Reducing Credit Card Debt

About Using Credit

You know the feeling: the bills are piling up, but you're so far behind, you can't bear to open them. You realize there's only enough in your account to make the minimum payments. Balances keep snowballing as you continue to make charges for purchases you really cannot afford. You have not used your credit responsibly.

Let's talk about credit. You should protect your credit. When you rent an apartment, buy a house, open a credit card, get car insurance, or even apply for a job, your credit score can hurt you or help you. Building good credit is important.

Establishing credit means having bills and paying them on time. Paying everything in cash doesn't help you build credit, and it doesn't make you look good to banks that will help you buy a house. Welcome to America, paying cash is not a luxury. Having a great credit score is a luxury. Good credit gets you better mortgage rates, cheaper auto insurance, and even cheaper phone contracts!

Start building a great credit record today!

1. Make regular deposits or have wages direct deposited into a bank account.
2. Put utility bills and bank accounts in your name, not someone else's.
3. Pay your utilities and phone bills on time.
4. Schedule automatic bill-pay a few days after your check comes in so your bills get paid on time.
5. If you pay your bills on time for several months you may qualify for a credit card. You only need one credit card. More credit cards make missed payments likely, which hurts your credit score.
6. Use your credit card for small purchases and pay the whole balance at the end of the month, every month! Once you establish credit more credit cards will be offered to you. Don't take them! You only need one card.
7. If you don't qualify for a regular credit card, you can sign up for a secured credit card. The advantage of this credit card is that you can't go over your prepaid credit balance.

Stay away from payday loans, pawn shops, and rent-to-own stores. These services cost you money that you don't have. Learn to live within your means!

What are credit bureaus and credit scores? A credit score reflects the state of your current accounts. It includes bank accounts, bills, and loans in your name. Your credit score helps companies determine the risk they run of doing business with you. Think of it as your financial responsibility score. In this country there are three major credit reporting companies, or credit bureaus, they are Experian, Equifax and TransUnion.

Companies are not required to report to credit bureaus. When applying for a mortgage, you should check your credit score first. Pull your own free credit report and make sure the credit bureaus are reporting your accounts correctly, especially if you pay your bills on time! If you find errors in your credit report send written notices to the credit bureaus, and call to make sure they receive them. The phone number for Equifax is 800-685-1111, Experian is 800-682-7654 and TransUnion is 800-916-8800.

Get Control of the Credit Cards:

The average American family is now carrying between $8,000 and $9,000 in credit card debt alone. We owe more on our homes, cars, and educations than any previous generation. There are steps you can take to improve your own debt picture. Follow this advice and you'll be back on solid ground again before you know it:

- Take an Inventory. Sit down at the computer or with a pencil and paper and make a list of whom you owe money to, how much you owe, and what rate of interest you're paying on each of those debts. The main culprits will be your credit cards. The cards with the highest interest rates are costing you the most, so you need to work on paying those down first. [Note that some credit cards have a grace

"Empty pockets never held anyone back. Only empty heads and empty hearts can do that." –Norman Vincent Peale

Lucia Reynolds
Financial Advisor

Amerisal Financial, Inc.
3689 Carman Dr., Suite 200
Lake Oswego, OR 97035
Phone: 503-344-4422
FAX: 503-344-6720
lreynolds@scfinc.com
amerisalfinancial.com

period with no interest charges as long as the balance is paid off each month. Other cards may have no grace period, and each new charge accrues interest from the day it is made, regardless of whether there was a beginning balance or not.]

- Get a Better Credit Card Deal. Pick up the phone, call the toll-free number on the back of each card, and ask the customer service representative if there is anything they can do to lower your current rate. Then try to consolidate your debt onto a single card with an interest rate lower than what your current cards are charging you. You will lower your monthly payments and pay off cards quicker. If you do consolidate to a new card, resist the temptation to use the old cards -- cut them up or lock them away for use only in emergencies.

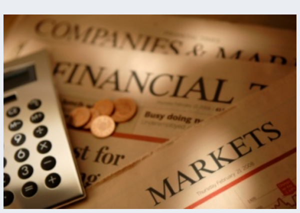
- Check Your Credit Score. This number represents how reliable you are when it comes to paying back money you have borrowed. A high score will help you qualify for one of those low-interest credit cards. You can find out your credit score by requesting your free annual credit report at this website: **annualcreditreport.com**, or calling 1-877-322-8228. The number you receive will range from 300 to 850 points. To compare: anything under 579 is bad; a poor score is between 580-619, an average score is 620-679, while 680-719 is good, and a score over 720 is excellent.
- Always make your payments on time. If mailing, allow at least a week if the address is not local, perhaps more during the holidays Christmas to New Year's Day. Take the payment to the local bank/store/utility to have it credited immediately if there is not enough time to mail before the deadline. You can pay online using a secure network with antivirus protection and no other tabs open in your browser/no other applications running -- you don't want spyware to capture your bank account or credit card numbers.
- Don't charge anything else on your credit cards. If you absolutely must make a charge because of timing / cash flow, use the card with the lowest interest rate.
- Be accountable to someone. Have a partner to report how you are doing with reducing card balances and reigning in any new charges.
- If you decide to cancel a credit card, request that your credit report indicates the account was "closed at the consumer's request".

"It is not the man who has too little, but the man who craves more, that is poor." –Seneca

Using a debt-reduction calculator (you can find one online by using that as a search term) will give you an idea how many years/# payments it will take to pay off a debt total, given the interest rate and monthly payment amount. It will also list the total amount of interest paid during that time.

Many women who are dysfunctional, emotional spenders may feel less shameful when comparing themselves to an alcoholic or drug user. Let's face it, overspending on clothes doesn't have the same stigma as overdosing on drugs, right? It's even socially acceptable to admit you enjoy overspending. After all, it proves how much more money you have than the rest of us, right? However, the emotional and financial tolls from out-of-control spending can be enormous. Broken marriages, financial ruin, and emotional pain and shame are just a few consequences of addictive spending.

Talking with your partner or spouse about money is important. Avoiding discussing finances leads to problems. Arguments about money are very common, and they can cause stress in the relationship. Avoiding mentioning money or fighting about it often leads to divorce. Having common financial goals makes your partnership stronger. Couples who save together stay together! Do not be afraid to share your fears about money, difficulties with sticking to the budget, overspending, or need to review and change targets based on changes in circumstances.



Remember that debt falls into three categories – the good, the bad, and just the plain ugly!

By examining debt you'll see how good debt can really work for you and is something to embrace, but you need to sort it out from the bad debt, and avoid the ugly debt.

Good debt is credit that lets you get richer using someone else's money. Think of it as someone else paying for you to earn money. For instance:

Mortgages: People whine about their mortgage payments, but it is great that someone will lend you money to buy a house. Provided that you keep up with payments and are not under water, the home's value will probably increase by the time you sell it. The part of each payment that increases equity is like putting money into a savings account that you eventually will get back upon the home's sale. That is so much better than throwing money away on rent -- none of which you will ever see again.

“Money never made a man happy yet, nor will it. The more a man has, the more he wants. Instead of filling a vacuum, it makes one.” –Benjamin Franklin

Another kind of good debt is a business start-up loan. If you decide you want to start your own business, this type of loan could be the answer. Most banks will consider lending you money against a sound business plan if you have a good credit rating.

Credit Cards: they are the Jekyll and Hydes of the credit world. They have a good and bad side. Their good side is from the time you charge something to when you pay it off, which could be up to 30 days if you have a grace period on your charge account. This short-term debt is interest free and can smooth your cash flow. This ‘good debt’ is only for the most highly disciplined, on-time bill payers. You must pay off the credit card bill in full by the due date or you’ll be slammed with high interest add-on fees.

What I like even better are credit cards that give back to you -- for example, rewards cards that rack up frequent flyer miles or pay cash back. But, the rewards do not offset interest charges if you do not pay off the entire amount each month.

So what I’m saying here is that it is ok to use debt to change your life for the better, in that case, you are using debt to your advantage.

Bad debt is whatever involves paying out more money than you get back. Paying interest on bad debt is like flushing money down the toilet. Although bad debt is sometimes unavoidable, most of the time it is caused by consumer debt -- meaning, non-essential purchases that don’t have the potential to make you any money. Here are the baddies to avoid:

Bank overdrafts – You’d be surprised how many people with money fall into this. Let’s face it: this just shouldn’t happen. Avoid it at all costs, or you will be paying too much and unnecessarily decreasing your wealth.

High-interest credit cards that have continuous balances that carry-over so that there is no grace period, and interest is accruing each month.

Buying assets that are really just liabilities

Interest-only mortgages will never build equity; the only way to get any money back out of your house is to hope that it will sell for more than the balance of the loan.

Refinancing a mortgage to pay off consumer debt - this pulls out any equity in the home which is available to help qualify for a low-interest home equity line of credit (with tax-deductible interest), to instead use to pay off consumer debt that was used to purchase a higher lifestyle than you can actually afford.

Ugly debt is paying out more money than you get back in value of assets or goods -- this is money that is just wasted.

Making minimum payments on credit cards, resulting in increasing the amount of interest paid over time.

Late or missed payments that result in fees and possibly higher interest rates going forward or loss of the 'interest-free' grace period.

Cash advances, using credit cards to withdraw cash-- high interest rate isn't worth it.

Department store credit cards that carry balances often have higher interest rates.

Using credit cards to pay for recurring household costs may camouflage the fact that the costs associated with your home are too high, and you may need to downsize.

Loans against your home whose proceeds were used for disposable goods, vacations, or entertainment. That money has not leveraged assets that build wealth.

Credit cards with double-digit, high interest rates. Close the account or lock them up for emergencies only, and carry only the lowest interest card you can get. Take the time to research and apply for the best credit card deal you can find.

“It’s how you deal with failure that determines how you achieve success.” –David Feherty.

Stare Down Your Debt

1. Make a debt-payment plan by listing debts in order by interest rate, high to low, and put the minimum payment amount beside each one.
2. Decide on priorities in your budget; review & make sure numbers are current, then try to trim spending and reduce monthly charges where you can.
3. Work out a monthly payment amount dedicated to debt reduction: subtract all other expenses from your income, and the remainder will be the total amount allocated to debt reduction.
4. From the debt reduction amount (#3), subtract the minimum payments for all debt paid each month. Use any remaining amount to add to the minimum payment of the highest interest rate account.
5. Continue to pay off the highest rate account with the minimum payment plus the added budget amount (#5) until it is zero. Then move to the next highest rate debt and apply the amount that used to be paid on the first account's debt to it after the

first one has been paid off. Continue in the same manner to apply as much as possible from your budget to the highest interest rate account and move down the list as you get each one paid off.

6. Do not start charging to cards that you paid off completely -- lock them up or request for them to be cancelled.

Inventory of Debts for Debt Reduction Plan

Mortgage - Residence Mortgage - Vacation/Timeshare Mortgage - Rentals	$ Current Balance	% Interest Rate	$ Minimum Payment

Auto / Boat / RV Loans	$ Current Balance	% Interest Rate	$ Minimum Payment

"Wealth consists not in having great possessions, but in having few wants." –Epictetus

Bank &Retail Store Credit Cards	$ Current Balance	% Interest Rate	$ Minimum Payment

Personal / College Loans	$ Current Balance	% Interest Rate	$ Minimum Payment