Moving Beyond Debt

If you have bills that are a struggle to keep up with, or credit cards that never seem to decrease despite consistent payments, it may be time to make some changes to address your debt.

Assessing Your Finances

Before thinking about how to eliminate your debt, it is important to assess your current financial well-being.

<u>Make a list of your current debt obligations</u>.

a. Gather all of your bills and letters
b. Obtain a free credit report from www.annualcreditreport.com or by calling 877-322-8228.
c. For each separate debt, write down:
    i. Is it secured, in other words, attached to a car, house, etc.?
    ii. What is the total balance?
    iii. What are the monthly payment obligations?
    iv. What is the interest rate, if applicable?
    v. Are the payments current?

<u>Where is your money going now?</u>

a. Look at all of your financial accounts, including bank accounts, prepaid cards and online accounts, and create a list of all of the money coming in, as well as all of your expenses for the last three months. If you use cash a lot, starting now, write down each time you spend money.
b. From the income and expense list, add everything up to estimate your current budget.
c. Consider if there are areas you can cut back. Are you spending more than you need to on going out to eat for instance?
d. Are you able to put aside money regularly towards savings?

<u>What are your assets:</u>

a. Add up all of the funds from all financial accounts, including savings, life insurance, retirement accounts, etc.
b. Do you own real estate or any other significant assets?

What are your Goals?

After you've reviewed your current finances, consider what your short-term and long-term financial goals are.

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Paying Down Debt

If you can afford to pay your debt and are living well within a budget, you may just want to adjust your approach. Review your list of creditors, the balances and the interest rate.

High-Interest Approach: Consider the realistic maximum you can afford to pay towards your unsecured debt. Pay the minimum to all accounts, and use the amount remaining from the unsecured debt budget to pay the highest interest account every month until it's paid off. Once this is paid off, focus on the next highest-interest account. This method allows you to get rid of the most expensive debt first, but may take some time to feel like you're making progress.

Snowball Method: Using the same maximum amount you can afford to pay to your unsecured creditors, again pay the minimum to all but one account. This time, the one account getting the rest each month will be the card with smallest amount of debt. In the long-run you will end up paying more in total payments, but you'll see cards get paid off quicker.

Debt Consolidation

Another option is obtaining a loan to pay down debt, that has a lower interest rate, and therefore more affordable monthly payment then if you paid each creditor separately under the current terms. Consolidation loans allow you to refinance your debt terms, but you should be careful to only agree to terms you can actually afford. You should review the change in payments and interest very carefully, and realistically assess how much you can afford to pay.

Debt Management & Settlement

It's possible to negotiate a change in the terms of the account with your creditors, either directly or through a third-party. Perhaps the creditor will agree to lower the interest rate, or they may accept a lower amount of the total owed and forgive the balance. Keep in mind that debt forgiveness is considered income that you may be required to pay taxes on.

Bankruptcy

A Chapter 7 Bankruptcy provides a legal discharge of most debt, and in exchange you agree to forfeit any unprotected assets to be sold or liquidated, with those funds to be paid to your creditors. Most things you own, including your home, car, furniture, retirement account, cash on hand, can be fully protected. Certain types of debts, such as some taxes, student loans, and domestic support obligations, are not dischargeable. A discharge means, you no longer have a legal obligation to pay, and so the discharged creditor cannot do anything to request money.

A Chapter 13 Bankruptcy: Allows you to catch up on payments for a secured debt, such as a mortgage or car loan, gives you time to pay off priority debt, such as taxes, and includes a percentage of your total unsecured debt owed based on what you can afford to pay. Chapter 13 is appropriate when you need to time to catch up or pay off a secured or priority debt, or you make too much money to qualify for a Chapter 7 Bankruptcy, but still can't afford to pay off your debt.