CALIFORNIA COMMISSION ON THE STATUS OF WOMEN

CA Commission on the Status of Women
www.women.ca.gov

DEPARTMENT OF CORPORATIONS
State of California • Business, Transportation and Housing Agency

CA Department of Corporations
1-866-ASK-CORP
www.corp.ca.gov

DFI
"Safety and Soundness"

CA Department of Financial Institutions
1-800-622-0620
www.dfi.ca.gov

Follow us on Twitter @CAFLM

Reduce Your Debt

Understand Your Debt

Not all debts are equal. Knowing what kind of debts you have is an important first step. For example, home and school loans may reduce your taxes, increase your equity, and enable you to achieve greater wealth and earning power. Other debt, such as credit card debt and car loans, typically charge high interest rates and take money *away* from your future wealth.

Credit enables you to make purchases without using cash. However, convenience has a price – interest. And the longer it takes you to pay off the credit balance, the more interest you pay. To reduce debt, you must stop borrowing more than you can afford to pay off every month.

Signs of Financial Trouble

In today's economy, millions of Americans are unable to cover their basic living expenses, let alone pay off debt. Financial difficulties may lead to greater use of credit cards, cash advance loans, or other high cost options. Be careful – this may lead to a cycle of debt from which it will be very difficult to recover.

If any of the following apply to you or your family, you may need help:

• You make late payments, miss payments, or juggle payments
• Your total credit card debt is more than your total monthly income
• You don't have any savings and are unable to save money
• You are only able to pay the minimum on a credit card for two consecutive months
• You or a family member can't stop overspending. (For advice and support, go to Spenders Anonymous **www.spenders.org**)

October 2010

5 Steps to Get Out of Debt

1. Make a Budget:
List all your income sources, expenses, and debts and calculate the minimum amount you must pay each month. Keep track of every single purchase for a month - coffee, parking, etc. This will help identify opportunities to reduce your spending, making more available to pay off debt. Make a budget, then stick to it.

2. Prioritize Your Debts:
Evaluate which debts to tackle first. You might begin by aggressively paying off the debt with the highest interest rate, while making lower payments on debts with lower interest rates. When the debt with the highest interest rate is paid off in full, apply the same aggressive payment strategy to the debt with the next highest interest rate, and so on.

However, if interest rates on your debts are similar, you may want first repay the debt with the lowest balance owed. Paying off even a small debt provides a sense of accomplishment that can energize you to tackle larger debts.

3. Pay Off Debt:
Whenever possible, pay off the entire balance of your credit card(s) and other debts each month, or at least pay more than the minimum monthly payment.

Remember, interest rapidly increases the total amount owed. Credit cards typically charge high interest rates, so making only the minimum payment means you will pay far more in interest than if you were to make a larger (or full) payment. If possible, make one additional payment per year on large loans (like those for cars and houses) – this can significantly reduce your interest costs over time.

4. Find Out Your Credit Score:
Your credit score is used by lenders to determine whether you qualify for a specific loan, credit card, or financial service. The better (higher) a credit score, the lower the interest rates charged on current and future loans.

Your credit score is based on the amount of credit you already have, your debt-to-income ratio, and your payment history. For a modest fee, you can get your credit score information at **www.myfico.com**

5. Improve Your Credit Score:
Pay bills on time. If you miss a payment, get current and stay current.

• Manage your credit responsibly. In general, having credit cards and installment loans (and paying timely payments) will raise your credit score.

• Keep balances low on "revolving credit" accounts (those without a fixed number of payments, such as gasoline or retail store credit cards).

• Don't move debt around. Opening new cards with low introductory rates to move large balances from accounts with higher interest may be risky. If you don't pay the balance off in full before the introductory rate expires, you may end up paying even higher interest rates later.

• Re-establish your credit history if you have had problems. Open a new account and pay it off on time - this will raise your credit score over time.

Financial Difficulties

If you or family members frequently spend more than you can afford, worry about making ends meet, fear opening monthly bills, or stress when applying for a loan – you need help! Don't let fear or embarrassment prevent you from seeking help – if you can not pay your bills, contact creditors *before* payments are due. Be persistent– a few phone calls can make a big difference! Ask your creditors to waive fees, reduce the interest rate, or help you create a payment schedule that will work within your budget.

If You Have Credit Problems

For assistance with credit problems and creditors, go to National Foundation for Credit Counseling (NFCC) **www.nfcc.org** or call Toll-Free 1-800-388-2227.

If You Are Facing Bankruptcy

Recent Federal law requires mandatory credit counseling before you can declare bankruptcy. Go to **http://www.ftc.gov/bcp/menus/consumer/credit/debt.shtm** to download *"Before You File for Personal Bankruptcy: Information about Credit Counseling and Debtor Education."* The U.S. Department of Justice Trustee Program approves organizations to provide mandatory counseling *before* you can declare bankruptcy and mandatory debtor education *after* you declare bankruptcy. Go to **www.usdoj.gov/ust/eo/bapcpa/ccde/index.htm**