Managing Debt

A Guidebook

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Of all the concepts and ideas surrounding financial literacy and managing money, debt is perhaps the most daunting for many people.

Debt is money you borrow and owe to a creditor. When you take on debt, you are obligating your future income.

Credit is your ability to borrow money. For example, when you use your credit card to pay for something you are borrowing money from the credit card company to pay for what you purchased. You now owe a debt to that credit card company.

As long as you are able to manage your debt, it can be a useful tool to achieve your financial goals. When your debt becomes unmanageable, there are strategies to reduce and repay the debt. The steps in this guide will help you manage your debt as a useful tool rather than a burden, so you can take control.

Step 1: Understand Your Debts

Step 2: Consider Your Options

Step 3: Make A Plan

When you take on debt you obligate your future income

Step 1: Understand Your Debts

The first step to manage your debts is understanding your debts. It's vital to find facts and figures about your debts so you can make a plan to repay or reduce them.

Know **who you owe**. If it's unclear, you can find out exactly who you owe money to by checking your credit report.

Know how much you owe, called your debt **balance**.

Just as fundamental are the debt **payment amounts** and the **payment due dates**. These can be found on your loan or credit card statements.

Every debt has **terms**. Most debts have **fees**. For example, some debts have fees like balance transfer fees on a credit card, disclosed in the small print in the credit card terms of agreement.

Every debt has an **interest rate**. Interest rates vary based on the credit history of the borrower. The interest rate is the cost of borrowing money. Some debts, like credit cards, have variable interest rates that change over time depending on factors like market conditions and your credit score. Knowing your interest rates on your debts will help you manage your debt.

What Information You Need

- Who You Owe
- How Much You Owe or the Balance
- When Payments Are Due & How Much
- Terms of the Loan
- Fees
- Interest Rate

Where To Get The Information

- Your Credit Report
- Bills & Statements (Online or Mail)
- Loan Agreements or Documents
- Ask Details of Personal Debts to Family, Friends, and Others

The interest rate is the cost of borrowing money

Step 2: Consider Your Options

There are a number of approaches to reducing and repaying debts. If your debt is unmanageable, one approach might be to try to negotiate or reduce debt by negotiating and applying for financial assistance with the creditor or debt collector. If your goal to is to repay or reduce your debt, the next step is to form a plan.

The following pathways are tried and true methods for managing debts, based on your **goals**. Note that you can do all three in parallel; track, repay, reduce your debts.

What's Your Goal?

Track Debts

Reduce Debt

Repay Debt

Track Debts

Understand Your Debt

Write A Debt Table

Track your debts using Step 1 on the previous page. This could be a standalone goal.

Some find it helpful to **write a debt table**, especially if there's more than a few debts to track. Your table might look like the example below with more rows.

Who You Owe	Total Amount Owed	Minimum Payment Amount	Payment Due Date	Interest Rate
XYZ Bank Card	$4000	$45	2/24/26	25%

Reduce Debt

- Payment Plan
- Financial Assistance
- Negotiate with Creditors

Payment Plans can be helpful to stretch debts over time when your budget is tight. Most creditors will offer payment plans for things like medical debt, or mortgage payments when times are tough and you can prove hardship. If credit card debt becomes overwhelming, negotiating a payment plan with a creditor is an option.

Financial Assistance is available for debtors that have fallen on hard times. Get in contact with your creditor to explain your situation or hardship. You may find you are eligible for financial assistance. Follow through and fill out any required application.

Negotiate. Often overlooked, negotiation is an important tool in your toolbox. Explain your situation to your creditor and ask what they can do to reduce your debt to what you can afford to pay. It may not always work, but it's worth trying. Work with a nonprofit financial counselor to guide you through any negotiation.

Repay Debt

- High-Cost Debt First Method

OR

- Snowball Method

High-Cost Debt First Method is a debt repayment strategy where you pay off the debt that has the highest cost to you. The highest cost debt is the debt with the highest interest rate, the highest balance, or the highest payment due.

How It Works: You continue to pay all your debts on time and as agreed. You pay extra toward the highest cost debt. Once you pay it off, you move on to the next debts in order of highest interest rate or highest cost. This strategy is generally the most cost effective method out there because it minimizes interest paid.

Snowball Method is a debt repayment strategy where you pay off the lowest balance debts first. This method can be motivating because you knock out individual debts faster, but it can be more costly than other methods.

How It Works: You continue to pay all your debts as agreed. You make an extra payment to your debt with the lowest balance. Once you pay it off, you move on to the next lowest balance debts. As you pay off the lowest balances, you bring more and more account balances to zero until you've "snowballed" to the largest.

When It's Too Much

If you're overwhelmed trying to manage your debt, consider seeking help. The last resort is bankruptcy if debts are impossible for you to repay.

While we don't cover it in this guide, if you're facing bankruptcy the Orcas Community Resource Center is standing by to help you through the process. Reach out and meet with a financial counselor today.

There are many companies out there that promise to help you settle or consolidate your debt. This help usually costs money, and in the case of debt consolidation means taking out other debt to pay off multiple debts. While these services can be useful, it's best to seek help first from a qualified nonprofit professional that is dedicated to serving **you**.

Nonpayment of Debts & Debts In Collection

If you fall behind on payments, your debts are considered delinquent. If you continue to fall behind on payments, your debt would be considered in default. After a debt is in default, creditors may charge off your account to a debt collector. If you are in this situation, your credit will worsen represented by a lower credit score.

When we manage our debts paying on time and as agreed, we can avoid this. If your debts are charged off and go to collections, and you continue not to pay them, things will only get worse for your personal finances, assets, and credit. It's best to face creditors head on and not ignore calls from debt collectors. There could be major consequences for your credit, you may face lawsuits, you may lose collateral like cars or your home, and your wages may be garnished for non-payment. It's better to pay *something* than *nothing*.

Try to get specifics from debt collectors if they call. Understand the debt and make a plan to repay it with the steps in this guide, and ask for help when you need it.

Step 3: Make A Plan

You understand your debt. You've considered your options. The next step is to make a goal and stick to it. Make a plan to manage your debt. Before we make a plan, we need a goal in mind that we can stick to. A wonderful method for setting goals is the SMART method.

SMART stands for:

S - Specific
M - Measurable
A - Actionable
R - Reasonable
T - Time-bound

With a SMART goal, you can stay accountable even if a goal seems hard.

An example goal using this method would be something like below.

Example SMART Goal To Inform Your Plan

I will use the High-Cost Debt First Method to pay $200 extra every month toward my Bank XYZ credit card balance, on top of the minimum payment, so I can pay off my credit card debt twelve months from today.

This goal is SMART. It's specific with relation to the debt and repayment method, it's measurable with dollar amounts and it's time-bound. It's actionable, and assuming we have $200 in our budget it's also reasonable.

You can set goals like this in all areas of your financial life and beyond. SMART goals help us stay accountable to the values we hold and help us set reasonable expectations for the future.

With an understanding of your debt, a choice of options for managing it, and a plan for doing so, the final step is follow through with your plan and achieve your goal. Good luck.

If you or someone you know is dealing with a mountain of debt and doesn't know where to turn, the Orcas Community Resource Center is here to help. It can feel impossible to do it alone. Call, text, email or visit in person today for help managing debt.