

MONEY SMART FOR A HEAD START

Dealing with Debt

What does the word “debt” mean to you? Car loans, credit card bills, mortgage payments, school loans, payday lender loans, retail credit cards? Debt means owing money that you have borrowed.



How Much Debt Is Too Much?

Some people are comfortable with owing money as long as they can keep up with the monthly payments. Others would prefer to have no debt at all. However, almost everyone has debt at some point. It's the size of the debt, the kind of debt, what the debt costs in interest and fees, and the time it takes to pay the debt off that causes stress. Borrowing money for a mortgage, car, or college can be stressful and it can also be rewarding because you are investing in your future. Yet, using debt can be a problem if it is for:

- Something that is used up right away (like food or gas),
- Something that drops in value (like clothes or tires), or
- something that has a balance that grows each month (like a credit card that you carry a balance on from month to month).

Knowing more about the type of debt, how much you owe, and having a plan to pay it can help. So, how much debt is too much debt? If your debt is causing you or your family stress, then it's too much debt for you.

During a Financial Emergency

If you have an emergency, you may think about getting a loan from a payday lender. Payday and car title loans are expensive ways to borrow money.

If you have a financial crisis, think about all your options before taking out a payday loan:

- Can you ask for more time to pay your bills? Can you get a rent extension? Find out what happens if you pay late. Is there a late fee or higher interest?
- Are there other places where you could borrow money? Can you get a small loan from a bank or credit union, or an advance from your employer? Can you borrow from family or get assistance from your place of worship?
- Can you get a cash advance on a credit card? The fees and interest rates for a cash advance are usually less than 100%, which is very high. However, payday loans can have interest rates as high as 300%–400%.

What About Debt Consolidation?

There are many debt repayment companies. Some debt repayment companies take your money and leave you more in debt. Other companies may be ok but also might not be right for your situation. To find a non-profit credit counselor visit www.nfcc.org or call 800-388-2227. Non-profit counselors may charge a small fee to assist you.

Want to become Debt Free?

Each of the following ideas can be helpful by themselves. They can also be combined for even more impact:

- Write a list of your debts - who you owe, how much you owe, the interest rate, and the amount you pay each month. Write down what the minimum monthly payment should be for each debt even if you don't make regular payments towards it.
- Figure out how much money you could put towards paying down debt. To do this, first make sure you have enough to cover your regular monthly bills by tracking your spending. Then, if you find places in your spending where you could cut back, use the extra money to pay down debt.
- Decide which debts you want to pay first. Ideally, you want to pay the monthly minimum amount due on all your debts. Then pay whatever extra you can on the debt you choose, whether that's the debt with the highest interest rate or with the smallest balance.
- Look at old debt you may have stopped paying but would like to catch up on.
- How old is the debt? The older the debt, the less it lowers your credit score. What kind of debt is it? Some unpaid judgments can stay on your credit report for 20 years in Wisconsin. Other debts, like an old phone or utility bill, will stay on your report for 7 years. You still owe debts even after debts drop off your credit report.

Can't keep Up With Your Minimum Monthly Payments?

Call your creditors before they call you: this may be embarrassing, but it's the best thing to do. Tell them why you can't make a payment. Maybe your hours were cut at work or someone got sick. Some creditors may not be very helpful, but some might be willing to create a new payment plan for you. It's worth asking.

Ask to talk with someone who can help you: perhaps a supervisor who has the power to help you negotiate. If they offer a payment plan, ask them to send it to you in writing (email is fine) before you send any money.

Figure out how much you can pay: when you call, tell your creditor what you can afford for a monthly payment. If they agree to a lower payment, make sure it's an amount that you can pay every month. If you can't pay the new amount you promised, the creditor will be less likely to work with you again.

A creditor may agree to:

- lower your monthly payment
- drop charges for late payments
- lower interest rates
- let you pay interest only until you can start making full monthly payments
- a partial repayment of your loan

To \$um it up

- If your debt causes stress, it's too much.
- Review your debts to decide which debt you want to pay down first.
- Call your creditors for help before you miss a payment.
- It can be helpful to talk over options with someone like a non-profit credit counselor or your UW-Extension financial educator.

Want to Learn More?

- Visit our website for more financial education resources. <https://finances.extension.wisc.edu>
- Contact your local Extension Educator: <https://counties.extension.wisc.edu>
- For help with balancing your monthly spending plan, contact the nonprofit National Foundation for Credit Counseling (NFCC) at <https://www.nfcc.org> or 800.388.2227.