

# FISCAL FITNESS

## Getting Out of Debt

Credit cards offer an easy and convenient way to buy the things you need. For many, using credit may be too easy. The average household has five credit cards, owes almost \$2,600 in credit card debt and pays as much as \$1,000 in interest and fees per year. Many households also have loans from banks or finance companies.

Used wisely, credit is a valuable tool to help you reach important goals. If you don't pay attention, credit payments can quickly eat up a large part of your monthly income. Paying for routine expenses and making minimum payments may become difficult. Without action, the situation only gets worse.

Making only minimum payments does little to reduce your balance. Take, for example, a credit card with an 18 percent Annual Percentage Rate (APR) and a \$1,000 balance. Pay only \$20 (the minimum payment), and you will need seven years and two months to pay off the balance and an extra \$860 in interest. Paying \$50 per month will knock off more than five years and \$650 in interest.

Getting out of debt makes you more financially secure and helps you to focus more on your financial future. Getting out of debt creates flexibility in case of financial setbacks or opportunities. Reducing debt can help you to qualify for a home mortgage. Paying off your debts is a wise investment that will pay off for years to come.

### Getting Started

The first step toward getting out of debt is to stop using credit. Do not take on new debts or charge any items that you cannot pay off in that month. Paying off debts is hard enough without constantly adding to what you already owe. Leave your credit cards at home. Better yet, cut them up. If you must keep one credit card for emergencies or job-related expenses, use it only for that reason.

The next step is to decide if you can get out of debt on your own. If you cannot easily afford minimum payments on your debts each month, or have fallen behind on your payments, you may need help. A variety of non-profit counseling agencies are available to help you develop a repayment plan. Check under *Credit Counselors* in the

yellow pages of your telephone directory. Ask your FACS agent for *Fiscal Fitness: Choosing a Credit Counselor* for tips on choosing a counselor.

You can develop your own repayment plan. Ask each of your credit card providers for better terms. Your provider may be willing to reduce the interest rate on your credit card.

Transferring balances to cards with lower interest rates is another option. Many credit cards offer a very low, introductory rate for a specific number of months. Read the fine print before transferring a credit card balance. Make sure the rate following the introductory period is lower than what you currently pay, especially if you won't be able to pay off the debt during the introductory period. Look for any transfer fees or special, higher rates for transfers and rate hikes for late payments.

### Making Power Payments

Power payments can help you gain control of your debt. As soon as one debt is paid, apply the monthly payment from that loan to the next debt. The total amount going to debt payments each month stays the same. Apply the payment from paid off loans to the next debt until all are paid. With power payments, you don't need extra money to succeed.

Power payments help you repay your debts faster and with less interest. Once you pay off your first loan, you need to decide where to apply that payment. For the fastest pay off time, apply the extra amount to the debt with the highest interest rate. Paying off high rate debts first also saves more in interest. Other options include applying the extra amount to the debt with the lowest balance or shortest term, or to a debt you want to pay off early, like money loaned to you by a friend or family member.

Turbo-charge your power payments to pay your debt off even faster. Carefully check your budget to find more money to devote to debt repayment. Perhaps you can find another \$25 or \$50 for payments each month. If you can't find more money each month, consider applying your tax refund, annual bonus or gifts toward debts.

## How Much Will You Save?

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Your Family and Consumer Science Extension Agent can help you find out. You provide specific information about your debts on the *Credit Payment Worksheet*. In a few weeks, you will receive computer printouts showing you how long it will take to pay off all your debts, and how much you will pay in interest. With the printouts, you can compare the impact of paying an extra amount per month or year, or receive a repayment schedule showing

you how much to pay to each creditor each month. All information is confidential.

Getting out of debt is one of the wisest investments you can make. Power payments can help you pay down your debt more quickly, and save on finance charges. When your debts are paid, develop the habit of saving at least half your old monthly debt payments. Before long, you'll see that earning interest on your money is a lot better than paying it!

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**PowerPay**® software developed by F. Dean Miner Jr. and Judy L. Harris, Utah State University Cooperative Extension Service.

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*Gale A. Buchanan, Dean and Director*