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Consumer and Family Sciences

Department of Consumer Sciences and Retailing

To Your Credit: Fact Sheet 5

Getting Rid of Credit Card Debt

EXPERT REVIEWED

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http://web.aces.uiuc.edu/cfe/ccs/index.html

Credit changes your spending power. Ask yourself, "Do I have to keep today's purchases to a bare minimum because of too many credit card bills for past purchases?" If credit card debt takes 20 percent of your after-tax income, you cannot afford those dollars for things you want today. Is that old stuff around your house satisfying you so much that you want to keep on spending tomorrow's money for today's goods? If not, look for ways to start using today to build tomorrow by reducing credit card debt. How can you get rid of your credit card debt? Start by getting your most recent month's credit card bills. For each account, write down the total balance and the minimum monthly payment that is required.

Prioritize repayments

Credit card companies require a minimum payment each month. However, if you pay only the minimum payment, it can take a long time to clear your balance. For example, if you have a $3,000 balance at 18.9% interest and you pay 2% of the remaining balance each month (a typical minimum payment), it will take you more than 29 years to pay off your debt. It would cost you $8,394 in interest charges.

Today's credit spends tomorrow's earnings

Plan to do more than just pay the minimum. If you pay $60, the initial minimum for the example above, and keep paying $60 each month as your balance decreases, it would take you eight years to pay off your $3,000 balance and cost you $2,947 in interest charges.

Choose strategies to cut your debts as soon as possible

• **Pay high-rate cards first**

At higher interest rates, more of your monthly payments go toward finance charges. Quickly paying off balances on your credit cards with high rates can free up cash to pay other bills.

OR

• **Pay off cards with the smallest balances first**

Paying off cards with small balances gives you extra money to pay on the bigger balances.

• **Stop making new charges**

If you have to, cut up your cards, hide them, or lock them in a drawer.

• **Stay flexible**

The key to sticking to your credit card debt repayment plan is to stay flexible. If you find that you set unrealistic spending limits in the beginning, revise your spending plan the next month.

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Develop a plan

To get rid of your debt, you need to plan how you want to do it. First, gather your information and complete the chart below. Then look at your different debts and set priorities for your repayments. Which debt will you pay first? Choose strategies from those discussed on the previous page to help get rid of your debt. Once you have a plan, you are on the way to reducing your debt.

- **Get a cheaper credit card**

Find one or two low-rate cards and cancel all the others. Switching from a high-rate credit card to a low-rate card can easily save you $200 or more a year.

- **"Power Pay" your accounts**

1) Calculate using "Power Pay," a Utah State University Extension credit pay down computer program.

2) Once you pay off a bill, add the amount you have been paying on that account to one of the checks you write to a remaining creditor. For example, let's say you pay $30 a month to Sears. Once that debt is paid off, you add $30 more to the check you write for your VISA account. When you have paid off your VISA, add that payment amount, which now includes the $30 from the Sears account, to the check you write to pay your MasterCard account, and so on until all the accounts are paid in full.

Credit Card	Account Number	Amount Owed	Minimum Payment	Interest Rate

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