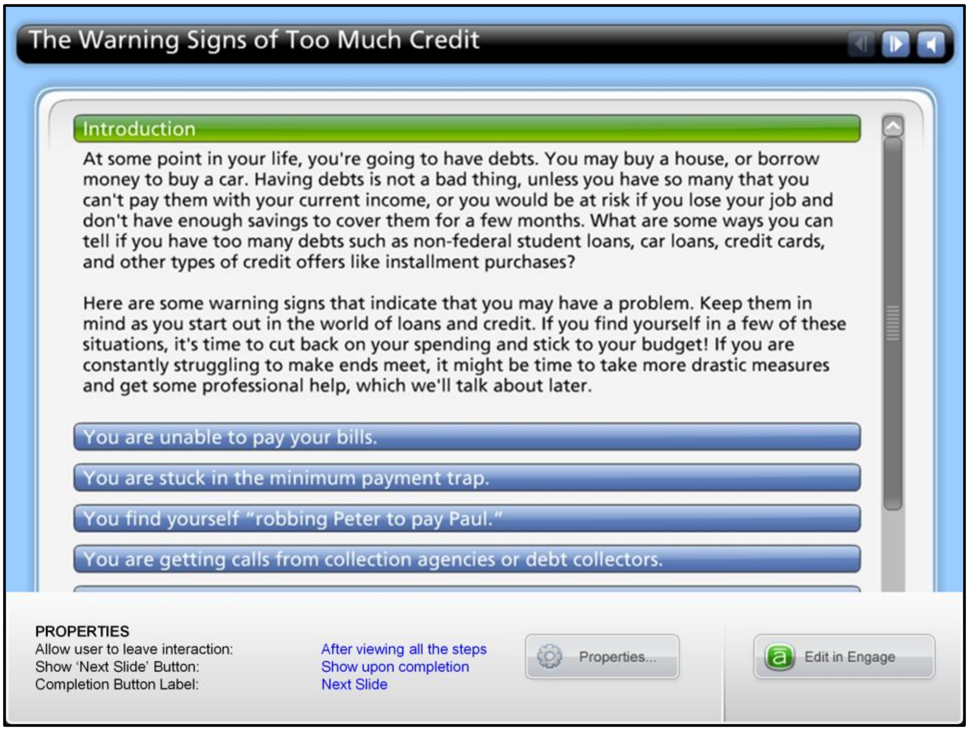


At some point in your life, you're going to have debts. You may buy a house, or borrow money to buy a car. Having debts is not a bad thing, unless you have so many that you can't pay them with your current income, or you would be at risk if you lose your job and don't have enough savings to cover them for a few months. What are some ways you can tell if you have too many debts such as non-federal student loans, car loans, credit cards, and other types of credit offers like installment purchases?

Here are some warning signs that indicate that you may have a problem. Keep them in mind as you start out in the world of loans and credit. If you find yourself in a few of these situations, it's time to cut back on your spending and stick to your budget! If you are constantly struggling to make ends meet, it might be time to take more drastic measures and get some professional help, which we'll talk about later.

So too much debt is a bad thing, but how can you avoid taking on debt in the first place? It's important to remember the pros and cons of buying on credit and using credit cards that we covered earlier, and only buy what you need and can afford to pay for in full. The best way to avoid debt is not to borrow in the first place—use cash. It sounds simple, but many people use credit cards intending to pay it off at the end of the month, and then something comes up so they have to maintain a balance.

If you have to borrow money or charge something, be sure to use your comparison shopping skills and find the best price for the item and the best credit offer for your purchase.

Here are some other tips for avoiding debt:

- Budget and stay within your spending limits.
  A budget helps keep you on track before you ever even pull out your credit card. Your budget should be based on your real income and expenses and should include at least 5-10% of your income for savings as part of your monthly expenses. Having savings will help you avoid having to borrow money in case something unexpected happens. It's not always easy to set up a budget and stick to it. If you want some help, the Consolidated Credit Counseling Services (CCCS) offers free budget counseling. You can also consult the phone book to see if your area has a local CCCS office.
- Avoid impulse purchases. Buy what you need before you buy what you want. Don't go shopping for entertainment. Go to the store only when you need to buy something specific.
- Avoid "buy now, pay later" and "interest-free financing" offers that just postpone debt. It's too easy to commit your future income and then find you can't pay for it when the time comes. Also, the interest-free offers generally contain fine print that says that if you don't pay off the debt before the interest-free period ends, like in six months, all of the interest that has accrued, or built up, over that time will be added to the amount you already owe.
- Compare prices and look for discounts before making major purchases.
- Take only as much cash as you can afford to spend when you go shopping, and spend only that cash. Leave your credit cards at home so that when you are faced with that new CD or a great outfit for Saturday's date, you aren't tempted to buy it now and pay for it later.
- If you must borrow money, use the lender that offers the best terms, which usually means the lowest interest rate.
- Always pay more than the minimum payment on your credit card bills.
- Avoid applying for multiple credit cards at the same time.
- Avoid credit cards that charge interest from the date of purchase with no grace period and cards that charge interest immediately on a cash advance as well as a fee for each cash advance.

Before you take on any debt, use the 20/10 [twenty ten] Rule to make sure you can afford it. This rule states that, other than your mortgage, you should not borrow more than 20% of your yearly take-home pay (after taxes) and your combined monthly payments should not be more than 10% of your monthly take-home pay. So, if you bring home twenty-four thousand dollars a year, you should have no more than four thousand eight hundred dollars in total debt and your total payments on this debt should be less than two hundred and forty dollars a month.

If you already have a manageable level of debt, you may want to use some of these strategies to make sure that it remains manageable.

- Maintain accurate financial records. The budgeting module discusses the importance of keeping a filing system for your financial records. Again, you need to make a budget and stick to it. You can avoid overdraft charges on your bank account by keeping close tabs on your balance. Be sure to keep your running balance in your checkbook current every time you make a purchase and balance your checkbook monthly. Keep track of how much you charge on your credit cards in relation to your credit limits. A good rule of thumb is not to charge more than 30-50% of your available credit limit, as long as it doesn't exceed the 20/10 [twenty ten] rule. So, if your limit is one thousand dollars, you should not charge more than three hundred to five hundred dollars on the card. If you do, your credit score may go down.
- Pay your bills on time! This can help you can avoid liens, foreclosures, garnishments, repossessions, and eviction. A lien is when a creditor can take one or more of your personal possessions as security or in payment of a debt. Foreclosure is when your mortgage lender takes your home because you fail to pay your mortgage. A garnishment is when some of your wages are deducted from your paycheck and given to a creditor to pay a debt. Repossession is usually associated with cars. This happens when you don't pay your car loan and the lender takes your car back. Eviction is when a renter is kicked out of rental property for non-payment.
- Pay off loans and other debts early as long as there are no penalties. By paying off credit cards and other loans or debts early, you can save a lot of money in interest charges.

What do you do if you do find yourself bogged down in debt and are having difficulty paying your bills? If you have cut back on all unnecessary spending and stuck to your budget but are still in trouble, you might need some outside help.

First, don't ignore the problem—that's the worst thing you can do. You need to contact your creditors as soon as you realize that you are in trouble. Let them know that you are having problems but still intend to pay your bills. Most creditors are willing to work with you to come up with a plan that will allow you to repay your debts because they want you to pay them back. Trying to avoid the problem will only make it worse! Admitting you have a problem and seeking help are the first two steps toward eliminating your debts.

Next, contact a credit counseling service. Counselors will help you work out a budget and can negotiate on your behalf with your creditors to develop a repayment schedule. They'll work with your creditors to reduce your monthly payments, and collection agencies from calling you. You won't be denied help because you can't pay them. As part of the repayment program, you may have to agree not to get or use any additional credit while you are in their program.

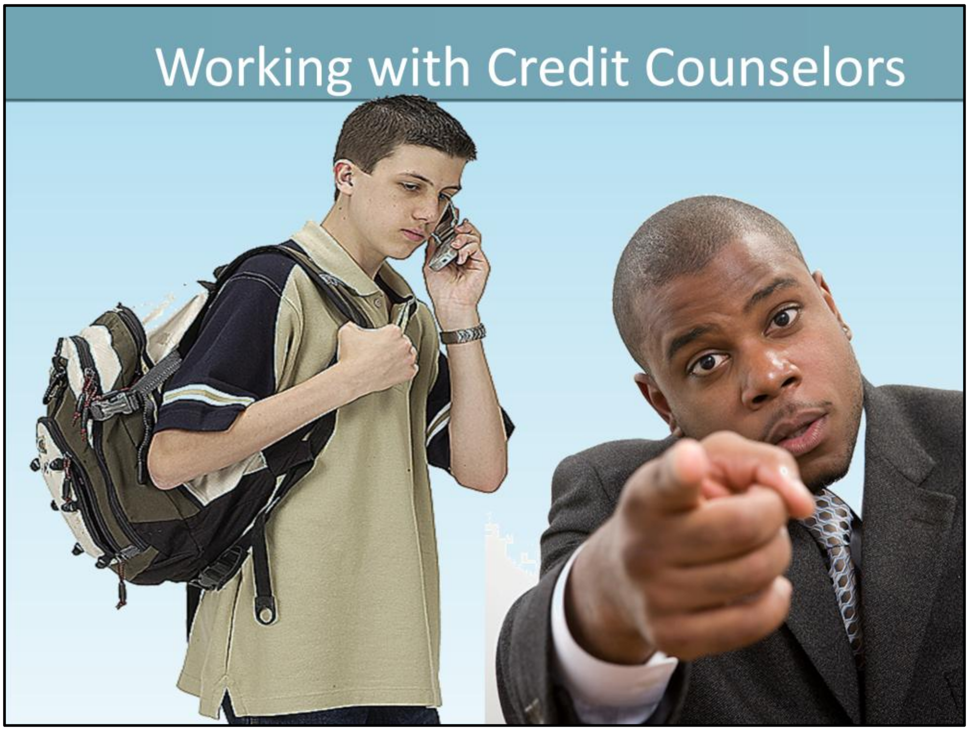
Be careful of scams, though. You have probably seen those commercials on television offering to help repair your credit or reorganize your debt. They talk about settling your debt for pennies on the dollar. Don't be fooled by these commercials. Remember, if it sounds too good to be true, it probably is! Unfortunately, there is NO quick fix for credit troubles and too much debt. Just like losing weight, it doesn't happen overnight. It takes a lot of hard work and a long time.

Take a look at the short video at the FTC website that talks about how some of these credit fixing and foreclosure scams work.
http://www.ftc.gov/multimedia/video/credit/mortgage/hope-now.shtm

You may still be thinking that you can do this all by yourself. Many people are embarrassed by their debt situation and don't want to share that with an outsider. That's understandable, but whatever you have been doing up to this point hasn't worked, so it is time to face the problem head on. An objective professional can really help you see things in a different way.

Credit counselors are experienced in debt problems and it's their job to help you:

- Eliminate or reduce late charges and fees
- Prevent judgments, garnishments, and bankruptcy
- Consolidate your debts and help you pay them off faster
- Rebuild your credit rating
- Negotiate with your creditors.

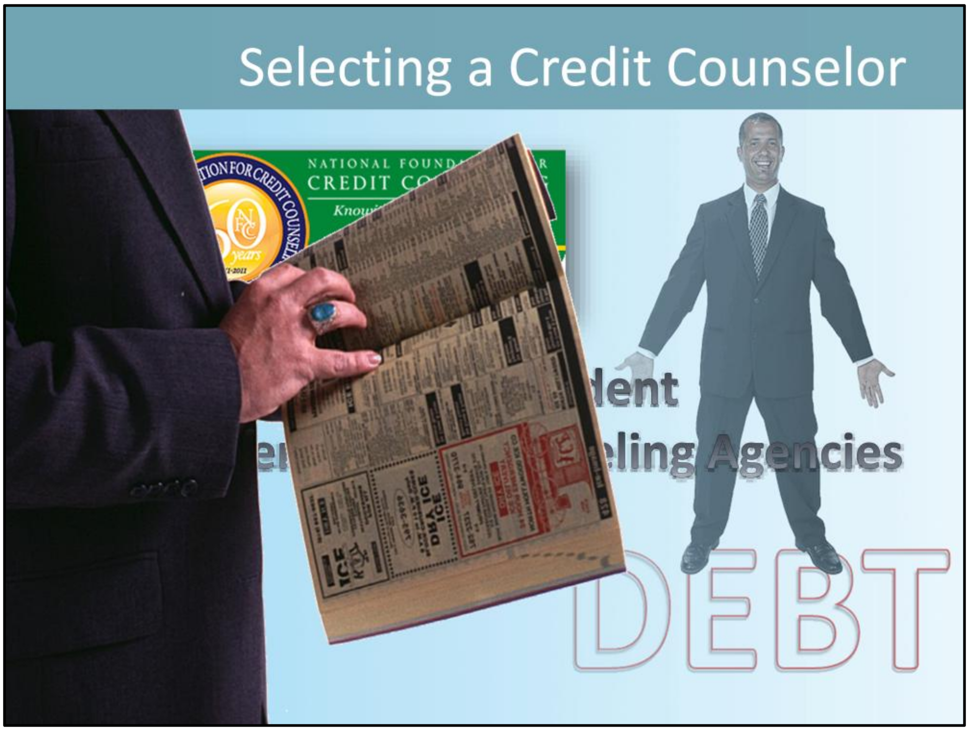


When considering going to a credit counselor for help with managing your debt, you should to do several things:

- Get a copy of your credit report(s) through the annual credit report dot com website and review it for negative entries and inaccuracies.
- Review the consumer credit protection laws that we talked about earlier in this module so that you understand what your rights are.
- Review the ramifications of declaring bankruptcy especially that it will impact your credit rating for 7-10 years and will not magically solve your problems.

When you call a reputable credit counselor, they should:

- Review your income
- Offer information on financial and consumer topics
- Help you set up a realistic budget appropriate for your individual needs
- Contact your creditors and make arrangements for reduced payments on your bills
- Help you plan for future expenses.



If you need to you find a legitimate counseling service, contact the National Foundation for Consumer Credit (NFCC). NFCC members are also referred to as Consumer Credit Counseling Services. The NFCC is one company that has maintained a solid reputation, and you may be able to get their services for no charge or a reasonable fee, depending on your location.

Another place to look for a credit counselor is the Association of Independent Consumer Credit Counseling Agencies (A-I-C-C-C-A). These are professionals who really want to help people in financial trouble. You can find them in the yellow pages or through their website.

If you want to look at other options, check the telephone book or the Internet for credit counseling services and commercial debt-adjustment firms that help clients address credit problems, manage debt, and rebuild credit. Credit counseling services are usually associated with the government. A commercial debt-adjustment firm is private company that negotiates with your creditors to work out payment plans and reduce your interest rates so that you can get your debt paid off. They usually charge more than a government agency for their services. Either way, be sure to choose a non-profit counseling service that is licensed by the state. Wherever you go for counseling, be sure to get a written plan of action that documents your specific needs.

Because excessive debt is becoming such a problem in our country, there are many people and companies out there that prey on people who need help. Avoid any company that requires you to pay a fee before they do anything to help you. Also, avoid any company that encourages you to apply for a new social security number or "credit identity" because that is illegal. Also avoid companies that promise to remove bad information from your credit report. No one can remove bad information from your credit report unless it is incorrect.

Watch out for credit repair scams and use only reputable companies when you need financial help. Any counseling service you choose should be affiliated with the NFCC or the AICCCA. Check with these agencies as well as the Better Business Bureau for records of success and failure with any company you are considering using.

For more information on managing your money and dealing with debt, visit the Money Matters website created by the Federal Trade Commission to help consumers. It also has information on financial scams and credit cards.