GLOSSARY

Account Number	The unique sequence of numbers given to a cardholder's credit card account and that is embossed on the face of the credit card.
Account Testing	A fraud scam in which criminals verify whether a credit card account number is valid. The perpetrators submit an authorization request but not a sales draft. If the account is valid, it is then used for larger fraudulent transactions. Examiners should be cognizant that the term "account testing" is also commonly used to refer to transaction testing of cardholder accounts during the examination process and is separate and distinct from account testing as used to refer to the fraud perpetration discussed above.
Acquiring Bank	A bank that contracts with merchants to accept, process, and settle credit card transactions. The acquiring bank is the entity that maintains the merchant relationships and collects cardholder transaction data from those merchants (either directly or via a third party). It then initiates that data into an interchange system, subsequently receives payment from the issuer, and pays the merchants. Acquiring banks typically provide charge-back processing and other back-office services and are also known as acquirers or merchant banks.
Adverse Retention	The phenomenon in which the bank inadvertently retains a disproportionately high number of potentially bad accounts (for example, unprofitable or overly problematic accounts).
Adverse Selection	The phenomenon in which a disproportionately high number of potentially bad credit risks respond to an offer.
Affinity Cards	General purpose credit cards offered by two organizations: one the lender and the other usually a non-financial group. The issuer often donates a portion of the fees or charges (sometimes referred to as a royalty) to the non-financial group. Use of the card often entitles the cardholder to special discounts or deals from the non-financial group.
Agents	Entities that source merchants or cardholders, serve as a gateway, or provide other services for the bank.
Agent Bank	A bank that, by agreement with an acquirer, participates in that acquirer's merchant processing program. It may or may not be liable to the acquirer for losses incurred on its merchant accounts.
Annual Percentage Rate (APR)	The cost of credit at a yearly rate. It is calculated in a standard way, taking the average compound interest rate over the term of the loan so borrowers can compare loans. Lenders are required by law to disclose a card account's APR.
Applicants	People/businesses that respond to an offer for or request credit (they typically fill out an application).

Applications	Forms filled out by a consumer or business requesting credit. The form asks for various identifying information as well as credit-related information on which the lender, in part, bases its credit decision.
Associations	The organizations (VISA and MasterCard) that provide rules, advertising, and settlement services and that promote the card brand for their member financial institutions. Banks must be a member to offer the applicable Association's credit card services. Membership rights and obligations are specifically defined by the Associations.
Attributes	Possible answers to questions asked about the applicant on an application or items of information taken from the credit bureau report.
Attrition	The loss of accounts either involuntarily through charge-offs, or death; or voluntarily, at the option or request of the cardholder.
Authorization	The process of obtaining permission from the issuing bank to accept the card for payment. Authorization entails assessing the card's transaction risk and reserving the specified amount of credit on the cardholder's account if approved. If a merchant does not comply with Association rules regarding authorizations, payment to the merchant may be withheld or a subsequent charge-back may occur. Authorization processes vary between merchant types.
Automated Teller Machine (ATM)	An unattended, self-service electronic machine that enables consumers to withdraw paper money or conduct other banking procedures upon insertion of an encoded plastic card, such as a debit or credit card, and entry of a personal identification number (PIN).
Available Credit	The amount of unused credit on an account that is accessible for cardholder transactions. Generally it is the credit line amount less the outstanding balance less pending authorizations (holds). It is sometimes referred to as the "open-to-buy."
Backroom Operations	The operational functions that are performed by the acquirer or issuer to facilitate the day-to-day processing of credit card transactions.
Balance Transfer	The process of moving an unpaid credit card debt from one issuer to another.
Bank Identification Number (BIN)	A series of numbers assigned by Visa to its member financial institutions to identify each institution for acquiring and issuing processes. The term ICA is used by MasterCard and is similar to a BIN. VISA BINs start with 4, and MasterCard ICAs start with 5.
Behavior Scores	Results of statistical scoring systems that are often used to increase collection efficiency and decrease collection costs. The system is usually based on internally-derived information about the consumer's behavior, such as payment history, card usage patterns, and so forth.
Billing Cycle	The time (number of days) between billing statements. It is the period between the previous statement date and the current statement date during which both credit and debit transactions are accumulated for billing, usually about 30 days.

Billing Statement — The bill (printed record) sent by a card issuer to the customer. It is usually sent monthly and includes, but is not limited to, itemization of activity on the account, including balance, purchases, payments, credits, finance charges, and other account activity.

Blogging — Blog is an abbreviated term for weblog, which is an online journal that is frequently updated for general public consumption.

Bust-Out Scams — Cons in which a seemingly legitimate merchant opens a valid account with an acquirer and, after a brief period of normal sales activity, deposits a large number or high dollar amount of fraudulent transactions. Once payment for the transactions is received, the merchant empties its deposit account and disappears. Merchants in bust-out scams often make applications to several acquirers at the same time.

Calibration — The process by which a model's output is converted into the actual rate of the outcome and includes adjusting or modifying for the difference between the expected rate based on the historical database and the actual rate observed.

Card Processor — A party that provides transaction processing and other services for an issuing bank or an acquiring bank. It is an Association member, or an Association-approved non-member acting as the agent of a member, that provides authorization, clearing, or settlement services for merchants and members. Some banks act as their own card processors while other banks use third parties for card processing (there are card-issuer processors and card-merchant processors, and some third parties are both).

Card Utility — The level of a card's practical usefulness to consume a commodity, product, or service.

Cardholder — A person to whom a card has been issued.

Cardholder Agreement — A written, legal contract between the issuer and the cardholder. It contains the terms of the account and a schedule of various fees.

Cash Advances — Using a credit card to obtain cash (as compared to making a purchase or consuming a service), for instance by using an ATM or a bank branch. There is normally a fee associated with cash advances.

CEBA Bank — The term CEBA comes from the enactment of the Competitive Equality Banking Act of 1987 (CEBA) which established conditions for special-purpose credit card banks. A CEBA bank is a special kind of issuing bank. It may only accept time and savings deposits of $100M or more. It is often affiliated with a retailer and offers private label cards for use at the affiliated organization. It may, however, issue general purpose VISA or MasterCard accounts.

Champion/Challenger Strategies — Approaches developed to test alternatives (challengers) against an existing strategy (champion).

Characteristics	Questions asked on an application, or an informational category on the consumer's credit bureau report.
Charge-Backs	A transaction that is returned as a financial liability by the issuer and/or the cardholder to the acquirer and most often to the merchant for resolution after the sale has been settled. It is generated when a cardholder disputes a transaction or when the merchant does not follow proper card acceptance procedures. The issuer and acquirer research the facts to determine which party is responsible for the transaction, and strict Association rules must be followed. If the charge-back is upheld and the merchant cannot or does not cover it, the acquirer must cover it.
Charge Card	A card product with a line of credit that does not revolve (that is, the balance must be paid off each billing period (typically each month)).
Charge-Off	The removal of an account from a creditor's books as an asset. This usually results from delinquency, death, bankruptcy, or similar circumstances. While it indicates that the creditor does not expect the debt to be repaid, it does not mean that the debt no longer exists (that is, the cardholder still owes the debt) or that there will not be further attempts to collect it.
Clearance	The process of transmitting, reconciling, and, in some cases, confirming payment orders prior to settlement.
Co-Branded Card	A type of card issued through a partnership between a bank and a retail company, such as a large department store. Usually, the attraction of the card is special deals with the retailer or rebates. The intent is to promote the retailer's product and increase the bank's receivables.
Consumer Credit Counseling Service (CCCS)	A non-profit organization with professional financial counselors who help consumers find a way to repay their debts by using budgeting and funds management processes.
Consumer Reporting Agencies	Companies that collect and sell vital information about how consumers handle credit. Each issues a credit report that details how the consumer manages his or her debts and makes payments, how much untapped credit the consumer has available, whether the consumer has applied for any loans, whether any financial matters of public record exist, and so forth. Reports are made available to the individuals and to creditors who profess to have a legitimate, permissible purpose to inquire about the creditworthiness of the consumer. The three major consumer reporting agencies in the United States are Equifax, Experian, and Trans Union. Consumer reporting agencies are commonly known as credit bureaus.
Convenience Checks	Instruments that are used like a personal check but that are linked to the consumer's credit card account. They are checks drawn on the issuing institution for the purpose of transferring account balances from another financial institution or for transactional purposes.
Convenience Users	Cardholders who pay their balance in full on or before each payment due date. This type of user is often referred to a transactor.

Credit Bureau	A company that collects and sells information about how consumers handle credit. It issues a credit report that details how the consumer manages his or her debts and makes payments, how much untapped credit the consumer has available, whether the consumer has applied for any loans, whether any financial matters of public record exist, and so forth. Reports are made available to the individuals and to creditors who profess to have a legitimate need for the information. The three major bureaus are Equifax, Experian, and Trans Union. A credit bureau is also known as a consumer reporting agency.
Credit-Enhancing Interest-Only Strips	On-balance sheet assets that, in form or in substance, (1) represent the contractual right to receive some or all of the interest due on transferred assets and (2) expose the bank to credit risk that exceeds its pro-rata claim on the underlying assets whether through subordination provisions or other credit-enhancing techniques.
Credit-Enhancing Representations and Warranties	Contractual obligations that are designed to insulate investors from credit risk generally through mechanisms other than redirecting internal cash flows. Examples include guarantees and surety bonds.
Credit Enhancement	Various internal and external facilities designed to reduce the credit risk to the investors with the goals of achieving higher ratings on, and improving the marketability of, investor certificates.
Credit History	A record of a person's credit profile including debt payments and other relevant financial information such as collections and public records. It is a compilation of a consumer's use and pay-back of credit.
Credit Limits	The dollar amount assigned to an account as the ceiling of credit disclosed to the consumer that the consumer is approved to borrow.
Credit Report	A full history of information within a consumer's credit file at the credit bureau that includes identification information, current and historical account performance, collection activity, public records (bankruptcy, tax liens, and so forth), and records of other credit inquiries.
Credit Score	The result of a calculation based on a consumer's credit history that is intended to predict future credit performance for that consumer. It is a numerical estimation of the likelihood that the consumer will meet his or her debt obligation(s).
Debit Cards	Cards issued to pay for goods and services or to make transactions at an Automated Teller Machine and for which the cardholder is accessing funds from a personal checking or savings account rather than drawing on credit. As such, they are a "pay-as-you-go" function (compared to credit cards, which are a "pay later" function).
Delinquency Bucket	A compartment (usually for reporting purposes) that is identified by a delinquency (past due) stage (for example, 1 to 29 days past due, 30 to 59 days past due, and so forth).

Direct Credit Substitutes — Direct credit substitutes arise from an arrangement in which a bank assumes, in form or in substance, credit risk associated with an on- or off-balance sheet asset or exposure that was not previously owned by the bank (that is, it was a third-party asset), and the risk assumed exceeds the pro-rata share of the bank's interest in the third-party asset. Examples of direct credit substitutes include purchasing a subordinated certificate of another bank's securitization, guaranteeing a mezzanine certificate of another bank's securitization, or providing a letter of credit to an asset-backed commercial paper program.

Discount Rate — The fee, as a percent of sales volume, an acquirer charges a merchant for processing sales transactions. This is also referred to as the merchant discount. Examiners must be cognizant that the term "discount rate" is used in banking for other purposes as well (for instance, when referring to a certain borrowing rate from the Federal Reserve Bank).

Dual-branding — An arrangement in which the payment card offered carries two card brands (for example, Visa and American Express, MasterCard and Diners Club, and so forth).

Early Amortization — In a securitization, an unplanned liquidation of the assets usually due to deterioration in the credit quality of the underlying receivables. Another term for "Wind Down Event."

Economic Capital — Economic capital is a measure of risk, not of capital held, and is regardless of the existence of assets. Economic capital model results are expressed as a dollar level.

Electronic Benefits Transfer (EBT) — The electronic delivery of government benefits using plastic cards.

Electronic Data Capture (EDC) — The process when the merchant swipes the credit card through an electronic card reader or terminal. The information (data) on the card's magnetic stripe is entered into (captured in) the processor's database electronically, hence the term electronic data capture.

Estimated Managed Assets — Average assets on the bank's general ledger plus all outstanding assets (in this case, credit card receivables) securitized as of a specific date.

Exceptions — Items or occurrences that are outside of the bank's policy guidelines or that do not fit the established rules or judgment criteria.

Excess Spread — Portfolio yield minus investor coupon, servicing fee, charge-offs (net of recoveries), and any other securitization trust expenses expresses as a percentage of the total outstanding receivables securitized (and allocated to the investor certificates).

Factoring — A form of fraud where a merchant creates false sales transactions, inflates the sales amount, or alters the sales drafts to improperly receive funds from the issuer. The merchant's intentions could be to obtain additional money to cover charge-backs or cash flow problems, or to cease operations and disappear with the sales proceeds. The acquirer is then responsible for any remaining charge-backs.

Fedwire — The Federal Reserve Bank's (FRB) nationwide, real-time gross settlement electronic funds and securities transfer network. It is a credit transfer system. Each funds transfer is settled individually against an institution's reserve or clearing account on the books of the Federal Reserve. The issuing bank pays the Associations using Fedwire. To use Fedwire, a bank must hold an account at the FRB and settlement is drawn from the account. The issuing bank makes the payment by sending a message over Fedwire that authorizes the FRB to electronically debit the bank's FRB account for the net settlement amount and transfer the funds to the settlement bank. The transfers are essentially instantaneous. The settlement bank then pays the merchant bank using Fedwire.

Finance Charges — Charges for using a credit card and that are comprised of interest costs and other fees.

First Payment Default — When a new cardholder fails to make the first payment due in a timely manner.

Floor Limit — A per-transaction amount above which authorization is required. It is a dollar amount set by the acquirer, in accordance with Association rules, above which the merchant must obtain authorization. There are normally two types of floor limits: (1) a standard floor limit where transactions above the limit require an authorization request and which varies by merchant type and (2) zero-floor limits where all transaction amounts require an authorization request.

Future/Delayed Delivery — Sales transactions associated with conveyance of the products or services sometime after the date of purchase (that is, in the future). Examples include airline tickets, concert tickets, and travel/tour packages.

Grace Period — The grace period is the interest-free period of time allowed by a lender. The standard grace period is usually between 20 and 30 days. If there is no grace period, finance charges start accruing the moment a purchase is made with the credit card. Consumers who carry a balance on their credit cards generally do not have a grace period for those cards (meaning that finance charges are accrued from the date of the charge, not from the end of the finance charge grace period).

High-Side Override — Declining credit to an applicant that scores above the cut-off score.

Holdback — A certain percentage of the merchant's sales deposits is held-back (retained) by the acquirer to serve as a reserve against future charge-back exposure or to cover existing charge-backs.

Impaired — Impairment occurs when, based on current information and events, a bank will likely be unable to collect all amounts (principal and interest) according to the contractual terms of the original loan agreement.

Independent Sales Organization (ISO)	An organization or individual that is not an Association member but that has a bankcard relationship with an Association member that involves acquiring or issuing functions such as the ISO soliciting merchant accounts, arranging for terminal purchases or leases, providing customer service, and soliciting cardholders. An ISO is sometimes referred to as a Member Service Provider (MSP), although their definitions are not always synonymous. The acquirer must register all ISO/MSPs with the applicable Association.
Interchange	The exchange of transaction data, information, and money between acquiring and issuing institutions participating in a payment network and in accordance with the Associations' by-laws and rules. It is the electronic infrastructure that processes financial and non-financial transactions between financial institutions.
Interchange Fees	Fees paid by one bank to another to cover handling costs and credit risk in a card transaction. Also referred to as the interchange rate, it is usually a percentage of the transaction amount and is derived from a formula that takes into account authorization costs, fraud and credit losses, and the average bank cost of funds. The interchange fee is typically set by the Associations. It is normally extracted from the merchant discount by the acquiring bank and paid to the separate issuing bank to compensate it between the time of settlement with the acquiring bank and the time of recouping value (payment) from the cardholder.
Introductory Rates	Short-term, temporary interest rates that are also known as a promotional rates or teaser rates.
Issuers	Financial institutions that supply (issue) cards to cardholders for use in performing transactions. They hold and maintain the cardholder relationship.
Laundering	A form of merchant fraud that occurs when a merchant submits drafts for another merchant. The merchant account holder typically is compensated for submitting the unauthorized merchant's business by receiving a percentage of their sales volume. Laundering is a federal offense. In addition, several states' criminal statutes and Association operating regulations prohibit laundering.
Layering	The inappropriate practice of recording more than one amount for the same probable loan loss in the allowance.
Lockbox	A deposit mechanism used by entities to facilitate their deposit transaction volume. Typically, commercial firms and businesses direct customers to send payments directly to a financial institution address or a post office box controlled by the institution. Financial institution personnel record the payments received and prepare deposit slips. Subsequent processing proceeds as with other deposit taking activities.
Loss Contingency	An existing condition, situation, or set of circumstances that involves uncertainty as to possible loss that will be resolved when one or more future events occur or fail to occur.

Loss Seasoning Curves	A term used to describe the normal migration of losses on accounts as they age. This curve assumes losses remain minimal from origination to a few months after origination, steadily increase in volume, and then eventually level off. The loss seasoning curve varies between products, such as between prime and subprime products.
Low-Side Override	Approving credit to an applicant that scores below the cut-off score.
MATCH	Short name for Member Alert To Control High Risk Merchants. A national database of merchants and their principals that have been terminated for cause or that have made multiple applications for merchant accounts. The file is maintained by the Associations based on information reported by acquirers.
Member Service Providers (MSP)	In general, entities or individuals that are not Association members but are registered with the Association to provide card program services to a member.
Merchants	Sellers of goods, services, and/or other information who accept credit cards as payment for these items. They have signed a merchant agreement to honor credit cards and display the service mark (logo).
Merchant Category Codes (MCC)	Universal, four-digit numbers that are assigned by the acquiring bank and identify a merchant by its primary line of business. There are several hundred MCCs used.
Merchant Processing	The routing of electronic transmissions from merchants through the payment network for clearing and settlement. It is a separate and distinct business line from credit card issuing. Merchant processing activity is, for the most part, off-balance sheet and involves gathering sales information from the merchant, collecting funds from the issuing bank, and paying the merchant. Various third parties may be involved.
Migration Analysis	A common method used by management to evaluate the adequacy of allowances for loan losses. It segregates the credit card portfolio into delinquency buckets in order to determine the amount of receivables that roll through each delinquency bucket and progress to charge-off.
Minimum Payment	The smallest amount a cardholder can pay to meet the terms of the account agreement and keep the account from going into default.
Monoline Credit Card Banks	Banks that mainly focus on the business of credit cards and don't have significant other banking operations.
Negative Amortization	The phenomena in which the cardholder's account balance grows (excluding purchase activity) despite the cardholder making the minimum payment as agreed to in the cardholder agreement.
Over-Limit	When the account's balance is beyond its credit limit. One or any combination of purchases, cash advances, fees, and finance charges could cause an account to become over-limit.

Override	Decisions that are contrary to the decisions recommended by the scorecard or by the usual, approved judgmental evaluation process.
Paper-Based Transaction	A cardholder transaction for which the merchant imprints the credit card and submits a paper sales draft to the acquirer for collection. The paper draft is sent to the processing center where it is processed and transferred to magnetic tape for transmission through interchange.
Pay-Ahead Programs	Programs which allow cardholders to skip a payment or payments based on the excess of the remitted payment in one month being applied to one or more future months. They are also known as pre-payment programs.
Payment Hierarchy	The order in which the cardholder's payment will be applied to fees, purchases, and other charges.
Payment Holiday Programs	Programs which enable cardholders to defer their minimum monthly payments. These programs are normally used during high purchasing periods such as holidays or peak vacation periods and are also known as skip payment programs.
Penalty Pricing	Pricing that is higher than a card's standard rate and that goes into effect as a result of adverse activity, such as for late payment or for otherwise not abiding by the cardholder agreement.
Podcasts	Sound-bites that are downloadable from a website and that can be played on an iPod.
Point-of-Sale Transactions	Face-to-face transactions in which the cardholder uses the physical card at a merchant's physical place of business.
Pre-Payment Programs	Programs which allow cardholders to skip a payment or payments based on the excess of the remitted payment in one month being applied to one or more future months. They are also known as pay-ahead programs.
Processing	Generally refers to activities that do not involve customer contact or risk management. For example, transaction authorization and cardholder billing are considered part of processing. Activities that generally involve customer contact and risk management (such as customer service and credit review) are considered servicing, not processing. Processing is commonly labeled as front-end processing and back-end processing. Transaction authorization and routing transactions from the point-of-sale to the network are examples of front-end processing while handling the information and payment flows needed to convert the electronic transaction record into cash for the merchant are examples of back-end processing.
Promises Kept	The amount of payments made by cardholders as compared to the amount of payments promised by those cardholders. This could also be measured by number of payments made compared to number of payments promised.

Promises to Pay	The amount of payments that cardholders promise to pay as a result of the bank's collection activities. This can also be measured as a count (compared to a dollar volume).
Promotional Rate	A short-term, temporary interest rate. It is also known as an introductory rate or teaser rate.
Purification	The practice of reversing uncollectible accrued fees and finance charges against earnings rather than accounting for them as charge-offs against the ALLL. Purification results in lower charge-off ratios when the accrued and unpaid fees and finance charges are included in the outstanding principal balance (denominator) yet the charged-off uncollectible accrued fees and finance charges are not included in the charge-off number (numerator).
Qualified Special Purpose Entity (QSPE)	In a two-step securitization structure, the QSPE is the entity that issues the certificates (the second step). QSPEs are designed to operate with limited decision-making authority. Whether or not the securitization vehicle is a QSPE is very important for determining whether or not the assets and liabilities of the QSPE should be consolidated. The goal is to avoid consolidation. In accordance with FAS 140, there are three qualifying conditions: i) legal isolation, ii) the ability of the transferee to pledge or exchange the transferred assets, and iii) surrender effective control.
Re-aging	Returning a delinquent, open-end account to current status without collecting the total amount of principal, interest, and fees that are contractually due. Certain requirements must be met to be able to re-age an account, as discussed in the Portfolio Management chapter.
Recourse	Recourse arises from an arrangement in which a bank retains, in form or in substance, the credit risk in connection with an asset sale in accordance with GAAP, if the credit risk exceeds a pro-rata share of the banks claim on the assets. Examples of recourse include off-balance sheet contractual agreement to repurchase assets, spread accounts, cash collateral accounts, retained subordinated certificates, and retained subordinated IO strips.
Recoveries	Monies collected on an account after it has been charged-off. Recovery usually results from action taken by the collection department and may include legal action or agency referrals.
Refreshed Credit Scores	Credit scores that have been updated (after origination) to reflect changes in the consumer's profile that may have occurred since the original credit score was recorded.
Reissue	The process of preparing and distributing new credit cards to cardholders whose cards have expired or will soon expire (if the bank has determined that it will renew the relationship). It also encompasses supplying replacement cards to cardholders for lost or stolen cards.

Reject Inferencing	Specific inferences made by management about rejected applicants in order to determine if the applicants would have been a good or bad credit risk.
Residual Interests	Residual interest refers to any on-balance sheet asset that represents an interest (including a beneficial interest) created by a transfer that qualifies as a sale (in accordance with GAAP) of financial assets, whether through a securitization or otherwise, and that exposes a bank to any credit risk directly or indirectly associated with the transferred asset that exceeds a pro-rata share of that bank's claim on the assets, whether through subordination provisions or other credit enhancement techniques. Residual interests do not include interests purchased from a third-party, except for credit-enhancing IO strips.
Retrieval Requests	Requests for a copy of the original sales draft from the merchant. Issuers request a copy of the sales draft to verify features of the transactions such as a signature, no imprint, cardholder inquiry, or fraud analysis. Retrieval requests usually precede a charge-back. Failure by a merchant to follow through with the retrieval request may, in and of itself, result in a charge-back. Retrieval requests are also known as inquiries.
Revolvers	Cardholders who roll over part of the outstanding balance to the next month instead of paying the balance in full.
Risk-Based Pricing	The practice of charging different rates on the same type of loan to different consumers, depending on each consumer's credit score and other factors which are believed to influence the likelihood of repayment. In risk-based pricing, consumers who are more likely to default are priced higher (with the intention that they would then be helping to pay for costs they cause the company), while consumers who have better repayment records get lower interest rates because they are not anticipated to create as many costs to defray.
Roll-Rate	The percentage of balances or accounts (units) that move from one delinquency stage to the next delinquency stage. They measure the rate that accounts (units) or balances move (roll) to the next level of delinquency and are used in migration analysis.
Scoring	The assignment of points to specific items of information to predict an outcome. The information is normally drawn from the application, internal performance, or a credit report. Scoring usually involves statistical modeling and is intended to help creditors accurately establish business and financial objectives and control levels of risk.
Securitizing	The process of packaging a good or product, such as credit card receivables, and transforming it into securities.
Segmentation	The process of parceling or stratifying the portfolio into various homogenous groups for closer analysis.
Settlement	As the card sales transaction value moves from merchant to acquiring bank to issuer, each party buys and sells the sales ticket. Settlement is what occurs when the acquiring bank and the issuer exchange funds during that process. On more technical terms, it is the final, irrevocable transfer of funds between parties in a payment system. (This should not

be confused with the term settlement as used to refer to a debt forgiveness situation.)

Skip Payment Programs — Programs which enable cardholders to defer their minimum monthly payments. Normally these programs are instituted by management during high purchasing periods such as holidays or peak vacation periods. They are also known as payment holiday programs.

Split Sales Drafts — The process by which a merchant uses two or more sales drafts for a single transaction to avoid authorization limits. This differs from split tender sales which involve two or more forms of payment (for example, cash and credit card).

Spread Accounts — In a securitization, the governing documents may require that if specific performance indicators fall below certain thresholds, any excess spread will be “trapped” into an account (the spread account) for the benefit of the certificate holders as a form of credit enhancements against future credit losses. The performance indicators are usually based on the performance of the underlying receivables, rating agencies’ actions, or excess spread falling below a specified threshold.

Subprime — Exhibiting characteristics that indicate a significantly higher risk of default than traditional bank lending customers. Risk of default may be measured by traditional credit risk measures (credit history, debt to income levels, and so forth) or by alternative measures such as credit score.

Teaser Rate — An initial offering of an interest rate lower than the normal stated rate charged to a cardholder. The issuer’s strategy is to attract an interest-sensitive borrower and run up the borrower’s balance quickly by offering easy transfer of existing credit card balance from other institutions. A teaser rate is also known as an introductory rate or promotional rate.

Total Assets Under Management — The total of on-balance-sheet assets plus securitized assets. This term is synonymous with managed assets.

Unexpected Losses — The potential for actual loss to exceed the expected loss and is a measure of the uncertainty inherent in the loss estimate. It is this possibility for unexpected losses to occur that necessitates the holding of capital protection.

Universal Default — When a lender changes the terms of a loan from the original terms to the default terms when it is informed that its borrower has defaulted with another lender.

Usury — Interest charged in excess of the legal rate established by state law.

Utilization — The portion of the credit limit that is being used. For example, if a card has a credit limit of $1,000 and its balance is $300, utilization is 30 percent.

Valuation Allowance In general, an account established against a specific asset category or to recognize a specific liability, with the intent of absorbing some element of estimated loss. Such allowances are created by charges to expense in the Report of Income, and those established against asset accounts are netted from the accounts to which they related for presentation in the Report of Condition.

Vintage The date (time period) a cardholder's account originated.

Warehouse Facility The borrowing of funds by a retail lender on a short-term, revolving basis using the loans as collateral. This form of interim financing is used to raise funds to make the loans and carry the loans until they are securitized (packaged and sold out of the warehouse to the investor). Proceeds from the sale are then used to reduce the warehouse loan.