



Your Financial Health

LEARN / PLAN

REDUCING YOUR DEBT BURDENS

Most individuals have debt of one kind or another. It may be a home mortgage, a credit card, a student loan, an auto loan or some other form of loan. Using debt as part of an overall financial strategy can be a good thing. Debt becomes a bad thing when you have too much of it, have the wrong kinds or when its presence causes undue anxiety or bad behavior. Here are some ideas to help you make sure you are controlling your debt and not the other way around:

Set priorities for using debt. Borrow money for things that provide long-term and lasting value. Borrowing for college costs is probably good. Charging another extravagant vacation on your credit card is probably not a good use of debt.

Use the best type of borrowing. Whether it is choosing a credit card or a home mortgage, be sure the terms match up with your goals and how you manage your finances. If you pay every credit card bill in full and do not incur any finance charges, it may be OK to have a card that has a high interest rate (you avoid it with timely payments) but offers rewards for use (like miles or money back) or has no annual fee. On the other hand, if you carry over balances and pay finance charges, the interest rate you pay becomes more important.

If you are considering a mortgage, the type you choose (fixed or adjustable) will affect the interest rate. Choose one that matches your behavior. If you plan to sell your house soon, you may want an Adjustable Rate Mortgage (ARM) with a lower interest rate. If you plan to stay in the home or cannot afford any increase in payments if interest rates rise, consider a long-term fixed rate mortgage.

Eliminate high cost borrowing. If your existing debt has a high interest rate, get rid of that form of debt. Determine if you can convert it to another type of debt with a lower rate. If you are paying interest on your credit card balances, find a card that offers a lower rate, but watch out for “teaser” rates. If you have equity in your home, you may be able to use a home equity loan to consolidate all your debts at a lower rate.

Pay down your debt. This can be a difficult step for many. Incurring interest charges you cannot afford or you do not want is not a good use of your money. Find ways to pay down what you owe. Pay more than the minimum due on credit cards. Do not buy that piece of clothing you really do not need or take a fancy trip when a visit with family would be just as enjoyable. Ultimately, paying down debt takes discipline and sacrifice.

What if you cannot pay your bills? This is when you should get help. First, stop incurring more debt - quit using or destroy your credit cards. Then, work with your creditors. You may be able to work out a payment schedule. Explain your situation and that you want to pay what you owe. They may be able to help. If not, at least you have tried.

Do not bounce checks. In some states, it is a worse offense to write a bad check than it is to not pay your debt. In addition, you may be charged for the bad check. It looks very bad to a creditor if your check bounces.

Getting professional help. There are several organizations available that help individuals when all else fails. The Consumer Credit Counseling Service is one of those agencies. They can help you create a plan to work your way out of debt. Look in your phone book for a local office. Their service is free and has helped thousands. Be very wary of organizations that offer to fix your credit rating or want you to pay them a fee to get you out of debt easily. If their “pitch” sounds too good to be true, it probably is too good to be true.