

## Practical Steps to Reduce (and Eventually Eliminate) Credit Card Debt

*"I was asked to interview sixty millionaires from Oklahoma. What I learned from them was simple, yet the message had a lasting impact on me: You cannot enjoy life if you are addicted to consumption and the use of credit."*

~ Stanley Danko, The Millionaire Next Door

How did you get into credit card debt? For many of us, it happened bit by bit until one day we looked at our credit card balance and realized we couldn't pay it off in one month . . . or two or three . . . or seemingly never! Your current financial situation comes from your past actions, your habits, and from looking for love (satisfaction) in all the wrong places. So how do we dig out from this burden of debt?

**Start by paying cash only from this point forward.** Did you know that if you use your credit card, you tend to spend more? It doesn't seem like real money, and the credit card companies understand that tendency. In fact, VISA has proven that the average transaction at fast food restaurants is 30% higher when customers use their credit cards than when they pay cash. By paying cash, you force yourself to live within your means because it requires advance planning and budgeting.

**Identify your weak spots.** Maybe it's a certain store, or the Home Shopping Network. Whatever it is, flee temptation! Don't put yourself in a position where you're tempted to use your credit card. Ask yourself the following questions before you purchase anything (even with cash):

- Do I need it?
- Do I want to maintain it?
- Do I already own something to satisfy this need?
- Can I borrow from others?
- Is this a good value?
- Do I have the cash?
- How many hours will I have to work to pay for this?
- Can I delay this purchase (a few days, until next month)?

**Face the music.** Take a hard, realistic look at your current financial situation. Make a list of each of your credit cards that hold a balance, the amount of that balance, and the interest rate you're paying.

**Figure out how long it will take to pay off your debt.** Once you know the amount of your current debt, you can use an online calculator to determine how long it will take to get rid of it. Here's one from the website [www.choosetosave.org](http://www.choosetosave.org), which also has some other great financial education tools:

<http://www.mindyourfinances.com/calculators/credit-card-payoff>

**Start attacking your debt.** First of all, figure out where you can cut unnecessary costs to free up money to focus on reducing your debt. If you get a bonus or raise at work, don't even think about spending it on something else – use it on the next credit card bill. Have a garage sale, use birthday money - whatever it takes to come up with some extra cash - do it, and put the cash toward your credit card bill.

Next, call each of your credit card companies and ask for a lower rate on your unpaid balances. Chances are, you can get your rate reduced. Or, if you've received an offer for a cheaper rate card, consider moving your existing balance(s) to that card BUT be very aware of the time limit for the zero or low interest rate – once that time period passes, your rate will shoot up to the then-current rate, so you may lose out in the long run by doing this. Also, be absolutely sure that every payment is up to date and for a sufficient amount to maintain the low rate, because any late payments will immediately cancel out the promotional rate offer. And it should go without saying – don't put any additional debt onto your credit cards. You're done with credit cards and are now living on a cash-only basis.

**Consider using a system.** Experts differ on the best way to pay off your cards, so you have to figure out what will keep you motivated to achieve your goal. Mary Hunt, in her book, *Debt Free Living*, suggests putting any extra money toward the credit card that will pay off soonest. In this way, she says, you will receive more immediate gratification and motivation to keep working down the list of your credit cards in the order in which they pay off. Other experts suggest you begin with the card that has the highest interest rate, because it will have the greatest impact on your budget once those higher interest payments go away.

**Monitor your credit report.** There are three credit bureaus that maintain records on you – Experian, TransUnion, and Equifax. Each is required to provide one free credit report to you each year. In this day of identity theft and sometimes less than perfect recordkeeping, it's wise to monitor the records that these organizations have on you. You can access these by going to [www.annualcreditreport.com](http://www.annualcreditreport.com), and rather than asking for all three at once, stagger them throughout the year so that every four months you request a free report from a different credit bureau. In this way, each year you'll know

what your records reflect for each organization. If you discover any inaccuracy, report it to the credit bureau immediately for resolution, because bad information can have an adverse effect on your credit rating (and therefore the interest rates available to you).

**Stay motivated, and don't be shy about asking for help.** It took a while to get into credit card debt, and it'll take a while to get out. But remember, as long as you're pointed in the right direction toward your ultimate goal, you'll get there! If you need assistance, the church provides free financial counseling. You can also contact the Consumer Credit Counseling Service for assistance in contacting creditors and making a payment plan. Their website is [www.cccservices.com](http://www.cccservices.com), and their Overland Park phone number is 913.642.5393.