

Repay Debt: Key Terms

Balance transfer — a strategy for repaying credit card debt that involves transferring high-interest debt from one or more credit cards to another card with a lower interest rate

Bankruptcy — a legal process through which a person or business that cannot repay their debts is able to get some or all of those debts forgiven

Creditor — a person or company to whom money is owed

Debt consolidation — a debt management strategy in which you combine multiple debts, such as credit cards, medical bills and other unsecured loans, into one monthly payment with a lower interest rate

Debt management plan — an agreement between a debtor and a creditor that addresses the terms of an outstanding debt

Debt settlement — a practice that allows you to pay a lump sum that might be less than the amount you owe to resolve (or “settle”) your debt

Debtor — a person or company that owes money

Demand letter — a formal communication that states that due to late payments, the borrower is officially in breach of the terms of their loan

Fair Debt Collection Practices Act (FDCPA) — a federal law that prevents debt collectors from engaging in unfair, deceptive, or abusive practices while collecting debts

Foreclosure — when a lender reclaims a property after the borrower fails to make payments on the loan, or otherwise breaches the agreements outlined in the mortgage contract

Minimum due — the minimum amount you are required to pay, on or before the payment due date, to ensure that you do not have to pay late fees

Net income — your income after you’ve paid your taxes

Notice of default — a public notice filed with a court that states that a mortgagor is in default

Overspending — the act of spending more than you can afford

Repossession — when a creditor claims an asset from a debtor who has failed to make loan payment

Statement balance — that total amount you owe at the end of the billing cycle

Validation notice — a notice that debt collectors must provide that includes information about the size of your debt, when to pay it, and how to dispute it

Wage garnishment — when a court orders the debtor’s employer to withhold a certain amount of their paycheck and send it directly to the creditor