



HEALTHY, WEALTHY, & WISE

Learning to improve financial health, increase wealth, and make wise consumer choices

Solving Credit Problems

Are credit problems causing stress for your family? Is your pile of debts growing higher and blocking your path toward family goals? If so, you need to begin a debt repayment plan to cut your debts down – starting now.

Getting out of debt takes a lot of self-discipline, but you can do it. You can solve most credit problems in two to three years if you are patient and stick to your plan until you pay all of your debts – no matter what.

A plan to reduce debts gives you a sense of control. Paying a little back is better than just worrying or doing nothing. Many creditors are willing to work with you on your problems if you notify them **BEFORE** bills are due and have a good plan. **Do not avoid creditors.**

Stop Using Credit Now

If you are serious, **stop** using credit now. Find ways to increase income, reduce debts, and create a written debt repayment plan. Cut up credit cards, and vow not to use any other form of credit except in an **extreme** emergency.

Increase Income

If possible, increase income with an extra paycheck until your debts are paid off. The main breadwinner may temporarily take a second job or work overtime. Other family members might find a job. You might use personal skills to earn extra income or trade services. Can you do wallpapering, babysitting, crafts, or cooking for a fee?

Reduce Debts

Find extra money to pay off debts by using assets. Consider using savings, investments, and cash value of life insurance or retirement plans. Selling items of value is another option. Do you have a car, television, stereo, antique, furniture, or jewelry you can sell for extra cash?

Create a Written Debt Payment Plan

Begin by listing each creditor along with the total debt balance owed, the monthly payment due, months left to pay, any overdue amounts, and the interest rate on the chart in this issue or on blank pages you keep in your credit files.

Be sure to list all debts other than your regular mortgage or rent, including the following:

- charge cards
- car loans
- personal loans
- rent-to-own agreements



- educational loans
- home improvement loans
- checking account overdrafts
- overdue utilities or housing

Find out exactly how much you owe by adding the total debt balances column.

Add up monthly debts column and divide the total by monthly income to find your debt-to-income ratio. Credit payments should equal no more than 20% (.20). If total monthly credit payments are more than 20% of monthly income, you need to work hard at reducing your debt load.

The next step is to decide how much you will pay each creditor and how long it will take to pay each creditor. Try to set up a plan to be out of debt within two years. These methods may give you a few ideas about how to decide:

1. **Low Balance Method.** Pay off bills with the lowest balance due. For example, if you owe only two more payments on your car or refrigerator, you may want to hurry and pay those off. Then the money you used for those payments can go to pay off other debts. Which debts do you have that you can pay off in two or three months?
2. **High Interest Method.** Pay off those debts with the highest interest rate first. Interest charges can be very costly. Interest on some credit cards can be more than 20%. Paying off those debts with the highest interest rates can free more of your money to pay on other loans. Which of your debts have the highest interest rates?
3. **Most Important Method.** Pay debts that are most important to your credit rating or to keep your family safe. For example, you need to pay rent or mortgage, or you will not have a place to live. If you don't pay for utilities, they will be cut off. You may need to make a payment on the car to keep it from being repossessed.

You may need to pay on a loan to prevent your wages from being garnisheed. Other debts may not be as important and can wait a while. If you owe on store and bank charge cards, try to make some payment on them each month. Sometimes you can put medical bills on hold for a while, but notify the doctor or hospital of your plans and your intentions to pay in the future. Which of your debts are most important?

4. **Percentage Method.** You may choose to pay a percentage of each bill due. This is particularly effective for credit card bills. Paying only minimum balances due may keep you in debt for a long time. Paying 10% of each credit card bill should have them all paid off within one year. If you can afford to pay only 5% of each credit card bill, you can still be debt-free with in two years.



If you can't afford to pay at least the full minimum payment due on important monthly bills, try to pay as large a portion as possible. Pro-rate your credit payments. For example, if your income is \$800 per month, you can safely afford to use 20% of \$800 (or \$160) for paying debts. If your credit payments are \$210 per month, you could divide the \$160 (what you can afford) by \$210 (what you owe) and pay about 75% on all your bills (\$160 divided by \$210 is 76%). If your car payment is \$100, you would pay 75% of \$100 (or \$75). If your store charge payment is \$75, you would pay \$56. Keep in mind, however, that not paying the full amount as agreed can affect your credit rating.

To use the percentage or pro-rating method, you need to know how much you can afford and your total monthly credit payments:

Total monthly income times .20 or amount you can afford _____(a)

Total monthly credit payments _____(b)

Pro-rating=(a) divided by (b) _____(c)

Multiply monthly payments by (c) to figure how much to pay each creditor.

5. **New Plan Method.** You work with your creditors to set up a new payment plan for your debts. This idea works well with utility companies when you have high winter bills and lower summer bills. Which creditors do you think you could talk to about a new payment plan?
6. **Debt Consolidation.** You get a loan to pay off all your debts. The payments on the consolidation loan would be less than your current monthly payments now because they are spread out over a longer period. Monthly payments will be lower, but in the end it will cost more because you will pay more interest.

Contact Creditors

After writing your payment plan, it's time to contact your creditors. Phone **creditors** first, explaining your situation. Be prepared to explain **why** you have fallen behind, your current **income**, and **how you plan to bring this debt up to date** and keep it current. Don't wait for creditors to contact you! They will be more likely to work with you if you contact them **before** bills are due.

You may also want to contact creditors in writing. The **sample letter** in this issue is written in a way that business people recognize. Adapt the letter to your needs. For the return address at the top of the page, list your address, your telephone number, the date, and your account number.

