

## Getting out of Debt

If you are in debt, life can be chaotic and stressful. Realizing and discussing your financial problems can be one of the hardest things an individual can do. But, like most problems, it helps to realize, accept, and deal!

Some excellent advice is to check your credit report annually. You can do this for free at <http://www.ftc.gov/bcp/edu/pubs/consumer/credit/cre34.shtm>. Once you do this, you can start addressing the issues.

The first step to solving your financial problems is to take a deep breath and assess the damage. Dr. Carol Kauffman from Harvard University suggests making an honest list of all of your financial burdens, and then addressing each one individually. It can become too overwhelming to tackle them all at once, which could lead to added stress and failure. You must address your financial problems NOW and take immediate action, whether that means making a strict budget, getting a loan or talking with creditors. Realizing where your money is going each month can help you figure out what areas need work.

The next step is to figure out how much you owe, what it will take to get you out of trouble and if you have anything in savings. Then you need to do some damage control to head off any future mishaps. This means calling creditors to discuss missed deadlines and future late fee penalties.

Talking with creditors can be intimidating but is a must if you are in financial disarray. Remember that they are people just doing their jobs. They did not force you to take their money, but you are required to pay them back. This being so, there is no reason to speak to a creditor in a mean manner. You also do not have to tell them your life story and why you cannot pay your bills. They are not interested, they just want their money! Know your rights as a consumer by calling the National Consumer Law Center at 617/542-8010 to get a brochure on debt collection before speaking with a creditor (<http://www.nclc.org/>).

Here are a few tips when dealing with creditors:

- Contact them as soon as possible. They may be more willing to work with you before you are late with a payment.
- Estimate how much you can pay and offer 10% less. You are already in a tough financial situation. There is no need to agree to pay more than you have available.
- WRITE EVERYTHING DOWN. It is important to write down who you spoke with, your conversation and ask for everything in writing (even proof that you paid). This will help if there is any legal action.
- Don't let a creditor rush or pressure you. Tell them what you can pay and stick to it.
- Negotiate at the end of the month. Most creditors have quotas they must meet, so they may be more willing to work with you if they are in a time crunch.
- Keep in mind that any late payment can hurt your credit score. 'Late' payments are anything made at least 30 days after the due date. However, this won't cause permanent damage. You can always rebuild your credit by paying your bills off and on time.

Third, prioritize your bills. Shelter, utilities (power & water), food, transportation and childcare are all essential. Bills relating to these should be paid first.

Finally, create a budget that includes payments for your highest priority bills and your debts. Keep these tips in mind:

- Use the Snowball Effect to pay off credit card debt. After you have prioritized your bills in regards to amount and due dates, see which one has the highest interest rate. Try to make double or triple payments on this bill each month while paying the minimum on the rest of your bills. Once you have paid it off, use the money delegated to the original high interest bill to pay the next bill in line (according to interest rate). Once you have paid off all your bills, you can start putting that money into a savings account!
- Understand your options for paying off school loans. You can consolidate them and just pay one price to an outside agency who essentially ‘buys’ your loans. You can call the lender and set up a payment plan based on your budget. Even if your payment is \$150/month, most school loan lenders will work with you to adjust that amount based on your income. Finally, you can apply for Economic Hardship. You will need to turn in some paperwork, but, once approved, you will not have to pay back school loans for 12 months. Keep in mind that interest is still accruing over this time period.

If you cannot figure out how to get out of debt on your own, there are lots of reputable and free nonprofit agencies to assist you. Try: [www.consumercredit.com](http://www.consumercredit.com), [www.dca.org](http://www.dca.org) and [www.familycredit.org](http://www.familycredit.org)

### **FINAL THOUGHTS**

- \$ **Identify your goals** and decide which is the most important. Figure out why they are important to YOU. You are not going to be able to solve every financial problem or save enough money now.
- \$ **Be prepared for setbacks.** Don’t get discouraged. Your car will need new brakes and you will probably blow \$50 on a ‘night out’. But don’t let it get you down. You can do this.
- \$ **Make time work for you.** By working on your debts and creating a realistic budget, you will have a lot of time to save for the future.
- \$ **Include your family and friends.** Make sure your family and friends are aware of your goals. They can offer support and guidance.
- \$ **START NOW.** The longer you wait and make excuses, the harder it will be to obtain your goals.
- \$ **Be prepared for change.** You may get a new job, come into an inheritance or go back to school. Your goals will change. Just be prepared and adapt.
- \$ **Donate your time or money.** No matter how bad you feel your financial situation is, someone has it worse. Make sure to put things into perspective when you are stressing about paying your cell phone bill.
- \$ **HAVE FUN.** Money is not everything. It is upsetting that the world revolves around it, but this isn’t changing anytime soon. It’s okay to go to a concert or to dinner with friends. Just remember to moderate your spending.