

Dealing With Credit Debt

Money troubles are a leading cause of stress for many people today. While credit cards may seem to be a quick way to buy things that you want or an easy way to get funds quickly through cash advances, credit cards can also lead to severe financial problems.

The trouble is, credit cards are relatively easy to get, whether you are employed full time or simply a college student. Many times, credit card companies lure you in with low interest rates to start, but it is important to read the fine print on your application. Typically, after a short period of a low interest rate, credit card interest rates skyrocket to a much higher rate. Additionally, many credit card companies don't tell you about the hidden fees included when you sign up for their card. Some credit cards have yearly enrollment fees of up to \$100 a year, and most credit companies charge fees for going over your balance or even being a day late in your payment. These fees can end up costing you hundreds of extra dollars. Sometimes, credit card debt can snowball out of control.

So how do you deal with credit debt? And how do you know if you have a problem? This guide explains the signs of credit card trouble, and tells you how you can confront the problem.

Signs of Trouble

This first step in dealing with credit debt is to determine if you have a problem. Here are a few signs that you may need help with your credit card debt or that you may be in trouble:

- Emotional and/or physical issues due to your financial situation such as stress, anxiety, or insomnia due to worrying about your mounting credit card bills.
- Frequently using cash advances on your

credit card to pay other bills or expenses like your car payment or housing payment.

- Not making the minimum payments on your credit cards, bouncing checks, late fees, or going over your monthly limit.
- Receiving phone calls, letters or e-mails from credit card companies about your account.
- Using one card to pay off another account.
- Accounts being turned over to debt collectors.
- You are concerned you may lose your car or home or be forced to leave your rented home.

How To Deal With Credit Debt

There is no quick fix for dealing with credit debt, but with some research, work, and a little self-restraint, you may be able to deal with the problem on your own. If the problem is completely out of control, you may need to hire the help of a professional (which will be addressed later).

Develop a Budget

First things first. Are you balancing your checkbook? Do you live on a budget? Do you know how much money you need to pay essential bills like housing, food, insurance and health care? The first way to get in control of your credit is to make a realistic budget. List how much money you take in each month and then list how much money you spend on important, must-have expenses like your rent, mortgage, car payment, etc. Next, tally all the things that are "extras" like new clothes or eating out. Keeping track of these expenses will help you prioritize and determine what cuts you need to make to your lifestyle. The goal is to make sure you can make ends meet, pay off your bills, and then treat yourself to "luxury" items like entertainment.

Don't Avoid Your Creditors

If you are having trouble paying your bills, your first instinct might be to avoid your creditors; to ignore their phone calls and mailed notices. Ignoring the problem will not make it disappear. Instead, contact your creditors right away and explain your current situation, especially if it is your mortgage lender, in order to avoid foreclosure. Creditors may be willing to work with you to reduce your payments to a manageable level. Try and make a plan before your debts are given up to a debt collector.

Do I Need Credit Counseling or a Debt Management Plan?

If you create a budget and can't stick to it, or your credit bills are out of control, consider contacting a credit counseling organization. Many credit counseling organizations are nonprofit and work with you to solve your financial problems. Remember that you can do much of the same work that these companies perform by contacting your creditors yourself.

Your EAP or HR department may be able to connect you with a reputable credit counseling company. It is important to obtain assistance from a reliable non-profit credit counseling agency, such as Debt Counselors of America or Consumer Credit Counseling Services.

Reputable credit counseling organizations can advise you on managing your money and debt, help you develop a budget, and offer free educational materials and workshops. Their counselors are certified and trained in the areas of consumer credit, money and debt management, and budgeting. Counselors discuss your entire financial situation with you, and help you develop a personalized plan to solve your money problems.

Debt Management Plans

If your financial problems stem from too much debt or your inability to repay debts, a credit counseling agency may recommend that you enroll in a debt management plan (DMP). DMPs are not credit counseling, and are not for everyone. Sign up for a DMP only after a certified credit counselor has thoroughly reviewed your financial situation and offered you customized advice on managing your money. Even if a DMP is appropriate, a reputable credit counseling organization can help you create a budget and teach you money management skills.

In a DMP, you deposit money each month with the credit counseling organization, which uses your deposits to pay your unsecured debts, like your credit cards, student loans, and medical bills, according to a schedule the counselor develops with you and your creditors. Your creditors may agree to lower your interest rates or waive some fees, but check with all your creditors to be sure they offer the concessions that a credit counseling organization describes to you.

How To Protect Yourself

Not every credit counseling program or DMP is non-profit or even legitimate. Avoid credit counseling or debt management companies that:

- charge high up-front or monthly fees.
- pressure you to make "voluntary contributions," which are simply fees.
- won't send you free information about the services they provide without requiring you to provide personal financial information, such as credit card numbers and balances.
- try to enroll you in a DMP without spending time reviewing your financial situation or demand that you make payments into a DMP before your creditors have accepted you into the program.

Help Is Available

Just talking about your problems sometimes leads to new solutions. If you or someone you know needs information, guidance or help, contact the resource and number listed below or look in the Yellow Pages for local professionals who can help.

Southwest Florida
EAP

239-278-7435

Or

800-226-7930

DEALING WITH DEBT AND CREDIT PROBLEMS