

Debt Management

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Dealing with Personal Debt



Setting Financial Goals – Building a Strong Foundation



Conduct a realistic self-assessment-Think about what you want to accomplish.

- Short term – within a year
- Mid term – 1 - 5 years
- Long-term – 5 + years

Write down a short term goal
and put it in your wallet,
it might stop your impulse spending!

Money, Money Where Did It Go?



Know where you are spending your money.

- Track expenses to find spending leaks
- Carry a small notebook with you to write down every purchase. Record every expense!
- Track expenses for 3 months for an accurate view of where you are spending your money

Developing Your Spending Plan



Do not use income you can't count on.

- Overtime
- Commission
- Bonuses

Use this type of income to pay down debt or for savings



Developing Your Spending Plan



Categories of your Expenses.

- Fixed Expenses
- Flexible Expenses
- Periodic Expenses



Set-aside Fund to Cover Periodic Expenses



Don't be surprised when a periodic bill comes in.

- Set-aside fund to cover anticipated expenses
- Acts like a Christmas Club
- Evens out the spending plan
- Set-aside fund becomes an item in your monthly budget
- Open a special account to hold this money
- Put in as much as possible if you cannot put all of it aside

Ways to Decrease Expenses



Are you spending on items that are not important to you?

- Prioritize your expenses – What are the most important things to pay, less important?
- Do you need a cell phone and a land line?
- Do you need all those cable channels?
- Are you eating out too much? Know dining specials at restaurants
- Shop around for car insurance rates
- Use a shopping list
- Cutback on entertainment expenses

Ways to Increase Income



How can you bring in more money?

- Get a second job or search for temporary work
- Use community resources
- Barter your services
- Sell “stuff” you have laying around the house
- Turn a hobby into a part time income

Debt Management

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Debt Management
Options



Debt Management Options



- Balance Transfers
- Debt Consolidation Loan
- Mortgage Refinance
- Debt Management Plan
- Student Loan Consolidation

- Power Payment Plan
- 401 (K) or 403(b) Loans
- Home Equity Loans
- Debt Settlement
- Debt Scams



Balance Transfers



Advantages

- May result in lower interest rates
 - Can help reduce debt faster
 - Gives flexibility as you can pay extra money to pay off debt faster or can reduce payments back to the monthly minimums when needed
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Balance Transfers



Disadvantages

- May have expensive balance transfer fees or cash advance fees
- After the introductory period, promotional rates may rise substantially
- Your interest rate may be raised higher than what it was before you transferred the balance if you miss a payment
- Very small monthly payments can stretch this debt out forever



Power Payment



Advantages

- Expedited payoff
 - No additional debt
 - Flexible payments
 - No penalties for paying off early
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Power Payment



Disadvantages

- No specific payoff date
- Must be very disciplined to follow



Creating a Power Payment Plan



Create a master list of creditors

CREDITOR	BALANCE	PAYMENT	INTEREST RATE	POWER PAYMENT
Bank Card	\$500	\$10	12%	\$50
Department Store	\$950	\$19	24%	\$19
Car Loan	\$5,500	\$150	6.99%	\$150
Total	\$6,950	\$179		\$219

Debt Consolidation Loan



Advantages

- One monthly payment
 - You know exactly when the loan will be paid in full
 - Monthly payment and interest rate may be less than what you are paying on current credit cards and loans.
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Debt Consolidation Loan



Disadvantages

- May be hard to qualify if you are over-extended or have poor credit history
- If you do not shop around total cost of loan may be higher than with current debts



401(K) or 403 (b) Loans



Advantages

- No underwriting or credit check
 - Does not report on credit bureau
 - Low interest rate
 - Interest is paid to yourself
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401(K) or 403 (b) Loans



Disadvantages

- Loan must be repaid according to schedule or the IRS will treat it as a withdrawal and you will have to pay penalties and taxes
 - If you leave your job, you may be required to repay the entire loan immediately
 - Reduces long-term retirement savings
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Mortgage Refinance



Advantages

- Lower monthly mortgage payments
- Lower interest rate, if rates have dropped or if your credit rating has improved
- Tax break on the interest part of your payments



Mortgage Refinance



Disadvantages

- Closing costs and points may be expensive
 - Converting short-term debt into a long-term debt
 - Start over again with a 15 to 30 year mortgage loan
 - You risk losing home if you cannot keep payments current
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Home Equity Loans



Advantages

- Interest may be tax-deductible
- Interest rate may be lower than with other types of loans
- Low monthly payments can help improve cash-flow issues



Home Equity Loans



Disadvantages

- Repayment period can be 10 to 15 years meaning you could be paying your credit card debt forever
 - You may be forced to use credit cards again if you use up all of your equity
 - Risk losing your home if you cannot keep up with payments
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Debt Management Plan



Advantages

- Credit card companies usually will bring accounts current after 3 consecutive payments and stop late and over-limit fees
 - Can stop collection calls, garnishment and other legal actions
 - May result in lower interest rates
 - May result in lower payments
 - One monthly payment
 - Very good way of getting bills under control
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Debt Management Plan



Disadvantages

- May affect your credit rating
- Usually are required to give up all credit cards and agree not to take on additional unsecured debt
- A debt management program usually can not help with secured loans
- Program is very structured and can take discipline to follow



Debt Settlement Program



- Could be referred to as Debt Relief or Debt Elimination
 - Company negotiates with your creditors to allow you to pay a settlement to resolve your debt
 - Pay a lump sum that is less than full amount you owe to creditors
 - Payments are held on 'escrow' with company to accumulate savings to pay off the settlement that is reached
 - Instructed to stop making payments to creditors
 - Settled amount could be considered income and be taxed according to IRS guidelines
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Student Loan Consolidation



Advantages

- Centralizes loans to one bill
- Can lower monthly payments
- May have access to alternative repayment plans that were not available before
- Could switch variable interest rate loans to fixed interest



Student Loan Consolidation



Disadvantages

- May increase repayment period which creates more payments and more interest
 - May lose borrower benefits from the original loan
 - Rate discounts
 - Principal rebates
 - Loan cancellation
 - Once loans are consolidated may not be able to be removed
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Debt Scams



- Debt Settlement or Debt Elimination
 - Any company that 'guarantees' to settled your debt 30%-60% of the amount that you owe
 - Collect fees BEFORE from you before they start settling your debt
- Advance Fee Loan
 - Guarantee you a loan if you pay a fee in advance
- Credit Repair
 - Promises to clean up your credit for a fee



Debt Scams



- Student Loans
 - Any company that tells you they can get you 'best interest rate' and terms but you have to pay an upfront fee
 - Company charges consolidation fees (processing fees, administrative fees, consolidation fees) but does nothing
 - Company that promises to get student debt eliminated for a non federally qualifying reason (death, permanent disability, school closure, falsification of documents or identity theft)
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In Trouble?



- Determine the cause
- Review your spending plan and make adjustments
- Call your creditors- don't wait around for them to call you!!
- Contact a reputable credit counseling agency
 - Advise you on managing money and debts and develop a budget
 - Discuss your entire financial situation with you and develop personalized plan for your money issues
 - Free educational materials and workshops
- Contact an attorney to explore legal options

My Action Plan



What are the things I can start doing today to reach my financial goals?

- 1.
- 2.
- 3.

Resources



Better Business Bureau (BBB)

(502) 583-6546

www.bbb.org/louisville

Federal Trade Commission (FTC)

(877) 382-4357

www.ftc.gov

Federal Direct Loans

(800) 557-7392

www.direct.ed.gov/

Resources



Internal Revenue Service (IRS)

(800) 829-1040

www.irs.gov

National Foundation of Credit Counseling (NFCC)

(800)-388-2227

www.nfcc.org/

For more information about managing your personal finances, call Apprisen at:

1-800-355-2227

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