

Getting Out of Debt

Even responsible credit users can get overextended. They can get sick, divorced, or lose their jobs and fall behind in their payments. What should you do if you realize you have a debt problem?

The first step is to stop using credit. Don't take on new debts or charge any new items. Paying off debt is hard enough; don't add to what you owe! Leave your credit cards at home.

Know what you owe

The next step is to figure out how much you owe. List who you owe and how much you owe them. Fill out the getting out of debt worksheet, page 3, supplying the following information about each of your debts:

- Name of creditor (a company or person to whom you owe money), their address, and phone number
- Your account number
- Annual percentage rate (APR)
- Minimum monthly payment
- Number of months or payments remaining on the loan
- Total balance owed (amount of debt remaining)
- Payment due date
- Amount last paid
- Date last paid
- Total amount already paid
- Whether this debt is secured by a home, vehicle, land, or other property. In other words, can a creditor seize that property (also called "collateral") if you stop making payments on the debt?

Reduce your expenses or increase your income

The third step is to decide how much you can pay back. Use the income and expenses worksheet on page 2 to compare your monthly income with your monthly expenses. Examine ways to reduce your flexible expenses—the ones that vary each month—and shave your spending down to the bare-bones level. You may need to get a second job so that your income will cover both your current expenses and your debt repayment.

Make a debt repayment plan

Next, use the information in the getting out of debt worksheet to develop a debt repayment plan. There are a number of ways to get out of debt. Consider each method and decide which one(s) you'll use.

- **Importance method.** Pay the debts that will keep your family safe and your credit rating intact—for example, your rent/mortgage, food, and utilities. If you're making payments on a house, vehicles, furniture, or appliances, don't risk losing that property by getting behind on your scheduled payments. Until you can pay more, just make the minimum payments on your other debts and credit cards. That will keep you in good standing with all of your creditors and won't damage your credit rating.
- **High interest rate method.** Check your monthly statements for interest or annual percentage rates and pay off the debt with the highest rate first. Pay as much as you can on that debt each month until it's paid off. Meanwhile, make minimum payments on your other debts. Then apply the payments you were making on the highest-rate debt to the next highest-rate debt, and so on.
- **Low balance method.** Pay off the bills with the lowest balances first. For example, if you have only four payments left on your car or washing machine loans, pay those bills first. Then use the money you put toward those payments and pay off the debt with the next-lowest balance.
- **Debt consolidation method.** You may be able to get a single loan that pays off your other debts. The monthly payment on this "consolidation" loan will usually be lower than the total amount you're now paying on your other debts, because consolidation loans are spread out over a longer period of time. However, debt consolidation may cost you more in the long run because you'll likely pay more interest.

Negotiate with your creditors

Contact your creditors as soon as you recognize you're overextended. Before talking with them, use the information from the getting out of debt worksheet and the income and expenses worksheet to decide how much you can pay each one. Explain your situation and try to

work out a modified payment plan. Most creditors will work with you if they believe you're acting in good faith and the situation is temporary. Some may reduce your payments to a more manageable level. Make the lower payments on time. Don't put off negotiating with your creditors until your accounts have been turned over to a debt collection agency. At that point, creditors will be less likely to work with you.

Get help when you really need it

If you're unable to develop your own debt repayment plan, you can get counseling in debt management from family support centers (for Armed Services personnel) as well as from some credit unions and churches.

A credit counseling agency can work out a formal debt repayment plan with your creditors. It will make up a regular, timely repayment schedule and ask you to deposit money with it each month. It will then use your deposits to pay your creditors according to this schedule. Completing a program like this may take 48 months or

more. You may have to agree to stop using or applying for more credit while you're a program participant. Before working with a credit counseling agency, read Credit Cents no. 8, *Where to Go for Credit and Debt Help*. When all else fails, bankruptcy may be your only option. Because it stays on your credit record for up to 10 years, bankruptcy is a last resort.

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Further reading

Money Troubles: Legal Strategies to Cope with Your Debts, 9th edition. 2003. By R. Leonard. NOLO Press, Berkeley, CA.

Prioritizing Debts: Which Bills Do I Pay First. 2003. Northwest Justice Project. <http://www.nwjustice.org/docs/0110.htm>

Income and Expenses Worksheet

Month of _____

My income

Wages	\$
Tips/commissions	\$
Child support/alimony	\$
Public assistance (TANF)	\$
Social Security/pensions	\$
Unemployment disability	\$
Veteran's benefits	\$
Interest/dividends	\$
Other income	\$
Total income	\$

My expenses

Fixed expenses

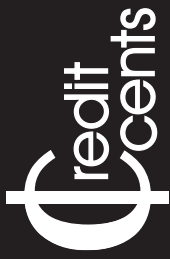
Rent/Mortgage	\$
Vehicle payment	\$
Utilities - Electricity, water, gas, oil, garbage	\$
Savings	\$
Insurance - Health, vehicle, property, life	\$
Other loan payments	\$
Other	\$
Total fixed expenses	\$

Flexible expenses

Food	\$
Clothing	\$
Health/Medical	\$
Vehicle - Gas/oil/maintenance	\$
Phone/Cell	\$
Household	\$
Child care/Elder care	\$
Personal expenses	\$
Education	\$
Entertainment/Recreation	\$
Cable/Internet	\$
Other	\$
Total flexible expenses	\$

My income left after expenses

Total income	\$
Minus fixed expenses	\$
Remainder	\$
Minus flexible expenses	\$
Remainder	\$



Getting Out of Debt Worksheet

Creditor's Name Address Phone Number	Account number	Annual percentage rate (APR)	Minimum monthly payment	Number of months or payments remaining	Total amount remaining (balance)	Payment due date	Amount last paid	Date last paid	Total amount paid	Secured debt?*

*Is the debt secured by such collateral as your home, vehicle, land, or other property?