

Managing Your Debt and Credit



- **Debt** is money you owe. You've already borrowed it.
- **Credit** is the ability to borrow money. You haven't borrowed it yet.
- A **Debtor** is someone who owes money.
- A **Creditor** or **Lender** is the person, business, or organization that loans money to the debtor.

Understanding Your Debt

To understand your debt, it's important to know:

- Who you owe
- How much you owe them
- How much the payments are
- When the payments are due

It's also important to think about why you incurred debts, such as:

- Purchasing assets
- Paying bills (or as a result of not paying them)
- Covering unexpected expenses or emergencies
- Buying something you wanted or needed

An **Installment Loan** is when you borrow a set amount of money called the principal. Then you repay it, plus interest, over the term of the loan. The term of the loan is the time you must repay the loan.

Revolving Credit is when you borrow up to a maximum credit limit and repay it based on how much credit you have used. Usually, you are billed a monthly minimum payment.

Use the following table to gather information about your debt. You can find information about your debts on monthly bills, loan documents, personal agreements for loans with friends or family, or your credit report. Visit annualcreditreport.com for a free copy.

Who You Owe Money To	Total Amount You Owe	Payment Amount	Payment Due Date	Interest Rate and Terms

Reducing Debt

There are two general plans for reducing debt:

- The **High Cost Debt First** method, which means you first pay off the debt that has the highest cost to you
- The **Snowball** method, which means you first pay off the debt with the lowest balance

Both plans work best if you avoid incurring more debt while you work to pay down your debt. Which plan is better for you will depend on your situation and preferences. If you need help managing debt, consider seeking help from a nonprofit credit counseling organization. Visit [USA.gov's webpage](https://usa.gov) (usa.gov) and search for "credit counseling" to locate resources that include tips from the Federal Trade Commission (FTC) on how to find and choose a credit counselor. Choose where you get help carefully.

Nonpayment of Debts and Debts in Collection

If you pay your debts on time and as agreed, your debts are considered current. You will pay off what you owe over time. This may be your goal, but you may not be in this situation now. It helps to know what happens if you cannot pay on time and as agreed.



Several things can happen if you do not pay your debts on time or as agreed:

- Having to pay late fees or paying more money in interest
- Being contacted by a debt collector who asks you to make payment
- Losing services and having to pay costs to re-establish them or losing collateral
- Negative entries on your credit report result in a lower credit score
- Lawsuits from creditors
- Wage or account garnishment

If you have a collection, make sure you actually owe the debt, the statute of limitations has not expired, and you are dealing with a legitimate debt collector

If you know those three things, pay the debt in full if possible. If that is not possible, you may be able to set up a payment plan with the collector to pay the amount due in installments over time. Make sure it's a plan you can afford. Sometimes, you can negotiate a lower balance that will be considered payment in full. Ask them to report the balance "paid in full," not "settled."

This information is an excerpt from the FDIC Money Smart for Adults Credit Reports and Scores Module. Visit the [FDIC's Money Smart website](http://www.fdic.gov/consumer-resource-center/money-smart) (www.fdic.gov/consumer-resource-center/money-smart) for more information or contact us at 1-800-257-1705 for printed materials.