

Managing Credit Card Debt

Millions of consumers are plagued by credit card debt. Unfortunately, there are no quick solutions, and certain steps must be taken to pay off the debt. Because of the variety of credit cards, including traditional, premium, retail, gas and secured, each type has a unique set of terms and conditions associated with it that you need to understand. Below are some general tips to start taking control of your credit card debt.

Learn about Bad Debt Habits

Bad debt habits can hurt you when dealing with credit card debt. These habits include:

- Carrying balances from month to month
- Paying only the minimum payment
- Paying late
- Exceeding the credit line
- Taking cash advances on credit cards

These habits can quickly grow your debt instead of reducing it.

Make Getting Out of Debt a Priority

Make getting out of debt a priority. Generally, this means paying on time and making more than the minimum payments on all your credit cards. Sometimes though, with a well-thought-out debt management plan, paying the minimum on some credit cards can work to your advantage if you are paying significantly more on the other cards to chip away at the principal. Keep in mind that paying only minimums, even on small balances, can extend the repayment period to years and cost a great deal in interest.

Consider the following simplified example of credit card interest:

- You have a \$1,000 balance on your credit card at an 18 percent interest rate.
- Your minimum payment is 3 percent of that balance, which is \$30 per month.
- Over the course of the year, you will pay \$30 per month for 12 months, which equals \$360 toward your outstanding debt.
- However, over the year you will pay 18 percent interest, which on \$1,000 amounts to \$180.
- So, in reality, you only paid off \$180 (\$360 minus \$180) from your outstanding debt, leaving your outstanding balance at \$820 at the end of the year.
- At this rate, it will take you approximately 92 months, or just over 7.6 years, to pay off the original balance. In that time, you will pay around \$700 in interest.*

**This simplified calculation does not include compound interest for the 18% interest rate.*

Negotiate a Lower Interest Rate

Reducing your interest rate is the quickest way to save on your credit card bills. Even a one percent reduction could save you hundreds of dollars and significantly reduce the amount of time it takes you to pay down your debt.

Call your creditors and make a request to lower the rate. It is not guaranteed, but it doesn't hurt to try.

Stop Using Your Credit Cards

You do not have to close out the credit line but stop using the available credit. You will not be successful in paying down your debt if you continue to spend on your credit cards while trying to pay them off. Store your credit cards in a place where you cannot easily access them. Plan to use cash or debit cards whenever possible. Only consider using credit cards in an emergency.

Create and Stick to a Budget

Be realistic about what you can afford. Cutting back on certain expenses and potentially eliminating others can go a long way in helping you pay off your debt quickly. Give yourself some breathing room: it's hard to change your lifestyle dramatically and stick to a debt-repayment plan, but making little adjustments over time can add up to large savings that can keep you on track.

Track Your Expenses

Make sure you know where your money is going and identify any cash leakages. It can be helpful to use a smartphone app, or carefully review your debit and credit statements at the end of each month.

Think About Every Dollar You Spend

Getting out of debt requires a lot of discipline. Make sure your priorities are set. When tempted to spend money on unnecessary purchases, remember that managing your debt is your top financial priority.

Try a Cash Budget

Psychologically, it is much harder to part with cash than swiping a card to make a purchase. Try leaving your debit and credit cards at home and only carry a limited amount of cash in your wallet when you go out shopping or spend time with friends and family.

Eliminate Unnecessary Expenses

Remind yourself that this will not be forever, but just until your debt is under control. Cable, restaurants and gym memberships are examples of expenses that can strain your budget. These can be cut until the debt is paid off.

Reduce the amount of assets that require monthly payments

These assets can include such items as a car, luxury items, monthly subscriptions to magazines or media streaming services and other items that can be forgone until your financial situation improves.

Resources

- Consumer Financial Protection Bureau: www.consumerfinance.gov/ask-cfpb/category-credit-cards/
- Federal Trade Commission: <https://consumer.ftc.gov/articles/how-get-out-debt>
- MyMoney.gov: www.mymoney.gov

Here when you need us.

Call: 877-533-2363

Online: guidanceresources.com

App: GuidanceNowSM

Web ID: MY5848I

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