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Glossary

Actual rate. See Effective rate.

Add-on, annual or monthly. A computational method whereby (1) the finance charge for the instalment credit contract as a whole (F) equals the add-on rate, annual (A) or monthly (M), times the principal amount of credit at the start of the contract (P) times the number of years (N) or months (V) in the credit contract; (2) the finance charge is added to the principal; (3) the credit user receives the principal and pays back the principal plus the finance charge in monthly (or other periodic) instalments.

Add-on plus, annual or monthly. A computational method differing from add-on only in that an investigation or service charge (S) is included in computing the finance charge.

Add-on rate, annual or monthly. The percentage rate, annual (A) or monthly (M), used in comparing the finance charge in the add-on and add-on plus computational methods.

Aggregate rates. See Graduated rates.

Aggregated. A term used interchangeably with Add-on in some instalment loan laws.

Carrying charge. See Finance charge.

Ceiling (rate). The maximum rate which a financing agency or other creditors may legally use in computing a finance charge. Ceiling rates are either specified in consumer financing laws or set by administrative bodies appointed under such laws.

Combination rates. See Graduated rates.

Composite rates. See Graduated rates.

Computational equivalent. The monthly or annual dollar charge per \$100 of credit advanced or outstanding used to compute the finance charge. Also expressed as a Computational rate.

Computational rate. The monthly or annual percentage rate used to compute the finance charge. It is applied to the dollar amount either of credit advanced or of credit outstanding. Also expressed as a Computational equivalent.

Credit service charge. See Finance charge.

Discount. A computational method whereby (1) the finance charge for the instalment contract as a whole (F) equals the annual discount rate (D) times the principal amount of credit at the start of the contract (P) times the number of years in the credit contract (N); (2) the finance charge is deducted from the principal; (3) the credit user receives the difference between the principal and the finance charge and pays back the principal in monthly (or other periodic) instalments.

Discount plus. A computational method differing from discount only in that the investigation or service charge (S) is included in computing the finance charge.

Discount rate. The annual percentage rate (D) used in computing the finance charge in the discount and discount plus computational methods.

Effective rate, annual or monthly. The finance charge as a percentage per unit of time (i.e., per month or per annum) of the average unpaid balance of the credit contract during its scheduled life. The counterpart of a bond yield in investment. Also called Actual rate; annual effective rate also called Finance rate.

Finance charge (F). The dollar charge or charges for consumer credit excluding (1) any filing and recording fees which financing agencies and sellers collect from credit users in connection with a credit transaction and (2) any charges on insurance written in connection with a credit transaction. Also called Carrying charge, Credit service charge, Interest charge, and Time-price differential.

Finance rate. See Effective rate, annual.

Flat rate. A single rate used in computing a finance charge.

Graduated rates. Two or more rates used in computing the finance charge on a given loan, each rate being applied to a successive portion of the loan. Also called Aggregate, Combination, Composite, and Multiple rates.

Interest charge. See Finance charge.

Monthly add-on adaptation for revolving credit. An adaptation of the monthly add-on computational method whereby (1) the finance charge for a given month (G) equals the monthly rate applied to loan balances at the beginning of each month (T) times the loan balance at the beginning of each month (W); (2) the finance charge is added to the credit balance; (3) the credit user is expected to pay a portion of that total in that month.

Multiple advance charge. A charge, collected in advance, divided into two or more components, one called interest and the other(s) service charges and fees.

Multiple rates. See Graduated rates.

Multiple effective rates. Separate effective monthly or annual rates on successive portions of a credit contract.

Per cent per month on declining (unpaid) balance. A computational method whereby (1) the finance charge for a given month of the instalment contract (G) equals the monthly rate applied to loan balances at the end of each month (T) times the loan balance at the end of each month (W); (2) since the loan is usually paid off in instalments, G gets smaller each month; (3) the finance charge for the instalment contract as a whole (F) equals G_1 plus G_2 plus G_3 plus . . . G_n . Also called Simple interest method and True interest method.

Precomputation. A computational method whereby (1) the finance charge for the instalment contract as a whole (F) is computed using the method described under (3) of Per cent per month on declining balance (an alternative procedure is described on page 15); (2) the finance charge is added to the principal; (3) the credit user receives the principal and pays back the principal plus the finance charge in monthly (or other periodic) instalments.

Prepayment refunds. Refund of part of the finance charge (F) on credit contracts which the borrower pays in full or refinances before maturity. Such a refund occurs only on credit contracts in which the finance charge is added to or subtracted from the principal at the time the credit is extended.

Revolving credit. A continuing credit arrangement between a seller and buyer in which the buyer (1) agrees to make monthly payments equal to a stipulated percentage of the amount owed at the start of the month plus interest and (2) is permitted to make additional credit purchases as long as the total debt owed does not exceed an agreed-upon limit.

Simple interest method. See Per cent per month on declining balance.

Time-price differential. See Finance charge.

True interest method. See Per cent per month on declining balance.