GLOSSARY

interest rate – the percentage of extra money that has to be paid back when one borrows money from a bank or other financial institution
* As interest rates rise, people become less able to borrow money.

mortgage – a loan used to buy a home; money that is borrowed to buy a home
* They took out a $300,000 mortgage to buy a very nice home.

in general terms – generally; broadly; not specifically; not in detail; overall
* In general terms, it is easier for tall players to get on this basketball team than shorter players.

to borrow – to ask for and receive money from a bank or person, agreeing to pay back that money, plus extra (interest) in a specific period of time
* The Hagstroms want to borrow $7,500 to buy a new car.

to calculate – to use numbers and mathematical operations (add, subtract, multiply, divide, etc.) to find the total amount of something
* Your weight in pounds is calculated by multiplying your weight in kilos by 2.2.

annual rate – the percentage by which something changes in one year
* Sales are growing at an annual rate of 19%.

percent – per 100; a number that is divided by 100; a number with a percentage sign (%) after it
* - What percent of 50 is 30?
  - It's sixty percent (60%).

monthly payment – the amount of money that must be paid at the same time each month
* Tricia makes three monthly payments: $975 for rent, $90 for phone and Internet, and $50 for her gym membership.

term – duration; the amount of time that a loan or agreement is valid
* Most home loans have a 30-year term.

principal – the amount of money that is borrowed; money owed that does not include the interest
* Each month they pay off a little bit of their principal, but most of the payment is used for interest.

lender – an institution or person that lends money to people; an institution or person from whom money is borrowed
* In this town, three lenders specialize in making small business loans.

to assess – to charge and collect an amount of money
* If you don't return your books on time, the library will assess a late fee of $1 per day per book.

to process – to handle a document officially; to make sure that an application or other type of document is reviewed and approved appropriately
* The university processes thousands of student applications each year.

the fine print – the small writing at the end of a contract that is difficult to read and often includes or hides many important details
* When they read the fine print, they were shocked to learn that they would have to pay $300 to cancel their contract with the cell phone company.

to go down that road – to make a decision to do something and then do it; to do something in a particular way when one has other choices
* Guillermo bought an old car that didn't work very well. The next time he needed to buy a car, he said, "I'll never go down that road again! From now on, I'm buying only new cars."

to default – to not make a payment that one is supposed to make, especially on a loan
* When they defaulted on their loan for four months in a row, the bank took away their house.

credit score – a number on a report that shows how much money one owes to other people and businesses, and whether one makes payments on time
* If you pay your credit card bills on time, you should have a good credit score.

course of action – a plan for what one should or will do; what one plans to do
* I think the best course of action is for us to wait quietly and see what happens next.

COMPREHENSION QUESTIONS

1. Which of these is not part of a monthly loan payment?
a) The fine print.
b) The principal.
c) The interest.

2. According to Oscar, how might Kerry ruin her credit score?
a) By going down the wrong road and getting lost.
b) By not making payments when she is supposed to.
c) By not knowing how to calculate her annual rate.

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WHAT ELSE DOES IT MEAN?

term
The word "term," in this podcast, means duration, or the amount of time that a loan or agreement is valid: "Their apartment rental agreement has a one-year term." A "term" is also the amount of time that a politician works in a particular job before he or she has to be re-elected: "The U.S. president can serve a maximum of two four-year terms." When talking about academics, a "term" is one of the four periods of the school year: "He did very poorly in the fall term, but his grades improved in the winter and spring terms, so he won't have to take extra classes during the summer term." Finally, a "term" is a technical word that has a specific meaning: "The word 'hypertension' is a medical term that is used to talk about high blood pressure."

to default
In this podcast, the verb "to default" means to not make a payment that one is supposed to make, especially on a loan: "When he lost his job, he defaulted on his car payment." In a computer program, the "default" is what happens automatically when one does not make any changes or special choices: "The default printer paper is 8.5 x 11 inches." The phrase "by default" means that something happens because one hasn't made any changes or special choices: "By default, the computer will save your file every five minutes." The phrase "by default" is also used when one wins something without any competition: "The other team didn't show up for the game on Saturday, so we won by default."

CULTURE NOTE

When people want to borrow money from a bank, they often have to "put up" (offer or provide) "collateral," which is something that they agree to give to the bank if they are unable to pay back the loan. Common types of collateral include homes, cars, small businesses, valuable artwork, and more. The bank "assesses" (evaluates) the "value" (how much something can be sold for) of the collateral and then decides how much money it can lend to a particular borrower.

Unfortunately, sometimes people are unable to pay back their loans. This often happens if they lose their job or if they have high medical expenses. When a person defaults on a monthly payment for the first time, the bank usually asks what happened and tries to "make arrangements" (make plans for something to happen) so that the money is paid as soon as possible.

However, if a borrower defaults on a loan for several months "in a row" (consecutively, or one after another), then the bank may "repossess" the loan's collateral or the thing that was purchased with loan money. For example, a borrower who "takes out" (borrows) a car loan and then isn't able to make the monthly payments will usually have his or her car "repossessed," meaning that the bank becomes the new legal owner of the car.

When a bank repossesses a home, it is known as a "foreclosure." The foreclosed "property" (a building and the land it is on) is then owned by the bank. Banks don't really want to own homes, so they usually try to sell their foreclosed properties to "recover" (get back) the money they lost on the loan.

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Comprehension Questions Correct Answers: 1 – a; 2 – b

COMPLETE TRANSCRIPT

Welcome to English as a Second Language Podcast number 352: Understanding Interest Rates.

This is English as a Second Language Podcast episode 352. I'm your host, Dr. Jeff McQuillan, coming to you from the Center for Educational Development in beautiful Los Angeles, California.

Our website is eslpod.com. On it, you can find a Learning Guide for this episode, an 8 to 10 page PDF file that contains all of the vocabulary, definitions, new sample sentences, additional definitions, comprehension questions, cultural notes, and a complete transcript of this episode.

This episode is called "Understanding Interest Rates." It's a dialogue between Kerry and Oscar about borrowing money from a bank. Let's get started.

[start of dialogue]

Kerry: I need to take out a small business loan and I'm trying to figure out what the interest rate would be. Do you understand this stuff?

Oscar: If it's the same as a mortgage loan, then I think I understand it in general terms. The interest rate would be the percentage of the amount you plan to borrow. It's usually calculated as an annual rate. So, for instance, a 10 percent interest rate on $100 would be $10 a year.

Kerry: Okay, I see, but how is my monthly payment calculated?

Oscar: As the borrower, your monthly payment depends on the term of your loan. Each month, you'll pay money toward the principal, plus the interest you owe the lender. The bank may also assess other fees for processing your loan, so make sure to read the fine print.

Kerry: Thanks. I understand it a little better now.

Oscar: Are you sure you want to go down that road? You don't want to default on your loan and ruin your credit score. Maybe there are other options.

Kerry: Maybe there are, but I just don't see any right now. I have an appointment with an accountant next week and hopefully she can advise me on the best course of action.

Oscar: Good luck and let me know if I can help.

Kerry: Thanks, I will.

[end of dialogue]

Our dialogue begins with Kerry saying to Oscar, "I need to take out a small business loan." "To take out a loan" means to get a loan from a bank, usually. "I'm trying to figure out what the interest rate would be." The "interest rate" is the percentage of extra money that has to be paid back to the bank when you borrow money from it. The bank gives you $100, you have to pay 10 percent interest in one year; in one year, then, you would have to pay the bank $110. It's the price of borrowing money.

Oscar says, "If it's the same as a mortgage loan, then I think I understand it in general terms." Kerry asked him if he understood interest rates; Oscar says if a business loan is "the same as a mortgage loan, then I understand it." A "mortgage" (mortgage) is the special name for a loan you get to buy a house. The bank gives you money to buy a house, that's called a "mortgage." In the United States, these loans are typically 30-year loans, meaning you have 30 years to pay the loan off. Notice the expression "to pay off" a loan; that's a phrasal verb that we use when we mean give the bank back all the money it gave you, plus interest.

Oscar says, "I think I understand it in general terms," meaning generally, overall – not necessarily every detail, but broadly – not specifically. "The interest rate," he says, "would be the percentage of the amount you plan to borrow." "To borrow" is to ask for and receive money from a bank or a person. You could borrow a pen; you could borrow someone's car. Probably can't borrow a girlfriend – not a good idea! "The interest rate," Oscar says, "is usually calculated at an annual rate." "To calculate" means to use numbers to find an answer to something; usually you have to multiply, subtract, add, or divide a number. You can calculate the number of pounds you weigh by multiplying your weight in kilos by 2.2. Trust me, it's better in kilos!

The "annual rate" is the percentage that you charge someone for a whole year – an entire year. Annual rates for credit cards in the United States are anywhere between 12 and 20 percent each year. Oscar says, "a 10 percent interest rate on $100 would be $10 a year," as we mentioned. "Percent" is per 100; the term "percent" is one word. It's a number divided by 100. A percentage sign is usually after the number; we put a percentage sign after it. A percentage sign, you probably know, is a small zero or an "o" with a diagonal line and another small zero or "o" on the other side of the line (%).

Kerry says, "Okay, I see, but how is my monthly payment calculated?" Your "monthly payment" is the amount you have to pay each month – makes sense! Oscar says, "As the borrower, your monthly payment depends on the term of your loan." The "term" is the duration; it's the amount of time that you have to pay your loan off. So, a 30-year mortgage has a term of 30 years. The word "term" has several meanings in English; take a look at our Learning Guide for some more explanations.

Oscar continues, "Each month, you'll pay money toward the principal." The "principal," spelled (principal), is the amount of money that you borrow from the bank. So in our previous example, you borrowed $100; that's the "principal." The "interest" was $10 a year, at 10 percent a year. "Principal" is the money that you're borrowing; "interest" is the price you have to pay to borrow that money. Oscar says you have to pay "the interest you owe to the lender." The "lender" (lender) is anyone who gives you money. "To lend money" means to give money to someone else; "to borrow money" means to get money from someone else.

Oscar says, "The bank may also assess other fees for processing your loan, so make sure to read the fine print." "To assess" (assess) mean to charge someone a certain amount of money – to collect a certain amount of money from someone. For example, when a business accepts credit cards, the bank assesses a fee – two, three, maybe four percent – for each transaction – each purchase. That's "to assess." Usually we use this word in formal settings, when you're talking about a bank, or perhaps the government or an organization. "The bank may assess fees for processing your loan." "To process," here, means to make sure that a certain document or application is reviewed and approved in a certain amount of time. It's to take care of some official document. "To process your application" means to get your application, to read it, to examine it, to approve it, and then to get your money. That's all part of "processing" an official document, or at least, a loan document.

Oscar warns Kerry to "read the fine print." The expression "the fine print" usually refers to the specific details of a legal document or contract. Many times, in a document – a legal document, there'll be little print, that is, the words on the bottom of the contract that are very difficult to read. This is the "fine print," you need to read that to find out the specific details of what you are signing.

Kerry says, "Thanks. I think I understand a little better now." Oscar then decides to give Kerry some advice. He says, "Are you sure you want to go down that road?" The expression "to go down that road" means to make a decision to do something and then to do it, especially if you have other options. You may have three choices, and you decide to take choice number one. You've decided "to go down that road" – to take that path, if you will.

Oscar says, "You don't want to default on your loan and ruin your credit score." "To default," here, means that you fail to make a payment on your loan; you don't make a payment back to the bank that you're supposed to. This can cause a big problem because you can then be "penalized," you can be assessed another fee if you don't pay the bank back in the regular monthly payments that it requires. "To default" usually means that the bank decides "Okay, you're not going to pay us back the loan." In this case, you have to give something up to the bank. For example if it's a mortgage loan, the bank will come back and take your house away from you; that's because you "defaulted" on the loan – you didn't pay it. This word "default" has a couple of different meanings; once again, take a look at the Learning Guide for more explanations.

Oscar says, "You don't want to ruin your credit score." Your "credit score" is a number that certain organizations – credit organizations – give you. It tells banks and other businesses whether you are a good person to lend money to or not. The credit score is determined by how much "debt" you have, that is, how much you owe other people and how well you pay those people back, especially banks. The higher your credit score – the higher the number you have – the better you are able to get loans from banks.

Kerry says that she is going to talk to her "accountant," the person who helps her "keep track of," or make a list of how much she is spending and how much she is getting. She's going to talk to her accountant and ask her what is "the best course of action." The "course of action" is your plan about what you are going to do or what you should do. "What is the best course of action?" – what is the best thing we should do now?

Now let's listen to the dialogue, this time at a normal speed.

[start of dialogue]

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Kerry: Maybe there are, but I just don't see any right now. I have an appointment with an accountant next week and hopefully she can advise me on the best course of action.

Oscar: Good luck and let me know if I can help.

Kerry: Thanks, I will.

[end of dialogue]

The script for this episode was written by Dr. Lucy Tse – who always takes the best course of action!

From Los Angeles, California, I'm Jeff McQuillan. Thanks for listening. We'll see you next time on ESL Podcast.

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