

Get Out of Debt – and Stay Out!

Some Statistics About Debt

- 150 million Americans have credit cards
- 1/3 pay their balance in full each month
- That means 100 million people carry a balance on one or more cards
- Their average balance is around 8 to 10 thousand dollars total
- Making only the minimum payments can stretch repayment out over 20 years

USA Today Article – 1/10/06

- Number of consumers who are behind on their credit cards is at a record high
- One out of every 21 consumers is more than 30 days past due on a card
- Hurricane effects have not been felt yet
- Large numbers filed for bankruptcy before the laws changed in October
- Personal savings rate fell to record low

What Does the Bible Say?

- Proverbs 22:7 – “the rich rules over the poor, and the borrower is the lender’s slave.”
- Psalm 37:21 – “The wicked borrow and do not repay...”

Some Danger Signs

- Borrowing from one credit source to pay another
- Barely able to make minimum payments each month
- Approaching your credit limits and not knowing how you will pay next month's bills

Reaching Your Credit Limit

- Easy credit allows people to live on more than they earn
- This puts them a little deeper into debt every month
- As the minimum payments increase, the problem compounds
- Eventually they hit their credit limit!

Reaching Your Credit Limit – Oh, The Pain!!!

- Unfortunately, most people wait until they reach this point to seek help.
- Getting out of this debt will require a major life style reduction – up to 25%.
- Not only must you stop the extra spending, you must also pay back your debt plus interest
- These repayments must be made out of your net income – after taxes

The Credit Card Industry – Raising Minimum Payments

- The standard minimum payment has been 2% of the balance per month – but most of this is interest charges.
- Making just the minimum payments can take 20-25 years to repay!!!
- Government regulators gave banks until the end of 2005 to improve this
- Right now minimums are increasing
- Even more people may fall behind.

What are Some Causes?

- Buying too much house, especially here in the Bay Area. You may have to downsize or rent.
- Buying new cars on a used car budget. You may have to trade these in for less-expensive cars.
- Over-spending using credit cards.
- Not having a budget or sticking to it.
- Buying “wants” rather than “needs.”

Now for the Hard Part – Getting Out of Debt

- STOP CHARGING!!!
- Develop a realistic budget
- Build up an emergency fund
- Start paying back your debts

STOP CHARGING!!!

- Get rid of any “automatic” charges that go to your credit cards monthly
- Cut up your credit cards, if that is what it takes
- Understand that this is going to mean a reduction in your life style!

Develop a Realistic Budget

- Include “savings” in your budget to build up an emergency fund of at least \$1000.
- Allocate funds to start paying back your debts, both principal and interest.
- Stick to your budget, keeping track of everything you spend.

Start Repaying Your Debts

- Make a list of all your debts.
- Make all the minimum payments.
- Talk to your creditors.
- Pay extra on any over-limit accounts.
- Begin paying off the debt with the highest interest rate first.
- Then pay down the debt with the next highest interest rate.

Should You Consolidate?

- Before you do, make sure that you have solved the spending problem. Otherwise you may end up worse off.
- Be careful that you do not end up with higher fees or interest rates.
- See www.bankrate.com for help on selecting a new credit card or loan.
- Watch out for promotional rates that last for a short time or can go way up.

What About Home Equity Loans and Lines of Credit?

- + You should get a lower interest rate.
- + Your monthly payments will be less.
- + The interest may be tax-deductible.
- You are placing your home at risk.
- You may end up paying for last year's vacation for 15 more years.
- If you have not solved the problem that got you here, it will come back!

Should You File Bankruptcy?

- Over 7 million Americans have done this in the last five years.
- The rules changed in late 2005, making it much harder to escape your obligations.
- Some things aren't covered – taxes you owe, student loans, and more.
- Even if you do file, the Bible says you must eventually pay your debts.

Where Can You Get Help?

- The deacons here at Fairhaven
- www.crown.org – Great materials!
- Consumers Credit Counseling Services – a non-profit organization
- Be wary of those who want to charge large sums to help you consolidate

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