

Getting Out of Credit Card Debt

Whether you earn \$30,000 per year or \$100,000, credit card debt is bad. For many individuals it is a major obstacle in achieving financial success. It is also a major contributor to personal financial disaster. Today, most credit card companies charge interest rates ranging from 16% to 22%. Why so high? Part of the reason is to cover the losses that occur when so many individuals get into debt trouble and have little choice but to default on their monthly payment.

If you want to improve your financial well-being and steer clear of financial danger, you should carry a zero balance on high interest credit cards. If you already have such debt, the actions below can help.

Stop Using Credit Cards

Before starting a plan to reduce your credit card balances (debt), it's important that you stop adding new charges. Otherwise, you just continue the cycle. More specifically:

1. Until you have a "zero" balance, put your credit cards away. Do not carry them with you. Granted, this is easier said than done. But if you don't stop the behavior of spending as much as (or more) than you earn, your financial future will be very difficult.
2. Carry sufficient cash to cover your everyday spending needs. Note: a check is not the same as cash. Cash is intended to mean U.S. currency in this case. Counting out hard, cold cash to purchase a sweater, a new stereo, or lunch tends to make us more conscious of the fact that we are spending real money. For large and routine expenses - rent/house payments, insurance premiums, etc. - you will obviously want to pay by check or have it automatically deducted from your paycheck or bank account.

Eliminate Existing High Interest Debt

1. If you don't have a good record of exactly where you spend your money, you need to immediately create such a record. Keep a list of every expense -- especially the small, seemingly harmless purchases you make for a soda, lunch, magazines, etc. (See Budgeting Worksheet to help you get started.) If you don't know where your money goes, you have no chance of realistically identifying where you can cut back on your spending. And the bad news is you'll likely need to cut back on some nonessential spending in order to get your credit card debt down as soon as possible.
2. Determine the monthly amount that you can realistically pay toward your credit card debt. This figure should be more than the minimum amount called for by the credit card companies, and likely more than what you've been paying.
3. If you owe on more than one card, examine each card to determine the interest rate you are being charged.
4. Pay the minimum balance due on all of your credit cards except the one with the highest interest rate. On this card, pay the minimum plus the amount left over from the set amount determined in step "2" above.
5. Once the card with the highest interest rate is paid off, repeat the strategy to pay off the one with next highest interest rate. Get to a zero balance on all cards.

Yes, there will be some sacrifice associated with paying off this high interest debt. However, there is a lot in it for you (and your family). The near term pain and sacrifice are really long-term investments in your own well-being.

Manage the Future

When you eliminate your credit card debt, you may have a decision to make -- what to do with the extra money you'll have each month. Hopefully, you won't decide to take on more high interest debt or to use the excess money to purchase things that you really don't need. Hopefully you'll invest a good bit in yourself, in the form of savings.

However, you may also want to factor in the following once you have eliminated your debt:

- If you have several credit cards, cancel some of these accounts. No one realistically needs a handful of credit cards. Having several credit cards that you almost never use can actually hurt your credit rating when you seek a loan for something meaningful -- to purchase a home, for example.
- Avoid viewing credit cards as a means of dealing with financial emergencies, such as loss of job or a major auto repair. Instead, create an emergency fund of your own to cover such unexpected expenses. In an "emergency", borrowing funds against a credit card will only worsen the degree of the actual emergency.
- Continue to use cash to cover everyday purchases. Even if you plan to pay all your credit card bills at the end of each month, why not use cash? Don't put yourself in the position to repeat past mistakes.

Words of Advice

Many financial organizations offer home equity loans to help you pay off your credit card debts. What's more, many credit companies offer low introductory interest rates for balance transfers.

You may think that these are worth looking into as good ideas for reducing your high interest debts. But beware -- two potentially hazardous things can happen:

1. With a home equity loan, you are switching from unsecured debt to secured debt. If you are unable to pay, you could lose your home.
2. In both instances (home equity loan/transfer to low rates credit card), you run the risk of transferring your balances, then running up the credit cards that you just paid off back to their original balance. Now you have doubled the size of your problem.

Talk to anyone about credit card debt in general, and you'll almost always hear stories of regret. Take control of your balances now, not only to improve your savings and investing, but also to avoid letting your debt get out of hand. Just be aware that this process will take patience and discipline. You didn't get into this position overnight, and it will take time to reverse it. But once you do, you'll benefit from it the rest of your life. The key is to take some action now. If your credit problems are severe, there are professional, non-profit agencies that can provide you with both guidance and direct help with your creditors.

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Getting Help for Out-Of-Control Debt

You've probably heard a few nightmare stories of co-workers or acquaintances living through a financial crisis. Such stories often involve being overextended on credit (particularly high interest credit card debt) to the point where it seems there is no way to ever be debt-free. This could then lead to an even worse situation due to a job loss, illness, or major home repair being required. Bill collectors begin calling and threatening all kinds of legal action, etc.

Unfortunately, many of those stories are totally true. Out-of-control credit problems create circumstances that many individuals can correct without professional assistance, both in the form of knowledge and in the form of formal negotiations with creditors. At the same time, there are non-profit organizations available that provide such assistance. You may know your local organization as the "Consumer Credit Counseling Service". Regardless of the name, they are usually members of The National Foundation for Credit Counseling (NFCC).

In general, members of the NFCC offer assistance to those in financial distress. They also provide educational information to help consumers understand various aspects of their financial lives.

In particular, the NFCC has debt management programs available to assist you should you find yourself in a difficult or even desperate position. If you enroll in one of these programs, you can expect the following:

1. A confidential analysis of your current financial position along with possible solutions.
2. If necessary, a debt restructuring plan that will:
 - Be negotiated by an NFCC affiliate with your creditors.
 - Potentially have your monthly payments reduced, late fees waived, and a discontinuance of interest charges.
 - Stop creditors from contacting you. Imagine the relief!
 - Help you erase your debts within a five-year period.
 - Counseling to help you learn to manage your finances and avoid future problems.
 - Special assistance for those at risk for mortgage foreclosure or eviction.
 - A nominal cost to participate.

There are other organizations available, but the NFCC is a good starting point. Visit their Web site today at <http://www.nfcc.org>. Click on their member agency link to find the one nearest you.

This is for general informational purposes only and it is not intended to provide anyone with specific advice or recommendation. This is not a substitute for advice from an appropriate professional. If you feel you need further help, we strongly suggest you seek assistance from an appropriate professional.

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Additional Websites:

Annual Credit Report

www.annualcreditreport.com

View your credit report at least 3 times a year.

FTC Consumer Credit Debt Page

<http://www.ftc.gov/bcp/edu/pubs/consumer/credit/cre19.shtm>

Federal Trade Commission site

National Foundation for Credit Counseling

www.NFCC.org

Visit their site to find their credit counseling organization nearest you.