Dealing with Debt

Understanding Debt:

- Know all the details about your debt.
- With credit card debt, know how much you owe, how much money the company charges you in interest, and consider negotiating a new interest rate.
  - If additional help is needed with credit debt, contact Consumer Credit Counseling Service at 1-800-388-2227

High Interest Rates:

- www.bankrate.com is a resource to help you calculate what your interest rate should be. It may be possible to contact your credit card company and request a lower rate.

Change Spending Habits:

- Consider the need versus want of every single purchase, and realize interest will be added to even the smallest of purchased items if a credit card is used, such as fast food.
- Altering spending habits is necessary to ensure that debt does not accrue in the future.
- Pay bills on time, and know the total amount that you owe each month.

Make at Least the Minimum Payment:

- Set up your monthly budget and cash flow; if your expenses are less than your cash flow, apply the extra money to debt payments. If your expenses are more than your cash flow, find ways to cut your costs.
- Missing payments on credit cards can significantly lower your credit score.
- Interest rates on loans and credit cards rise once payments are missed.
- Try and pay more than the minimum payment each month if possible.
  - Example: If a person has an interest rate of 18% and has $5,000 in credit card debt, then it will take 30 years to pay this back if only the minimum is paid each month.

Debt Snowball:

- "Debt Snowball" is a repayment option that consists of paying off credit cards with the HIGHEST interest rates first.
  - Once this is completed, it is acceptable to pay off the credit card with the next highest interest rate.
  - When one card is paid off, use the money that was being put toward previous credit card payments toward paying off another card.

Consolidation versus Settlement:

- Debt consolidation reduces your number of creditors, while debt settlement reduces the amount of debt that you owe.
- Debt consolidation works by taking out a new loan to pay off the ones you already have, but at a lower interest rate than you were previously paying on your other debts. This does not reduce your principal.
- Debt consolidation may require you to put up property as collateral.
- With debt settlement, each creditor is contacted and you attempt to negotiate a lump sum payment that is less than the total amount owed. This reduces your loan principal.