

NAME: _____

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VIDEO

Navigating Debt Relief

What + Why: Learn how people manage overwhelming debt so you can identify reliable help, repayment strategies, and risky solutions to avoid.

This is Selene. A few years ago, borrowing felt manageable.

A credit card here . . .

a small loan there . . .

But the balances didn't shrink the way she expected. Minimum payments kept the accounts current, but interest kept adding to what she owed. Every month she paid, and every month the total barely moved.

Debt problems don't usually start with a disaster. They start with warning signs.

Minimum payments every month.

Balances that don't shrink.

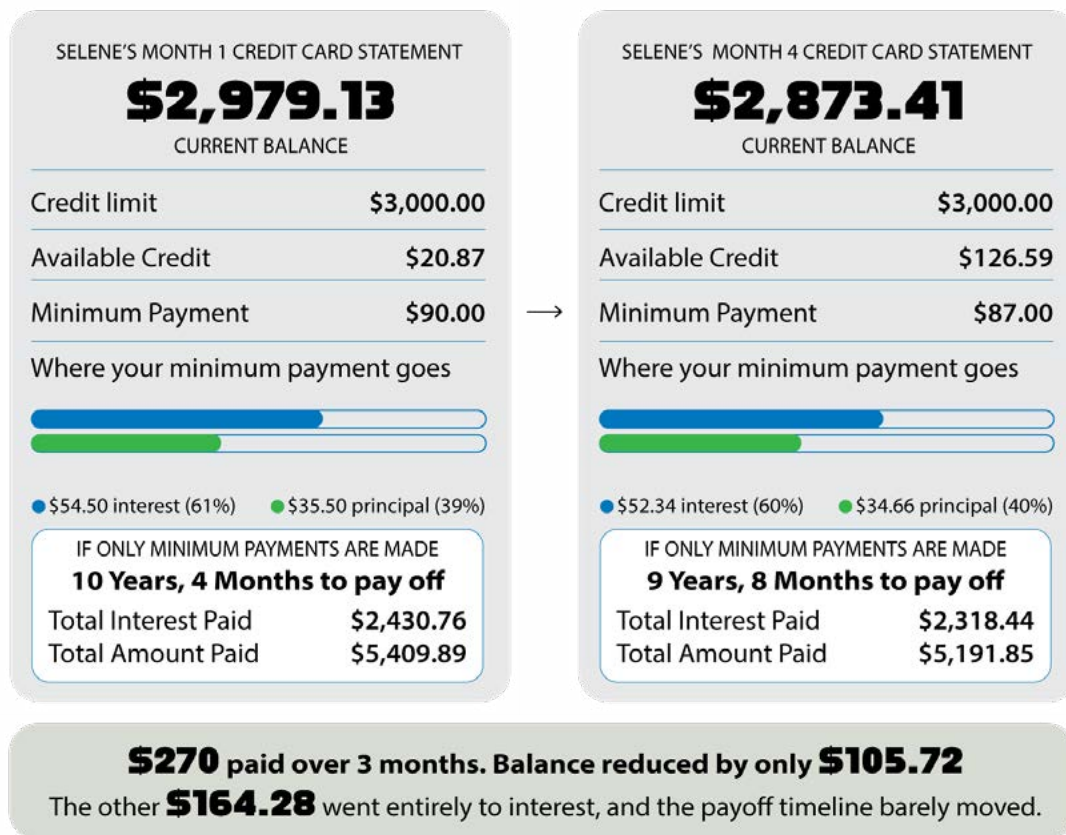
Late fees start showing up.

Borrowing again just to stay caught up.

When these signs appear, the goal isn't to panic. The goal is to act early.

Some credit card holders think making the minimum payment means they're staying on track. But on a revolving balance, minimum payments mostly cover interest charges, not the principal.





See what happens just three months later. Selene has made three payments of \$90 for a total of \$270. Her balance only dropped from \$2,979 to \$2,873. That's just \$105 off the original balance. The other \$164 went entirely to interest. And the split barely changed. Nearly 60 cents of every dollar she pays still goes to interest.

Her statements also tell her something else. If she keeps making only the minimum payment, it will take nearly 10 years to pay off this balance, and she'll pay over \$2,400 in interest on top of what she originally borrowed.

Three months later, that number barely moved.

And that's assuming Selene doesn't make a single additional purchase on her credit card. If she keeps using it, even for small amounts, the balance grows, the timeline extends, and the total interest paid increases further. Staying current on payments doesn't mean you're getting out of debt.

Selene decides to talk with her friend.

SELENE: "I keep making payments . . . but the balance never seems to decrease."

SE'VON: "That's what happens when there's no plan. You're paying . . . but you're not getting out."

When debt starts to feel like this, the first step isn't a new loan. The first step is a repayment plan.

A repayment plan is a structured way to pay back debt over time. It decides what gets paid first, how much extra goes toward the balance, and how long it will take to finish. Without a plan . . . the debt decides for you.

Repayment plans can take different approaches.

- One strategy is called the **snowball method**. You pay the smallest balance first so you see progress faster.
- Another strategy is called the **avalanche method**. You pay the highest interest rate first to reduce the total cost.

Both strategies work. The best plan is the one you can actually stick to.

Question 1

Selene wants to get out of debt faster. She can only pay a little extra each month. Which choice would help reduce the total cost the most?

- ☐ a. Pay only the minimum every month.
- ☐ b. Pay extra toward the highest interest balance.
- ☐ c. Split the extra money and pay every balance equally.

Answer: b. This is called the avalanche method. Paying the highest interest first reduces how much interest builds over time.

When debt starts getting hard to manage, the next step isn't panic. It's getting help early. Nonprofit credit-counseling agencies help people create repayment plans, fix budgets, and talk to lenders. They don't erase debt. They help make it manageable. Asking for help early gives more options. Waiting too long takes options away.

When people work with a nonprofit credit counselor, they usually create a debt management plan. A debt management plan does not create new debt. The counselor works with lenders to lower interest or adjust payments so the debt can be repaid.

Some people confuse this with debt consolidation. Debt consolidation means taking out a new loan to combine several debts into one payment.



And some companies promise quick fixes but charge high fees or make credit problems worse. The safest help usually comes from nonprofit counseling, not fast solutions.

Sometimes repayment plans, debt management plans, and credit counseling are not enough. When debt becomes impossible to repay, the law allows a process called bankruptcy. Bankruptcy is designed to give people a way to deal with debt they truly cannot afford. But it does not erase every problem, and it will affect credit, borrowing, and financial choices for years. Because of those consequences, bankruptcy is usually considered a last resort.

There are different types of bankruptcy. Two common types are Chapter 7 and Chapter 13.



Chapter 7 can erase many unsecured debts, but some property may be sold to repay what is owed.



Chapter 13 does not erase the debt right away. Instead, it creates a payment plan that can last several years.

Some debts may not be erased at all, such as student loans, taxes, or child support.

Bankruptcy can help when debt cannot be repaid. But it also comes with long-term consequences.

- Credit scores will drop significantly, and borrowing money may be harder for years.
- Some property may be sold, depending on the type of bankruptcy.
- Not all debt disappears. Student loans, taxes, and child support are often still owed.
- Filing for bankruptcy also costs money. Legal fees and court-filing costs can cost thousands of dollars, which means it may not be a realistic option for someone already unable to make payments.

Because of these effects, bankruptcy is meant for serious situations where it is your last resort, not everyday money problems. But sometimes it is the answer to provide relief from a neverending debt spiral.

Question 2

Selene is struggling to keep up with debt payments and wants to get help before things get worse. Which option is most likely to be a safe and legitimate place to start?

- ☐ a. A nonprofit credit counseling agency
- ☐ b. A company promising to erase debt fast for a large, one-time fee
- ☐ c. Ignoring the debt and waiting for it to be erased
- ☐ d. Filing for bankruptcy

Answer: a. Nonprofit credit counselors help create a debt management plan without adding new debt or charging high fees.

Question 3

Selene still owes money, but she has income and has been following a debt management plan. She is thinking about filing for bankruptcy. What is the most accurate advice?

- ☐ a. Bankruptcy is the best first choice.
- ☐ b. Bankruptcy removes all debt with little to no consequences.
- ☐ c. Bankruptcy is a last resort after other options.
- ☐ d. Bankruptcy should be used anytime payments feel stressful.

Answer: c. Bankruptcy can help in serious situations, but it has long-term effects and is usually used after all other solutions are exhausted.

Key Terms

- **debt:** money owed to a lender that must be repaid, usually with interest
- **default:** failure to pay back a loan
- **snowball method:** a way to manage debt by paying off the smallest debt first and then applying that payment to the next smallest debt until all debts are paid
- **avalanche method:** a way to manage debt by paying off the debt with the highest interest rate first to reduce the total interest paid over time
- **repayment plan:** a structured plan for paying back debt over time
- **consumer credit counseling:** organizations that offer services to help people get out of debt and stay out of debt
- **bankruptcy:** a legal process that can help individuals or businesses eliminate or restructure certain debts under court supervision
- **Chapter 7 bankruptcy:** a type of bankruptcy in which certain assets may be sold to repay debts and many unsecured debts are discharged
- **Chapter 13 bankruptcy:** a type of bankruptcy that allows individuals to repay debts through a structured payment plan over several years