Managing Debt: Key Terms You Need to Know

1. Match the words in red with their definitions on the right:

1. A recovery credit	a) An extra fee you have to you pay on top of what you borrowed from a company
2. A debtor	b) To fail to fulfill an obligation, especially to repay a loan
3. A creditor	c) An arrangement for paying off a debt in installments over time
4. A payment plan	d) A person or a company that owes money to somebody else, like when you borrow money from a friend or a bank.
5. An outstanding balance	e) A company that specializes in collecting debts on behalf of creditors
6. An interest rate	f) an agreement between a creditor and a debtor to resolve a debt, often for a reduced amount or with modified payment terms.
7. A credit score	g) The amount of money that you still owe to a bank or a company, even after you have made some payments.
8. A collection agency	h) A number that shows how good someone is at paying back the money they borrow from a company
9. To default	i) A person or a company that is waiting to get paid because they loaned money to somebody else, like a bank or a person who lent you money.
10. A settlement	j) A special kind of help that a business can get from the government if something unexpected happens, like a natural disaster, sickness or unpredictable events like the Covid.

2. Gap-filling exercise:

When a person owes money to someone else, they are called _____.

A number that represents how trustworthy a person is when it comes to borrowing money is their _____.

A schedule for paying back borrowed money is called a _____.

When a person agrees to pay a smaller amount than what they owe, it's called a _____.

The percentage of the borrowed money that must be paid in addition to the original amount is the _____.

A company that specializes in collecting debts from people who haven't paid is a _____.

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When a person doesn't pay back the money they borrowed, they have _____.

A person or organization that is owed money is a _____.

The amount of money a person owes but hasn't paid back yet is called an _____.

A type of credit that is given to people who had financial difficulties in the past is called a _____.

3. Read the following article and make a summary using your own words:

Recovery credits are a type of financial assistance that is offered to people who have fallen behind on their payments. This could happen for many reasons, such as a job loss, unexpected medical expenses, or other financial hardship.

People or businesses that borrow money from other people or companies are called **debtors**, and the people or companies they borrow money from become **creditors**.

If the debtor can't pay back the money right away, they might agree to a **payment plan**, which is a schedule that says how much they will pay each time, until the full amount is paid back.

If the debtor doesn't pay back the money they owe, it means they **have defaulted** on the loan, which means they didn't fulfill their promise to pay the money back.

When a debtor owes money, they might also have **an outstanding balance**, which is the amount of money they still owe, even after they've made some payments.

Sometimes, creditors charge extra money, called interest, when they loan money to a debtor. This is called **an interest rate**.

A credit score is a number that shows how good someone is at paying back the money they borrow.

If a debtor can't pay back the money they owe, the creditor might use **a collection agency** to help get the money back.

Sometimes, a creditor and a debtor can agree on **a settlement**, which means the debtor will pay back less than the full amount they owe, but they won't default on the loan.

4. Comprehension questions:

1. What is the difference between a recovery credit and a settlement?
2. What is a debtor / creditor?
3. What is a payment plan, and how does it help debtors pay off their debts?
4. What happens when a debtor defaults on on their payments?
5. What is an outstanding balance?
6. What is an interest rate, and how does it affect loans?
7. What is a credit score, and why is it important?

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8. What is a collection agency, and how does it help creditors collect debts?
9. In what ways can a collection agency contact a debtor?
10. What is a settlement, and why might a creditor agree to it?
11. How can a debtor's credit score affect their ability to get a payment plan?
12. Why might a creditor hire a collection agency?
13. What are the potential consequences of having an outstanding balance on a debt?

5. Discussion questions:

1. Have you ever had a debt and struggled to pay it off? What did you do to manage it?
2. How important do you think having a good credit score is in your country?
3. Do you think there should be stricter laws in place to protect debtors from harassment by collection agencies?
4. What are some tips you have for negotiating a settlement with a creditor?
5. Have you ever used a payment plan to pay off a large purchase? How did it work for you?
6. Do you think it is fair for creditors to charge interest rates on overdue balances? Why or why not?
7. Have you ever had to deal with a collection agency? What was your experience like?
8. How do you think technology has changed the way we manage debts and credit scores?
9. What do you think are some common reasons why people default on their loans?
10. In your opinion, what are some steps individuals and governments can take to prevent excessive debt and financial hardship?

THANK YOU

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