Recently, I was helping a listener to the podcast with an issue that was eventually solved by deleting what I called a hidden settings folder. The listener asked, "Is the correct term to use now Folder instead of Directory? Or are they still interchangeable?" That is a fair question. I pondered the topic for a moment, then realized that I regard the terms as interchangeable, but I actually use each term in specific situations. My somewhat schizophrenic use of the terms is really just an attempt to ensure that I'm understood in a conversation. In order to explain, let's start with a little history.

Originally, under DOS, Unix, and (I think) even Windows 3.x, the things that were used to group and organize files into a hierarchy were called "directories." Later, Linux adopted the same terminology. More recent versions of Windows have adopted the term "folders." I assume because a folder was the actual graphical representation of a directory on the PC screen. Apple used the term "folder" on the Mac as well. Early versions of Linux, being mostly command line-based, continued to use the term "directory." I'm not exactly sure when this happened, but somewhere along the line, the later (and more graphical) Linux distributions, began to use the term "folder." That is especially true with distributions like Ubuntu and Fedora that wanted to be more attractive to users switching to Linux from Windows and Mac. The term "folder" is immediate understood by users who have only ever used modern Mac or Windows computers, and have never been exposed to the original term "directory." In fact, I get a sense that this younger generation finds the term "directory" kind of old fashioned and quaint.
Indeed, most old-time Linux users insist on using the term "directory." For some of them, it's out of some passive-aggressive rebellion against Linux becoming too mainstream and losing its roots. In truth, today the term "folder" has become interchangeable with "directory" especially as more and more Linux users are recent converts to the operating system, who are using graphical user interface (GUI) exclusively. In conversations with listeners to the podcast, I tend to use the term "directory" when I know I'm communicating with a long-time Linux geek, especially one who is a Linux zealot. When I know I'm discussing the topic with a Linux newbie, especially one who uses Ubuntu, or if I'm not sure of their level of experience, I will use the term "folder." I am a firm believer that it is the responsibility of the communicator to use terminology that will be understood by the listener. I hope that comes
through in my posts on this site, and in the podcast.

Source: http://goinglinux.com/articles/DirectoryVsFolder.html