



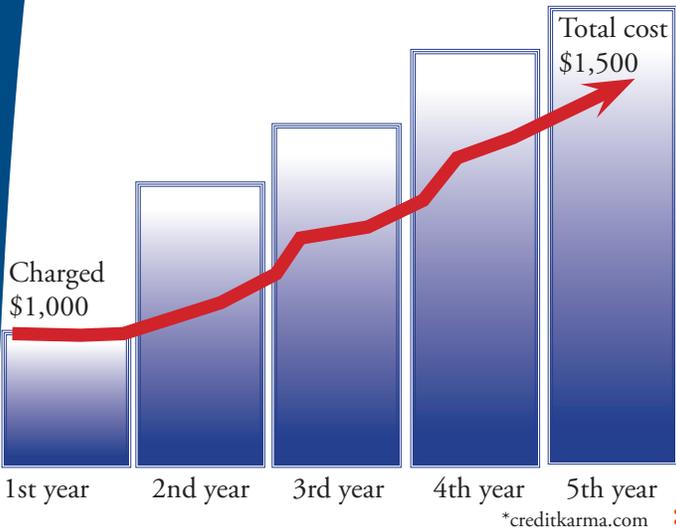
# How to Reduce Debt

**Getting out of debt is a challenge, but there are practical ways to solve financial woes.**



### Signs you have debt trouble:

- Fighting over money.
- No idea who or how much you owe.
- Late payments or paying minimums.
- Calls and/or letters from creditors.
- Paying one credit card with another.
- You have no savings.
- Relying on cash advances or payday loans.
- You can't pay a month's bills with a month's take home pay.



Americans love to pay with plastic. In fact, we spend \$1.22 for every \$1 we earn. That means we use credit—and borrow—to buy. If you are deep in debt and wondering how to pay bills, you aren't alone. The Federal Reserve reports that the average American household carried \$6,500 in credit card debt in 2010. It's also reported that 18% of cardholders only pay the minimum amount on credit card balances. That's costing big interest fees, and puts families in a debt cycle.

Unfortunately, there is no "Get Out of Debt Free" card. TV ads promising debt resolution for only pennies on the dollar don't tell the whole story. As the saying goes, "if it sounds too good to be true," it probably isn't true. There are, however, steps you can take to pay down debt and get finances under control.

This "top 5" list can help you whittle away at financial problems:

### 1. Develop a firm budget.

The first step in solving your debt crisis is to get a handle on money you spend, compared to what you earn. Figure out ways to cut expenses. This is difficult, because you might not want to give up cable television or eating out.

A credit counselor (see resource list) can help you create a budget. One rule of thumb is to allot 50-60% of take-home pay to "needs" or necessary bills such as food, utilities, child care, shelter. Another 20% goes for clothing, eating out and other "wants," and another 20-30% is earmarked for savings and debt repayment.

### 2. Consolidate debt.

With debt consolidation, all your bills are combined into one payment. A credit counselor assesses your financial situation and works with you to develop a budget and payment plan. The counselor then informs your creditors and may negotiate a lower interest rate. The goal is to pay less interest, ultimately reduce your total debt and shorten the payoff time. Your payment goes to the credit counseling agency, and the agency pays your creditors each month.

A nominal set-up fee and monthly fee (no more than \$50/month for nonprofit companies) are charged to enable the agency to process and maintain the account.

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If you keep using credit cards and only make the minimum payment each month, your debt can skyrocket.

Example: you charge \$1,000 once and don't use the card anymore. If you make payments of \$25/month, it will take you about 5 years to pay off the debt. And, you will pay over \$500 in interest too.

## Resources for debt reduction help

- Central Iowa Saves/ISED, 515-283-0940
- Consumer Credit of Des Moines, 800-955-5765
- Iowa Attorney General, 515-281-5926, [iowaattorneygeneral.org](http://iowaattorneygeneral.org)
- Iowa Citizens for Community Improvement, 515-255-0800
- Federal Trade Commission, [www.ftc.gov](http://www.ftc.gov), 877-FTC-HELP
- ISU Extension, 515-957-5760,  
[www.extension.iastate.edu/finances/personal/take\\_control\\_course.htm](http://www.extension.iastate.edu/finances/personal/take_control_course.htm)

Some consumers contact creditors directly to work out a repayment plan. You must have a budget in place to know what to pay per month.

### 3. Debt settlement options.

A debt settlement program helps you negotiate a reduction of overall debt. Monthly payments are put in an account until enough accumulates to pay creditors. Since it may take months or even years to pay off the debt, your credit rating is severely damaged. Debt settlement companies generally charge high fees based on a percentage of your debt savings, plus a monthly service fee.



### 4. Bankruptcy hurts.

It's a last resort to file bankruptcy, because it remains on your credit report for at least seven years and means ruined credit. That translates to higher interest rates if you can get a loan or a credit card.

### 5. Understand the law and your rights.

The Federal Trade Commission (FTC) and the Iowa Attorney General work to protect consumers from unscrupulous credit counseling and debt management companies, but it is up to you to know the laws and your rights and thoroughly check out any agency or company before you sign up.

**And don't forget...**

**Get help at the first sign of financial trouble.**

1111 Ninth St. • Des Moines • IA • 50314 • 515-283-0940

**EveryoneCanSave.org**

