

# MANAGING YOUR DEBT

## INSIDER TIPS

- Even if you have debt, you can still help rebuild your credit by paying on time.
- You can reduce your balance and increase your available credit by adding the amount of the finance charges to the minimum payment and paying this higher amount. Try this and watch your balance go down!

If you're like many Americans, you may already have a lot of credit card debt. But now that you're determined to reach your financial goals, it's time to figure out a way out.

## Quick Facts: Credit Cards in America

- There are 185 million bank credit card cardholders and about 75% of U.S. households have a bank credit card.
- Americans have an average of 7 credit cards each (4 bank and 3 retail) and charged an average of \$8,238 during 2003.
- 44 million cardholders, about 24%, struggle to send the minimum monthly payment.
- The average outstanding credit card balance is now over \$12,000

[SOURCE: Dr. Robert D. Manning testimony to the U.S. Senate Committee on Banking, Housing and Urban Affairs, May 2005.]

Look back at the debt worksheet you filled out on page 4 and your current budget on page 5. Can you meet the minimum payments every month? If not, you can use the budget worksheet on page 5 to find categories that can be cut.

**To reduce debt and open up available credit on your cards, you need to reduce the total amount you owe.**

## INSIDER TIP

Closing your account doesn't get you out of debt. You will still owe the money you borrowed, and if you don't pay, it can go into collections and show up as unpaid debt on your credit report for a long time. Keep your account open, even after you've paid it off. It can help you build a good debt-to-credit ratio and create a longer credit history, both of which can help boost your credit score.

- **Make at least the minimum payment on each card.** If you send less than the minimum, you may have to pay extra fees and higher interest rates. That means less available money to make payments on that card and other accounts.
- **Pay back the highest interest rate cards first**, and the ones in which you've gone over the credit limit. You've written down the interest rates for each card already. Now, write them again, in order of interest rate, from highest to lowest. Pay back the highest interest rate cards first, even if they have the highest balance to save on interest charges. The more you pay down the balance, the less your monthly interest charges will be.
- **Pay back more than the minimum.** If you only pay the minimum, you're probably paying mostly the interest and fees on the debt. Try to pay more than the minimum, even if it's only slightly more, to reduce your balance.
- **Keep paying back the same minimum amount** (from the debt worksheet on page 4), even if your minimum payment goes down. This is a great way to start paying back the debt while remaining within your budget. For example, if your minimum payment is \$80, try paying at least \$90. Then, if your minimum payment decreases, continue to pay the same \$90 every month.

**A version of a "Why Save" worksheet is available on page 34.**



# Finding Help

**If you feel like you still need help...you may need to see a credit counseling agency.** If your debt has become too overwhelming, there are people who can help.

The Consumer Credit Counseling Service can provide you with budget counseling, debt management plans, housing counseling, money management and other financial education. The CCCS is a nonprofit agency with offices all over the country. It offers services in both English and Spanish. These programs are funded by voluntary contributions from creditors, so CCCS agencies do not charge for their services. They may ask you to make a contribution, but this is strictly voluntary.

**To find a local credit counselor, check out the web site for the National Foundation for Credit Counseling, [www.nfcc.org](http://www.nfcc.org), or call them at 1-800-388-2227.**

## CAUTION: Debt relief offers

**Getting out of debt can be hard, so be careful if anyone promises you “instant” or “easy” debt relief.**

Watch out for debt relief scams that say they’re offering the “protection of federal law” or “consolidating bills into one monthly payment.” They often don’t mention that they’re actually talking about declaring bankruptcy.

Bankruptcy is one option for dealing with financial troubles, but it should be your very last resort because it can have a negative impact on your credit profile for a very long time. A bankruptcy filing can remain on your credit report for up to 10 years (or longer in some states) and can make it much harder to get credit, a home loan, a car loan, insurance, and even a job or an apartment. And the companies pitching bankruptcy as an “easy fix” probably won’t mention the attorneys’ fees you’ll have to pay upfront too.

### **According to the Federal Credit Repair Organizations Act, credit repair companies:**

- Cannot charge you until after they have completed their promised services
- Must wait three days after you’ve signed your contract. You can cancel the contract during this time without paying any fees.
- Can’t make false claims about the services they provide.

**Before you sign up for credit repair or debt relief, talk to a credit counselor. You can find one by visiting [www.nfcc.org](http://www.nfcc.org).**

### GENERAL INFO

**FINDING A CREDIT COUNSELING AGENCY**  
Be cautious of any programs that ask you to pay fees up front for their credit counseling or other services. Before you sign up with a credit counseling program, make sure to check the organization’s reputation with your local Better Business Bureau ([www.bbbonline.org](http://www.bbbonline.org)) and your state’s Attorney General.



### GENERAL INFO

**By law, all credit repair counselors must give you a copy of the "Consumer Credit File Rights Under State and Federal Law" before you sign a contract with them. They must also give you a written contract that lays out your rights and obligations. Read these carefully before signing.**