

call and ask for a reduction in the interest rate or perhaps to have late fees and over-limit fees that might have been charged to your account waived. The worst that could happen is that they'll say no.

MAKE POWER PAYMENTS TO GET OUT OF DEBT FAST

Make a commitment to pay the same amount towards debt reduction each month until you are debt free. For example, if you have five credit cards and have been paying each creditor \$50 a month, continue to pay \$250 each month until you are completely debt free. Instead of paying a little extra on each of your credit cards, make only the minimum payment on all your debts but one, and apply every extra penny you can find to one "power" payment. You will save more in finance charges and pay your debts off faster if you apply the power payment to the debt with the highest interest rate. Sometimes it's worth selecting the loan with the lowest balance or shortest term for the power payment to get a quick pay-off from eliminating one of your debts.

Once you pay off the first debt, add the payment you were making to that creditor to the payment for the debt with the next highest interest rate. You can turbo charge your power payment by coming up with additional dollars to devote to your debt repayment plan. The larger your payment, the quicker that debt will be paid and the less interest you will pay. Consider applying a portion of your tax refund, annual bonus, gifts you receive or other windfalls to your power payment for even greater savings.

Getting out of debt is one of the smartest investments you can make. Once you are debt free, you will have the amount of your regular debt payment to use for other things. Since you are already used to doing without the money, consider saving all or part of it each month. It's a good idea to have three-to-six months of living expenses set aside for emergencies. When you've reached that goal, you can use the money for other important goals such as a child's education or your own retirement. +\$

Michael Rupured, M.S., AFC
SENIOR PUBLIC SERVICE ASSOCIATE AND
EXTENSION CONSUMER ECONOMICS SPECIALIST

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Dr. Scott Angle, DEAN AND DIRECTOR



How To GET OUT OF DEBT

Credit cards and loans offer an easy and convenient way to buy the things you need now and pay for them later. It's almost impossible to survive today without a credit card. Credit cards make it easier to reserve hotel rooms and rental cars, and are a safer way to order goods online or through the mail. One downside is that the ready availability of credit may make it easier to borrow more than you can afford to repay in a reasonable amount of time. Too much debt can mean that most of your income goes for debt payments instead of for current purchases and saving for future needs.

There are good and bad uses for credit. A good use is convenience—meaning you pay the balance off in full every month, thereby avoiding finance charges. Another good use is to finance an asset, such as a college education or a home, or a durable good such as an appliance or furniture. When you use credit, make sure it's for a good reason. Used wisely, credit is a valuable tool to help you reach important goals.

Using a major credit card (i.e. Visa or Mastercard) to buy big-ticket items may provide additional protections. If you have a problem with your purchase of more than \$50 from a retailer in your home state (or within 100 miles), paying with a credit card allows you to dispute the charge and withhold payment until the problem is resolved. However, using a credit card rather than an installment loan for a major purchase may mean a longer repayment period and higher finance charges.

Many people find that the more they use credit, the more they need to use credit in order to make ends meet. Fall behind on payments and credit becomes even more of a

problem as additional finance charges and late fees accumulate. On top of the additional fees, you may see your interest rates (and payments) go up. It's important to understand that paying only the minimum payment printed on the credit card statement will mean staying in debt for a long, long time. The longer it takes you to repay a debt, the more you will have to pay in interest.

For example, if you owe \$1,000 on a credit card with an Annual Percentage Rate (APR) of 18%, how long will it take you to pay off the credit card? Pay only the required 2% minimum payment and it will take 19 years and 4 months to pay off the balance, and you will pay an additional \$1,931 in interest. Stick with the \$20 per month payment required with a \$1,000 balance, and it will take 7 years and 2 months to pay off the card, and you will pay more than \$860 in interest. If you increase your payment to \$50 per month, it will take only 2 years to pay off the card and you will pay less than \$200 in interest.

Many creditors want you to make only the minimum payment because doing so generates a lot more interest income for them. When a creditor allows you to skip a payment (such as when you paid more than the minimum amount on the last bill or occasionally, around the holidays as a "special gift" for being such a good customer), they aren't doing you any favors because interest still accumulates. Paying off credit card debt as fast as you can will save you money.

Getting out of debt has other benefits as well. Being debt-free makes you more financially secure, and helps you to focus more on your financial future. It also creates flexibility; the debt payments you used to make are now available for other purposes. Reducing or eliminating your debt may also improve your credit score, making it cheaper to borrow in the future, should the need arise. Paying off your debts is a wise investment that will pay off for years to come.

TYPES OF CREDIT

There are many ways to categorize credit. The most important considerations focus on the terms (installment versus revolving) and whether or not there is collateral (secured versus unsecured) associated with the debt.

Installment credit is usually associated with the purchase of an item, such as furniture, where you make a monthly payment for some period of time, such as 12 months (or more) until the balance is zero. You can't add new charges so the balance goes down with each payment. With installment credit, you can determine in advance the total amount to be repaid and how much of that total will be interest.

With revolving credit, you pay a percentage of the balance each month. You can continue to add new charges up to your credit limit as long as you make at least the regular monthly minimum payment. The interest rate may go up or down, depending on how you repay the debt and other factors.

Secured debt is tied to some form of collateral. In most cases, the collateral is the item purchased with credit, such as a home, vehicle, furniture, or appliance. If you don't



make payments for a secured debt, the creditor will repossess whatever collateral was offered. If the debt was secured with a cosigner, the creditor will contact the cosigner for payment. In the event you decide to file for bankruptcy, secured debts are higher priority than unsecured debts.

With unsecured debt, there is no collateral. Examples of unsecured debts include medical bills, most credit cards (unless a deposit equal to the credit limit is required to open the account), and money you owe to family members or friends. If you file for bankruptcy, unsecured creditors are the lowest priority for repayment, and hence, the most willing to work with you when you run into trouble paying your bills. Unsecured creditors are often the first to call when you miss a payment. If you are unable to make all your payments, unsecured creditors should be lower priority for repayment than secured creditors. However, missing a payment to an unsecured creditor does affect your credit score, and will likely lead to late fees and additional finance charges.

ASSESSING YOUR SITUATION

Once you make the decision to become debt free, the first step is to assess your situation. If you are having trouble making the minimum payments on your debts, you should seek the help of a professional credit counselor. Legitimate credit counseling organizations have agreements with creditors that often mean a significant reduction in the total amount you'll need to repay to become debt free. Fiscal Fitness: Choosing a Credit Counselor offers a variety of points to keep in mind when shopping for a credit counselor.

One option is to consolidate your debts so that you make one payment that is often lower than the amount you currently pay toward your debts each month. In most cases, debt consolidation is not a good idea. The interest rate is likely to be higher. You may decrease the amount of your monthly payment, but doing so will likely mean paying for a much longer period of time. Remember, the longer it takes you to pay off your debts the more you pay in interest.

Using a home equity loan or line of credit to pay off your debt is another option. Using your home equity may mean a much lower interest rate, and in many cases, you may be able to deduct the interest on your tax return. A home equity loan will almost always extend the time it takes to get out of debt, which may be enough to offset any savings from a reduced interest rate. If most of your debt is from credit cards, using a home equity loan or line of credit means you switch Unsecured debt to Secured debt. Consequently, if you are unable to pay you could lose your home.

With consolidation being a bad choice in most instances, and tapping into home equity a risky proposition, your best bet is to develop a repayment plan on your own. If you have been making at least the minimum monthly payment each month, you should be able to develop your own plan for getting out of debt. You may be surprised at how willing your creditors are to work with you, especially if you have a good repayment history with them. It's worth your time to