

# 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) the percentage of the loan amount that a borrower must pay as interest to the lender
2. A debtor	b) the failure to pay a debt or meet other financial obligations as agreed
3. A creditor	c) an arrangement for paying off a debt in installments over time
4. A payment plan	d) a person or entity that owes money to someone else
5. An outstanding balance	e) a company that specializes in collecting debts on behalf of creditors or lenders
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 is still owed on a debt or account
8. A collection agency	h) a numerical representation of a person's creditworthiness, based on their credit history and other financial information
9. To default	i) a person or entity that is owed money by someone else
10. A settlement	j) money or funds that a business is able to get back or recover

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 \_\_\_\_\_.

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 have 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. When someone falls behind on their payments, they become known as **a debtor**, and the person or organization they owe money to is known as the **creditor**.

In order to get back on track with their payments, the debtor and creditor may agree to a **payment plan**. This plan outlines how much the debtor will pay each month, and over what period of time, to catch up on their **outstanding balance**. The creditor may also charge an interest rate on the amount owed, which is the cost of borrowing money.

If a debtor is unable to pay back their debts, they may face consequences such as damage to their **credit score**. A credit score is a number that represents a person's creditworthiness, and is used by lenders to determine whether to offer them credit or a loan. If a debtor's credit score drops too low, they may have difficulty obtaining credit in the future.

In some cases, the creditor may hire **a collection agency** to try to collect the **outstanding balance** on their behalf. This agency may use various methods to collect the debt, including phone calls, letters, and legal action.

If a debtor **defaults** on their debt, it means they have failed to make payments as agreed upon in the payment plan. In this case, the creditor may offer **a settlement**, which is a reduced amount that the debtor can pay in order to resolve the debt. However, it's important to note that accepting a settlement can still have an impact on a person's credit score.

In summary, recovery credits are a way to help debtors get back on track with their payments. A payment plan may be agreed upon, and if necessary, a collection agency may be used to collect the outstanding balance. It's important for debtors to understand the consequences of defaulting on their debts, and to work with their creditors to find a solution that works for everyone involved.

### 4. Comprehension questions:

1. What is the difference between a recovery credit and a settlement?
2. How can a debtor's credit score affect their ability to get a payment plan?
3. What happens when a debtor defaults on their payments?

4. Why might a creditor hire a collection agency?
5. What factors can affect the interest rate on a payment plan?
6. What steps can a debtor take to improve their credit score?
7. In what ways can a collection agency contact a debtor?
8. What are the potential consequences of having an outstanding balance on a debt?
9. How can a debtor negotiate a settlement with a creditor?
10. What are some alternatives to using a collection agency to collect 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**