



YOUR GUIDE TO CREDIT UNION AND FINANCIAL JARGON



APR

Annual Percentage Rate – an amount expressed as a percentage showing the total cost of borrowing (interest, charges and fees) over the period of an average year so loans can be compared like with like.

Arrears

An overdue amount that has not been paid.

Borrower

Someone who has a loan and pays it back.

Budget

A plan of spending over a certain length of time, based on how much money a person has.

CCJ

County Court Judgement (CCJ) is a type of court order in England, Wales and Northern Ireland that may be registered against a debtor if they fail to repay money they owe.

Common Bond

The criteria that a person must meet to be able to be a member of the credit union. This might be where they live, work or who they are employed by.

Cost of Credit

The total cost of paying back a loan including interest, charges and fees.

Credit

Money that a bank, building society, credit union, loan company, catalogue or a credit card company has lent a person to buy goods or services.

Creditor

The company or person that the money is owed to.

Credit Rating

A score that gives an indication of a person's ability to repay debts such as loans and credit card bills.

Credit History

A history of how well a person has been able to repay debt; a poor credit history means that they may find it difficult to take out a loan.

Credit Report

A report that contains the details of a person's credit history and credit rating showing on how well you manage credit and make your payments.

Credit Risk

The risk that a person might not repay a loan or credit.

Credit Score

A rating used by a lender to give a score to a potential borrower depending on what is in their credit history; the higher the score the lower the risk that the person will not repay their loan.

Credit Union

A co-operative savings and loans financial provider owned by the people who use its services – the members.

Members save with the credit union and are eligible to apply for affordable loans.

At the end of the year profit is shared amongst the members in proportion to their savings.

Anyone who meets the membership criteria for a credit union can join.

Debt

Money owed to another person or to a company.

Debtor

A person who owes money.

Debt Consolidation

Taking out a single loan to pay off a number of smaller, individual loans.

Debt Management Plan

An agreement between a debtor and their creditors to pay all of their debts.

Default

A failure to pay a debt on time.

Dividend

A share of the profit paid to members in proportion to their savings.

Direct Debit

A method of paying bills regularly, by giving permission to a company or organisation to take money straight from a bank or building society account on a date specified by the company or organisation.

Dormant Account

A member's account that has not been used for over one year.

Early Repayment Penalty

A charge made by some lenders (not credit unions) if a person pays their loan off earlier than the arranged date.

Expenditure

Money that a person spends.

Financial Promotion

A communication of an invitation or inducement to engage in a financial product such as saving or borrowing, for example, advertisements, promotions, leaflets, social media.

Hire Purchase

A way to buy goods that involves getting them straight away but making regular payments for them over a fixed period of time.

Income

Money coming in, such as wages, benefits and pensions.

Interest Rate

The percentage of income that a person receives on their savings or pays on their loan.

IVA

An individual voluntary arrangement (IVA) is a formal agreement to repay creditors at an amount the debtor can afford.

Interest on the Reducing Balance

Interest on a credit union loan is calculated every day on the balance of the loan that day.

This means that as the loan balance reduces, so does the interest paid so, in the long run, less interest is paid on the loan than most other lenders.

It also means that if a member pays the loan in full, interest is charged only until that payment is made.

Late Payment Fee

A fee charged by some lenders (not credit unions) if a person is late with their repayments.

Lender

A person or a company that issues loans or credit.

Loan

Money lent to a person in return for interest.

Loan Agreement

A document that describes the terms and conditions of a person's loan.

Loan Application

A document that a potential borrower completes giving information about them and their financial situation.

Loan Shark

A person who lends money and charges a very high rate of interest but does not hold a licence to lend money.

Member

A person with a £1 share in the credit union.

Personal Loan

A loan taken out by an individual.

PIN

Personal Identification Number – a four-digit number that a person must keep secret and use to get money with an ATM card at an ATM machine.

Priority Debt

A debt that is more important than others because non-payment would have serious consequences such as loss of home, power or personal liberty.

Representative Example

A term used in UK financial advertising regulations that aim to show consumers the typical costs associated with a product being advertised.

The representative example must be provided when any financial service is advertising a product, whether it is a credit card, loan or mortgage.

Representative APR%

An amount expressed as a percentage showing the total cost of borrowing (interest, charges and fees) over the period of an average year so loans can be compared like with like.

Where credit cards or loans use a representative APR this means 51% of successful applications will be given the stated interest rate.

Repayment

The agreed amount of money paid back in instalments to repay the loan plus interest.

Repayment Term

The frequency and number of instalments agreed to repay the loan plus interest.

Rent to Own

In a rent-to-own transaction, customers rent an item – typically a major household appliance or piece of furniture – for a monthly cost that's usually much lower than a monthly loan payment would be.

The rate is attractive because it seems more affordable than an up-front purchase of a loan.

The customer does not own the item until they have repaid in full. If they stop making payments the rent to own store can take back the goods and any payments already made will be lost.

Typically, the rental period is a much longer one, and after calculating the total expense, the buyer ends up paying far more than with a conventional loan.

Risk

The measure assessed when looking at a loan application of the likelihood that a person will or will not repay their loan.

Savings

The amount of money a member accumulates in their credit union account.

Savings Qualification

The amount, usually a percentage of a member's savings that cannot be withdrawn until the loan is repaid.

Shares

Another name for savings. To be a member of the credit union a person must retain a £5 share in their account.

These shares give the member a vote and entitles them to stand for election to the Board of Directors.

Standing Order

A method of paying fixed amounts on a regular basis, for example, loan repayments, by a member arranging the payments from their bank account.

Statement

A document showing the payments in and out, and the balances of a member's account.

Subject to Status

Something that depends on a person's situation, for example a loan that depends on whether a person has a good credit history.

Surplus Income

The amount someone has left over when they calculate their income minus their expenditure.

The amount of surplus income determines the ability to afford the loan.

Term

A clause that forms part of a contract and a length of time for which something lasts, such as a period for paying back a loan.

Top Up

An amount of loan applied for from a member who already has a loan with the credit union.

Unsecured Loan

A loan that is not backed by a particular asset; if a person does not pay back the loan, the lender cannot take any asset in return, but may still take the person to court.

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