

Master Credit Card Debt

- 1 Get a highlighter pen and gather up all your credit card statements for the most recent month.
- 2 Highlight the interest rate charges, all finance charges, additional fees, credit life or credit protection fees.
- 3 Cancel any credit life, disability or protection insurance you may have inadvertently approved at some time in the past. If you don't have life or disability insurance, use that savings to purchase coverage.
- 4 Contact each card issuer and request a lower rate. Call the customer service and say:



Hi, my name is _____ If you check you will see that I pay on time and I am a good customer. I have received several offers in the mail from other credit card companies with lower APRs. Rather than canceling this card and switching companies, I thought I would see first if I could negotiate a better rate.

In most cases, customer service will offer you a better rate, but if they don't – keep trying. If the representative will not give you a better rate, ask for a supervisor. If you still don't get anywhere, try again on another day. It is worth the time and effort.

Here is how a lower rate can affect your finances:

Balance	Rate	Payment	How Long to PayOff	Cost
\$5000	19%	\$100	99 months	\$9900.00
\$5000	9%	\$100	63 months	\$6300.00

Savings: \$3600

- 5 Record the new interest rates on your **Debt and Credit Tracking Form**.
- 6 Rank your Credit cards. Mark the card with the highest finance charges (interest rate plus any additional fees) as number one, and the next highest finances would be number two, etc...
- 7 Try to make at least the minimum payment plus \$20 on each card and apply any additional money you have to card number one. As soon as card number one is paid off, put all your extra funds into paying off the number two card, etc... This is your strategy when your priority is to pay down debt. Note: If your credit score is suffering due to a high debt to credit ratio, you will want to concentrate on bringing each card balance down to 30% or less debt to available credit. Contact your financial advisor for further clarification.
- 8 **Most importantly – Minimize new credit purchases and pay any new charges off in full each month!**

Master Your Bad Debt

1 Get your completed Debt and Credit Tracking Form.

2 Separate Good Debt from Bad Debt

If the item you financed will appreciate or make you money that is considered '**good debt**'. For example, a home mortgage gives you tax advantages and an appreciating asset. Taking a loan to purchase a business or other income producing commodity, such as stocks bonds or other investments would all be considered good debt. If you take out a low interest loan to pay off a high interest one, that's O.K., too.

If the item you are purchasing will not give you additional value then it is '**bad debt**'. Number one on the list would be a new car. Not only will the vehicle depreciate in value immediately, but you are adding to your loss by paying interest on it. Ditto for clothes and most other disposable items you put on your high interest credit card. If you ever tried to sell even a brand new item at a Garage Sale, then you know how quickly a \$100 dress goes down to \$5. Another problem with bad debt is the affect it has on your credit. If your debt to credit available ratio goes above 30% then you are in the danger zone.

3 Write down the grand total of all your 'bad debt' balances due.

4 Write down the grand total of all your 'bad debt' monthly payments.

5 Stop thinking of the individual debts and individual payments – mentally consider your debt as one large balance with one large monthly payment.

When you have additional funds, use the money towards paying down the bad debt. For example, instead of paying down your mortgage (**good debt**), use the extra money towards paying down **bad debt**. If you are purchasing a property, instead of paying 20% down – opt for 10% down payment and use that extra cash towards paying off bad debt. When you pay off one account, don't think of that extra money as free cash – remember, it is all one debt, so your total monthly payment doesn't change, just move that extra cash towards another account.

6 A new attitude towards Good Debt. When considering real estate and the advantages of leverage, your attitude towards debt is totally opposite. The basic rule of thumb is:

When money is cheap — Get as much as you can for as long as you can!

Examine the terms of your current mortgage. Look for these cash saving possibilities:

- Is it time to refinance?
- If your rate is low, consider how long you have had the mortgage. Is your payment based on a much higher balance?
- Do you qualify for a low interest equity line? With minimal closing costs?