

# Life after Debt

## Glossary of Terms

**APR:** Annual Percentage Rate, commonly referred to generally as interest. However, the APR also includes annual and other fees. See also, "[Interest Rate](#)."

**BAPCPA:** Bankruptcy Abuse Prevention and Consumer Protection Act of 2005. A federal law that made significant changes to the US bankruptcy code, including the requirements to get a certificate of counseling and a certificate of education from approved agencies.

**Bank:** Most commonly, a for-profit, licensed institution that can accept and protect financial deposits while also offering loans to consumers and merchants. Also known as a Retail Bank.

**Bill Pay:** An electronic payment service, usually through a [bank](#) or [credit union](#), that permits the consumer to pay virtually any bill without writing a check or mailing a payment. However, bill pay services do not generally guarantee payment deliveries by a certain date.

**Budget:** See "[Spending Plan](#)."

**Certificate of Completion:** A PDF file the program will automatically generate at the end of this course that the participant can download to their files. It indicates the name of the course, the participant's name, and the course completion date.

**Certificate of Deposit (CD):** A savings product ("certificate") issued by a financial institution to a consumer for a specified length of time ("term"). At the end of the term ("[maturity date](#)"), the financial institution adds the interest to the original deposit. If the consumer requests the money before the maturity date, the [bank](#) or [credit union](#) will institute a penalty, usually involving the loss of some or all of the interest earned.

**Chapter 7 Bankruptcy:** Also known as "liquidation" bankruptcy, a Chapter 7 permits the consumer to emerge with no further obligation to repay any debts included in the filing.

**Chapter 13 Bankruptcy:** Also known as the "wage earner's" bankruptcy plan, a Chapter 13 allows the consumer to repay some or all of their debts under a plan administered by the court's trustee. Monthly

payment plans typically take three to five years to complete.

**Consumer Credit:** See "[Credit](#)."

**Consumer Reporting Agency (CRA):** Commonly known as "credit bureaus," CRAs are for-profit companies in the business of gathering, assessing, and distributing consumer credit information to third-party organizations for a fee. Consumers give permission for CRAs to perform these actions whenever the consumer completes and submits a credit application.

**Credit:** Credit is a tool used by lenders to evaluate their risk in making a loan to a consumer. If the consumer has exhibited a strong tendency to repay loans as agreed in the past, the consumer's credit will indicate they are a low risk for defaulting on future loans. Credit is not money nor is credit a loan. A consumer can take out a loan for money using credit.

**Credit Bureau:** See "[Consumer Reporting Agency](#)."

**Credit Card:** A piece of stiff plastic, metal, or carbon fiber (measuring 3 3/8" x 2 1/8" or 85mm x 55mm) issued by a [bank](#), [credit union](#), or lender that permits the consumer to make purchases now, incurring a debt that can be repaid in full or partially over time. Credit card interest rates and fees vary by company and by the consumer's credit rating.

**Credit Check:** The formal inquiry by a business into a consumer's credit report to evaluate the consumer's eligibility for a specified product or service. Credit checks pull the consumer's [credit report](#) from one or more of the [consumer reporting agencies](#). The business must receive clear and written (paper or digital) consent from the consumer before checking their credit.

**Credit Counseling Agency (CCA):** Also known as Consumer Credit Counselors, CCAs offer free financial education, including budget counseling, in addition to debt management services. Most, but not all, CCAs are 501(C)3 nonprofit organizations, which allows them to offer better repayment terms with certain lenders. Many also offer housing counseling and bankruptcy-related certificate services. See also "[Debt Management Plan](#)."

**Credit File:** See "[Credit Report](#)."

**Credit History:** See "[Credit](#)" and "[Credit Report](#)."

**Credit Rating:** See "[Credit Score](#)."

**Credit Report:** A formal gathering of a consumer's credit-related activities over the past seven to ten years. Data includes debt account, creditor names, account types, account balances, payment histories, missed payments and their level of severity, account status, and dates accounts were opened, closed, or transferred. Federal and state laws prohibit certain information from reporting to a consumer's credit report.

**Credit Score:** A statistical number attempting to predict how likely a prospective borrower is to miss future debt payments. In most [credit](#) scoring models, the higher the score, the lower risk the borrower presents to prospective lenders, and the more the prospective lender can trust the consumer will pay as agreed. Only the information found on the consumer's [credit report](#) can influence their credit score.

**Credit Union:** A nonprofit financial institution owned by its members whose collective savings deposits are used to offer loans to its members. A credit union also shares its profits with its members.

**Debit Card:** A card similar in appearance and size to a [credit card](#). To make a purchase with a debit card, the consumer must have sufficient money in their account tied to the card to make the purchase. Even running the debit card purchase through the [credit card](#) network does not change this requirement, nor does it affect the consumer's [credit report](#) at all.

**Debt:** A privilege with some anti-discrimination protections but not a right, debt is a legal, contractual obligation a consumer incurs and is required to repay according to specified terms. Each violation of the repayment terms typically results in a specified penalty.

**Debt Avalanche:** A debt repayment method that leads the consumer to focus their largest monthly payment possible on their debt with the highest interest rate. This method saves the consumer more money over time in interest and leads to a quicker payoff date, bar none.

**Debt Cascade:** A debt repayment method that leads the consumer to stop making purchases on credit while maintaining their current monthly payments on their debts, even when creditors ask for less. This method is ideal for the consumer who cannot afford to come up with any additional monthly payment beyond the

minimum payment requirement by their creditors. After three to five months, the consumer should have enough space between their set payments and the creditors' requested payment amounts to move to either the [Avalanche](#) or [Landslide](#).

**Debt Landslide:** A debt repayment method that leads the consumer to send extra debt payments to their newest debt account while making minimum payments to all others. This method rebuilds the consumer's credit rating faster than all other methods because mainstream credit scores weigh activity on newer accounts more than activity on older accounts.

**Debt Management Plan (DMP):** A debt repayment plan offered by [credit counseling agencies](#) that work with a consumer's current creditors to lower their interest rates, arrange more manageable monthly payments, and have the consumer out of debt in five years or less. DMPs typically come with a capped and regulated enrollment fee and a similarly limited monthly administrative fee. Consumers make a single monthly payment to the [CCA](#), which in turn disperses payments to the consumer's creditors. A DMP is not a new loan. Legitimate [CCAs](#) do not require any sort of credit check, minimum credit rating, or minimum debt amount. Most unsecured debts are eligible for DMPs. See also "[Credit Counseling Agency \(CCA\)](#)."

**Debt Negotiations:** See "[Debt Settlement](#)."

**Debt Settlement:** The process of offering a portion of the full balance as payment to an unsecured creditor while requesting the creditor consider the debt paid in full. Typical settlement companies start their negotiations at 50% of the current balance. In addition to the creditor payment, consumers will pay a hefty fee to the debt settlement company and will likely have to pay taxes on any amount forgiven by the creditor. Beware of debt settlement companies that charge a fee before they successfully settle their client's debts.

**Debt Snowball:** A debt repayment method that leads the consumer to send extra debt payments to their debt account with the smallest balance. Hoping to get a quick and easy win, this method aims to create sustainable motivation to stick with the repayment method. Sticking with the snowball after repaying one or two debts, though, leads to paying extra interest unnecessarily. Instead, switch to either the [Debt Avalanche](#) or the [Debt Landslide](#).

**Debt Risk Score (DRS):** A figure, based on the course participant's responses, that gives a possible indication

of their likelihood to incur overwhelming consumer debt in the near future.

**Digital Wallet:** Also known as an eWallet, digital wallets are smartphone apps and online programs that securely keep track of a consumer's payment information, from debit cards and [credit cards](#) to gift cards and even some payment methods like PayPal. Popular digital wallets include Google Pay and Apple Pay. Digital wallets do not offer the use of wire or [Bank](#) transfers.

**Direct Debit:** A payment option where the consumer gives their banking information (routing and account numbers) to a creditor, utility company, or merchant to take their monthly payment automatically out of the consumer's checking or savings account.

**Direct Deposit:** The electronic deposit of an employee's paycheck into their checking, savings, and/or investment account rather than the issuance of a paper paycheck. Direct deposit often leads to savings on fees with financial institutions.

**DMP:** See "[Debt Management Plan](#)."

**Emergencies:** Typically, emergencies involve a purchase or expense required to sustain life (a [need](#)). The two most common examples include paying for living expenses during periods of unemployment and paying for medical procedures, medications, and medical bills incurred as the result of an accident or a serious illness.

**FICA:** Federal Insurance Contributions Act withholdings from the employee's paycheck. FICA includes Medicare and Social Security taxes.

**FICO:** A credit score developed and provided by FICO Inc. FICO is an acronym for the former name of the company, Fair Isaac Corporation. See also "[Credit Score](#)."

**Freelancing:** The use of personal or professional skills to contract with various companies to create or produce specified projects rather than being an employee of a single company. See also "[Side Hustle](#)."

**Gig:** See "[Side Hustle](#)."

**Interest Rate:** Usually the largest cost of borrowing money, the interest rate is a percentage-based fee. The larger the loan balance and/or the interest rate, the more interest the loan generates. See also "[APR](#)."

**Investing:** Putting money into a financial product (e.g. stocks, bonds, real estate) with the expectation that the money will return more in the future than the total amount invested. All investments carry a risk that the

investor might lose some of their money. Typically, the higher the risk, the higher the expected return.

**Long-term Financial Goals:** A financial goal that will take five years or longer to achieve. While avoiding unreasonably high risks, consumers with long-term goals will likely want to use financial products like stocks, commercial bonds, and other investment tools that are likely to return more than the amount invested. Downturns in the economy or specific industries may affect the investment for a year or two, with some recessions lasting even longer.

**Maturity Date:** The date when an investment ends, such as interest paid on a [CD](#) or [Treasury Bill](#). Some products allow the consumer to automatically reinvest the original deposit and the interest earned, rather than paying it out to the consumer.

**Medicare Paycheck Withholding:** The federal government collects 1.45% of every employee's paycheck as a tax to fund the Medicare program.

**Money Market Account:** An account at a [bank](#) or [credit union](#) that requires a minimum deposit and often pay a slightly higher interest rate, though variable, than traditional savings accounts. They are federally insured against loss by the FDIC or NCUA.

**Money Market Fund Account:** An uninsured account through an investment fund company that offers low interest rates and typically low risk. They also set a minimum deposit requirement.

**Multi-level Marketing Company (MLM):** A business structure that requires the sales "representative" to purchase products each month at "wholesale" prices while also rewarding them for bringing additional representatives into the business. MLMs avoid being categorized as pyramid schemes and shut down by regulators by offering their products or services at retail prices, typically 2-5 times the prices of comparable products found in traditional discount or department stores.

**Needs:** Something required for survival, both immediate and long-term. Immediate needs include food, water, certain medications, and some medical procedures and equipment. Long-term needs include shelter, security, seasonally appropriate clothing, and critical medications. All other expenses are based on [wants](#).

**Paycheck Planning:** See "[Spending Plan](#)."

**Payment Loading:** Payment loading involves adding the monthly payment amount of all previously paid off debt

accounts to the next payment on the consumer's list of debts. By loading their debt payments, the consumer can accelerate their overall repayment and achieve debt freedom quickly. Payment loading is a central principle to the success of the [Debt Avalanche](#), [Debt Landslide](#), and [Debt Snowball](#) repayment methods.

**Pre-paid Debit Card:** A card used to make purchases. The consumer typically must "load" or "charge" the card at a store or financial institution, incurring additional fees. Such cards may be branded as Visa, MasterCard, American Express, or Discover Cards, and may be processed through the [credit card](#) network, but they do not affect the consumer's [credit score](#). Some offer deposit insurance in case of loss or theft, but the consumer must first register the card in such cases.

**Risk:** Risk refers to the likelihood of an investor or saver losing some of or all their money in an investment or savings product. See also "[Investing](#)."

**Rollover:** See "[Payment Loading](#)."

**Saving:** Putting money aside, often in a [bank](#) or [credit union](#) account, for use in the future. Examples include an emergency savings account, saving for a vacation, saving for a new car, saving for a new washer and dryer, etc.

**Short-term Financial Goals:** A goal to achieve within the coming five years. Achieving short-term goals will involve protecting the consumer's money using products like [savings accounts](#) and [CDs](#). The consumer wants to minimize the risk of losing money meant for short-term goals.

**Side Hustle:** A job or income-earning activity a consumer takes on in addition to their primary employment. Side hustles may evolve from a hobby (e.g. selling crafts on sites like Etsy or eBay), a particular skill (e.g. doing home repair work in the evenings or on weekends), or a useful asset (e.g. using a vehicle to deliver food or offer ride sharing). Also known as side gigs, Side Hustles may include [freelancing](#).

**Social Security Withholding:** The federal government collects 6.2% from every employee's paycheck as a tax to fund the Social Security program.

**Spending Plan:** A paper or digital form that indicates what the individual or household expects to earn and what they expect to spend during a specified period. Also known as a "budget," spending plans work best when guided by and tied to motivating [short-term personal and household goals](#).

**Treasury Bill (T-Bills):** The federal government issues these securities to raise money. Basically, when a consumer purchases a treasury bill, they are lending money to the federal government, which promises to repay the debt with a small amount of interest on or after a specified [maturity date](#) (one year or less in the future).

**Treasury Bond:** Similar to a "[Treasury Bill](#)" but with a payment ("[maturity](#)") date of thirty years. Treasury Bonds typically offer higher interest rates than Bills or Notes.

**Treasury Note:** Similar to a [Treasury Bill](#) but with a payment ("[maturity](#)") date between two and ten years.

**VantageScore:** A credit score developed and provided by a collaboration between the three major [consumer reporting agencies](#), Equifax, Experian, and TransUnion, to compete with the popular [FICO score](#). See also "[Credit Score](#)."

**Wants:** As opposed to [needs](#), wants include anything a consumer desires that they do not require for immediate or long-term physical survival. Generally, if one human in a similar situation can survive without the item or service, it is a want. This includes transportation, cell phones, entertainment, and even multiple changes of clothing and shoes. Wants, though, can be prioritized by the individual consumer to identify their importance. For example, most consumers prioritize transportation, cell phones, and extra sets of clothing over gift giving, vacations, and entertainment.

**Withholdings:** Taxes collected by employers from every employee's paycheck and paid to the IRS. See also "[Social Security Withholding](#)" and "[Medicare Withholding](#)."

**W-4 Form:** An IRS tax form that allows employees to indicate their current household and financial situation. Their responses can decrease or increase the amount of income taxes withheld from each paycheck.