitation letter.

Retail Merchant-- A merchant that provides goods and/or services in the retail industry, but that is not a mail/phone merchant, a recurring services merchant or a travel and entertainment (T&E) merchant.

Revolver-- An credit card issuer term for customers who pay their balances off over time, thus “revolving” their balances.

Sales Draft-- A paper record that evidences the purchase of goods or services by a cardholder.

Schumer Box-- Named for the then-chairman of the Senate Banking Committee that passed landmark consumer protection legislation (Senator Charles Schumer, D – NY) this

standardized disclosure “box” features relatively consistent terms and conditions for credit card offers. Specific terms and conditions such as purchase and cash advance interest rates, annual fees and rate calculation methods are required to be spelled out for consumers in conjunction with all new account solicitations.

Secured Credit Cards-- Credit cards that require collateral (property, such as a house, car or deposit of money) for approval. Generally, secured credit cards are for people with no credit or poor credit who are trying to build or rebuild their credit history.

Service Charge-- A component of some finance charges, such as the fee for triggering an overdraft checking account into use.

Settlement-- The reporting of settlement amounts owed by one member to another, or to a card issuing concern, as a result of clearing. Settlement is the actual buying and selling of transactions between the merchants, processors and acquirers; along with the card-issuing entities.

Settlement Bank-- A bank, including a correspondent or intermediary bank, that is both located in the country where a member’s settlement currency is the local currency, and is authorized to execute settlement of interchange on behalf of the member or the member’s bank.

Smart Card-- A plastic card containing a computer chip with memory and CPU capabilities. Such a card may be used for identification or to store information, financial amounts or other forms of data. Also called an integrated circuit card or a chip card.

Standard Floor Limit-- A floor limit that varies by merchant type. This refers to a currency limit on transactions, above which authorization requests are required.

Statement-- A written record prepared by a financial institution, usually once a month, listing all transactions for an account, including deposits, withdrawals, checks, electronic transfers, fees and other charges, and interest credited or earned. The statement is usually mailed to the customer (also known as a billing statement).

Stored-value Card-- A stored-value card is a credit-card-sized device that is implanted with a computer chip with stored money value. A reloadable stored-value card can be reused by transferring a dollar value to it from an automated teller machine or other device. A disposable card cannot be reloaded.

Subprime credit card-- A credit card designed for those with little credit history or bad credit. These types of bad credit credit cards typically carry higher fees and interest rates to offset the increased risk involved with subprime lending.

Tiered rewards-- A rewards earning calculation that is typically disclosed as “up to” a certain percentage cash back. Various spending tiers earn increasing percentage rewards, up to the maximum amount advertised. For example, a reward offer advertised as up to 1% cash

back could involve .25% for the first \$1,000 in spending, .5% for the next \$1,000 and 1% for all spending > \$2,000.

Transaction-- (1) Any agreement between two or more parties that establishes a legal obligation. (2) The act of carrying out such an obligation. (3) All activities affecting a deposit account that are performed at the request of the account holder. (4) All events that cause some change in the assets, liabilities or net worth of a business. (5) An action between a cardholder and a merchant or a cardholder and a member that results in activity on the cardholder account.

Transaction Identifier-- A unique 15-character value that VISA assigns to each transaction and returns to the acquirer in the authorization response. VISA uses this value to maintain an audit trail throughout the life cycle of the transaction and all related transactions, such as reversals, adjustments, confirmations and chargebacks.

Truth in Lending Act-- The Truth in Lending Act (TILA) is the primary federal law governing the extension of consumer credit by lender in the United States. Congress instituted the TILA in 1968 to ensure more accurate disclosure of credit terms so that consumers could compare the various credit terms available in the credit marketplace, to avoid the uninformed use of credit, and to protect themselves against inaccurate and unfair credit billing and credit card practices. The regulation that implements TILA's requirements is Regulation Z, which is administered by the Federal Reserve. Under Regulation Z, card issuers are required to disclose the terms and conditions to potential and existing cardholders at various times.

Two-cycle billing -- The balance computation method used by some issuers that allows them to apply interest charges to two full cycles of card balances, rather than the most recent billing cycle's balances.

Universal Default -- A provision allowing issuers to increase card members' interest rates for adverse financial actions such as when cardholders failed to make timely payments to other creditors, like other credit card issuers, utilities, car lenders, landlords or mortgage lenders.

Unsecured Credit Cards -- Credit cards that are not secured by collateral. Customers qualify for such cards based on their credit history, their financial strength and their earnings potential.

User Authentication -- Process of validating a user's identity or authorized user status.

Usury -- The lending of money at exorbitant interest rates. Usury rates set by state law once capped credit card rates; for the most part, they no longer do so. The concept of usury has largely been made irrelevant by federal law. Federal lawmakers decided to allow card issuers to "export" their rates. That means that the state law that applies to your credit card rate is exported from the home state of the card issuer, and major card issuers locate where usury laws have been repealed.

Validation Code -- A unique 4-character value that VISA includes as part of the CPS/ATM program in each authorization response. This code ensures that key authorization fields are preserved in the clearing or settlement record.

Variable Interest Rate -- With variable-rate cards, the APR changes when interest rates or other economic indicators change. Also known as a floating rate.

Visa -- Visa U.S.A. is one of the nation's leading payment brands, backed by a secure payments network. Visa links more than 13,300 financial institutions, 6.9 million merchant acceptance locations and 520 million cards.

Visa Card -- A card that bears the Visa symbol and which enables a Visa cardholder to obtain goods, services or cash from a Visa merchant or acquirer.

Visa Issuer-- A member that issues Visa Cards.

Visa Merchant-- A merchant that displays the Visa symbol and accepts all Visa cards.

Voice Authorization--An approval response that is obtained through interactive communication between an issuer and an acquirer, their authorizing processors or stand-in processing or through telephone, facsimile or telex communications.

Void Transaction--A deletion of the transaction information.

Void(ed)--Nullifies a transaction that has been recorded for settlement, but has not yet been settled. This removes the transaction from the batch of transactions to be settled.