



Managing Money & Love

Issue 8: Debt

Are credit problems causing stress for your marriage? Is your pile of debts growing higher and blocking your path toward family goals? If so, you need to begin a debt repayment plan to cut your debts down – starting now.

Getting out of debt takes a lot of self-discipline, but you can do it. You can solve most credit problems in two to three years if you are patient and stick to your plan until you pay all of your debts – no matter what.

A plan to reduce debts gives you a sense of control. Paying a little back is better than just worrying or doing nothing. Many creditors are willing to work with you on your problems if you notify them **BEFORE** bills are due and have a good plan. Do not avoid creditors.

Stop Using Credit Now

If you are serious, stop using credit now. Find ways to increase income, reduce debts and create a written debt repayment plan. Cut up credit cards, and vow not to use any other form of credit except in an extreme emergency.

Increase Income

If possible, increase income with an extra paycheck until your debts are paid off. The main breadwinner may temporarily take a second job or work overtime. Other family members might find a job. You might use personal skills to earn extra income or trade services. Can you do wallpapering, babysitting, crafts or cooking for a fee?

Reduce Debts

Find extra money to pay off debts by using assets. Consider using savings, investments and cash value of life insurance or retirement plans. Selling items of value is another option. Do you have a car, television, stereo, antique, furniture or jewelry you can sell for extra cash?



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Create a Written Debt Payment Plan

Begin by listing each creditor along with the total debt balance owed, the monthly payment due, months left to pay, any overdue amounts and the interest rate you are paying. Use the chart provided in this issue or blank pages you keep in your credit files to record this information. Be sure to list all debts other than your regular mortgage or rent including the following:

- charge cards
- car loans
- personal loans
- rent-to-own agreements
- educational loans
- home improvement loans
- checking account overdrafts
- overdue utilities or housing

Find out exactly how much you owe by adding all of the amounts listed in the “amount owed” column and writing it in the “total owed” space at the bottom of the chart.

Add up the monthly payments column and divide the total by your monthly income to find your debt-to-income ratio. Credit payments should equal no more than 20% (.20). If total monthly credit payments are more than 20% of monthly income, you need to work hard at reducing your debt load.

The next step is to decide how much you will pay each creditor and how long it will take to pay each creditor. Try to set up a plan to be out of debt within two years. These methods may give you a few ideas about how to decide:

1. **Low Balance Method.** Pay off bills with the lowest balance due. For example, if you owe only two more payments on your car or refrigerator, you may want to hurry and pay those off. Then the money you used for those payments can go to pay off other debts. Which debts do you have that you can pay off in two or three months?



2. **High Interest Method.** Pay off those debts with the highest interest rate first. Interest charges can be very costly. Interest on some credit cards can be more than 20%. Paying off those debts with the highest interest rates can free more of your money to pay on other loans. Which of your debts have the highest interest rates?
3. **Most Important Method.** Pay debts that are most important to your credit rating or to keep your family safe. For example, you need to pay rent or mortgage or you will not have a place to live. If you don't pay for utilities, they will be cut off. You may need to make a payment on the car to keep it from being repossessed.

You may need to pay on a loan to prevent your wages from being garnished. Other debts may not be as important and can wait a while. If you owe on store and bank charge cards, try to make some payment on them each month. Sometimes you can put medical bills on hold for a while, but notify the doctor or hospital of your plans and your intentions to pay in the future. Which of your debts are most important?

4. **Percentage Method.** You may choose to pay a percentage of each bill due. This is particularly effective for credit card bills. Paying only minimum balances due may keep you in debt for a long time. Paying 10% of each credit card bill should have them all paid off within one year. If you can afford to pay only 5% of each credit card bill, you can still be debt-free within two years.

If you can't afford to pay at least the full minimum payment due on important monthly bills, try to pay as large a portion as possible. Prorate your credit payments. For example, if your income is \$800 per month, you can safely afford to use 20% of \$800 (or \$160) for paying debts. If your credit payments are \$210 per month, you could divide the \$160 (what you can afford) by \$210 (what you owe) and pay about 75% on all your bills (\$160 divided by \$210 is 76%). If your car payment is \$100, you would pay 75% of \$100 (or \$75). If your store charge payment is \$75, you would pay \$56. Keep in mind, however, that not paying the full amount as agreed can affect your credit rating.

To use the percentage or prorating method, you need to know how much you can afford and your total monthly credit payments:

Total monthly income times .20 or amount you can afford _____(a)
Total monthly credit payments _____(b)
Prorating = (a) divided by (b) _____(c)
Multiply monthly payments by (c) to figure how much to pay each creditor.

- 5. New Plan Method.** You work with your creditors to set up a new payment plan for your debts. This idea works well with utility companies when you have high winter bills and lower summer bills. Which creditors do you think you could talk to about a new payment plan?
- 6. Debt Consolidation.** You get a loan to pay off all your debts. The payments on the consolidation loan would be less than your current monthly

payments now because they are spread out over a longer period. Monthly payments will be lower, but in the end it will cost more because you will pay more interest.

Contact Creditors

After writing your payment plan, it's time to contact your creditors. Phone creditors first, explaining your situation. Be prepared to explain why you have fallen behind, your current income, and how you plan to bring this debt up to date and keep it current. Don't wait for creditors to contact you! They will be more likely to work with you if you contact them before bills are due.

You may also want to contact creditors in writing. The sample letter in this issue is written in a way that business people recognize. Adapt the letter to your needs. For the return address at the top of the page, list your address, your telephone number, the date and your account number.

Dear Sir or Madam:

In the past few months, my financial situation has declined. I realize that paying bills on time is my responsibility. But there has not been enough money to pay you on a regular basis.

In an effort to help my situation, I have worked out a spending plan. The plan will help me pay my debts on a long-term, scheduled basis. You will receive \$_____ on a regular basis, beginning with the week of _____.

The proposed schedule of payments is built on my continuing at my present job. No increase in income is anticipated. If an increase does occur, payments will be increased.

I appreciate your written acceptance of this plan. In addition, please indicate smaller minimum payments, interest and late charge waivers, or principal reductions that would be acceptable to you. Thank you for your patience and cooperation.

Sincerely,

