



at work for **you**™

## Plastic Surgery

Credit cards are an important part of our financial lives. When used wisely, they are beneficial tools that help us establish a positive credit history. In general, plastic is practical and safe. It is often the best way (and sometimes the only way) to buy airline tickets, rent a car, or book a hotel room. Some cards even come with rewards for use, such as cash back or airline miles, and all offer consumer protection against fraud and billing errors.

Despite all the advantages and conveniences credit cards can provide, there are pitfalls associated with credit use. Getting into overwhelming debt can be very easy. If the bill isn't paid in full by the due date, finance charges will be added to what you owe, and if you make a late payment or exceed your credit limit, high penalties will be added in as well. Many cards come with annual fees, even if you never make a purchase. Overextension gets countless consumers into financial trouble every year.

If you are in over your head, don't worry – take action. There are steps you can take to repay what you owe and get back on track.

## Financial Goals

It is very important to establish financial goals. It is only after you know what you want to do with your money that you can effectively save to achieve your dreams. Visualize what your financial future looks like: is it secure because you have set aside money for emergencies, enjoyment, and retirement? Or is it existing paycheck-to-paycheck, or worse – living in constant debt?

If you have debt, make sure one of your goals is to delete it. Holding on to balances impacts your ability to achieve other goals. Not only are present and future dollars used to pay for past spending, but high interest rates and other fees erode what you have to work with. Decide when you want to become debt-free and make that goal a priority.

It is important to remember that while setting a variety of financial goals is crucial to any good plan, they also must be realistic. For example, setting a goal to retire at age 35 when you are 33 today and have yet to save anything is likely not as achievable as setting that retirement goal further down the road.

## Goal Worksheet

There are three types of goals: short-, mid-, and long-range. Short-range goals are to be met in one year or less, mid-range in two to five years, and long-range in five years or more. Because credit card debt is so expensive to keep, it should be in the short- to mid-range goal category.

The chart on page 3 will help you determine the timeline for your goals and the amount of money you'll need to set aside each pay period or month in order to reach them. You may find the numbers daunting or even not realistic based on your current

financial situation. To resolve this, you'll need to increase your income, decrease your expenses, or make some adjustments to your goals.

## Warning Signs of Credit Trouble

There are warning signs that can signal potential credit trouble. If these sound familiar to you, it may be time to take the necessary steps to delete your debt:

- Paying only the minimum amount due on your credit cards
- Charging more each month than you make in payments
- Using credit and cash advances for items that used to be purchased with cash, like gas and groceries
- Having a total credit balance that rarely decreases
- Being at or near your credit limit and applying for new cards
- Needing a loan to pay existing debt
- Not knowing the total amount that you owe
- Experiencing feelings of anxiety and stress whenever you use your credit cards
- Draining your savings to pay debts
- Making bill payments late

Goal Worksheet							
Goal	Target Date	Total Needed	Current Savings	Additional Savings Needed	Pay Periods Until Target Date	Savings Needed Per Pay Period	Savings Needed Per Month
Ex: Down payment for a house	36 months	\$20,000	\$5,000	\$15,000	72	\$208.50	\$417.00
Short Range Goals							
Mid Range Goals							
Long Range Goals							
Total							

## Create a Spending and Savings Plan

The best way to get out – and stay out – of debt is to create a spending plan. Many people use credit cards to make up the difference between what they spend and what they make. By examining your monthly financial situation, and then making adjustments to include your goals, your money will take you where you want to go.

### Review your income and expenses

The first part of any spending plan is listing and analyzing cash flow. Review your income and expenses to know if you are spending within, or over, your means.

#### Income

Be realistic when it comes to any non-guaranteed income such as overtime and bonuses. Also, if your income fluctuates, use a conservative figure to make sure you don't overestimate.

Income Worksheet		
Source	Gross	Net
Job		
Spouse's job		
Part-time job		
Rental/room & board received		
Commissions/bonuses		
Tax refunds		
Investment income		
Government benefits		
Unemployment insurance		
Child support/alimony		
Support from family/friends		
Other		
Other		
Other		
Total Income		

## Expenses

It can be challenging to analyze your expenses, but it is important to be as accurate as possible. Underestimating can mean a shortfall that winds up on your credit cards.

Do not neglect savings. Financial emergencies are not so much a matter of if, but when. Having two to six months worth of basic living expenses set aside in a liquid (no penalty for early withdrawals) savings account will enable you to bounce back from a crisis without having to rely on credit cards. Set a target date for having this safety net in place, and factor in the monthly amount needed into your spending plan.

Some expenses, such as a car payment, are fixed, while others vary. Little expenditures, like coffees and drugstore purchases, can add up to a lot, but are hard to estimate if you don't keep track of them. To keep track, write down what you spend day-to-day, or save receipts to get accurate figures. You may need to do this for several weeks or months to get a realistic picture of your spending.

Please complete the Expenses Worksheet on page 5.

Expenses Worksheet					
Essential Expense	Current	Proposed	Discretionary Expense	Current	Proposed
Rent/mortgage			Internet access		
2nd Mortgage			Movies/video rentals		
HOA (association dues)			Cable/satellite		
Property taxes			Dining out		
Homeowner's insurance			Sports/hobbies/clubs		
Renter's insurance			Gym		
Gas/electric (average)			Storage fees		
Water/sewer/garbage			Vacations/travel		
Telephone			Books/music/dvds		
Home maintenance			Clothing purchases		
Groceries			Laundry/dry cleaning		
Household items			Beauty/barber		
Health insurance			Pool/hot tub service		
Prescriptions/doctor visits			Gardening		
Car payment #1			Monitored alarm		
Car payment #2			Gifts/cards		
Gasoline			Cell phone/pager		
Maintenance/repairs			Banking fees/postage		
Auto insurance			Cigarettes/alcohol		
Auto registration			Religious/charity		
Tolls/parking/mass transit			Pet care		
Daycare/babysitting			Other		
Alimony/child support			Other		
Tuition/lessons			Other		
Student loans			Other		
Taxes (monthly repayment)			Other		
Life insurance			Other		
Union dues			Other		
TOTAL			TOTAL		

## Debt

Now it is time to confront your debt. Use the form below to list your creditors and add up your balances. By knowing what you owe, you'll be better prepared to commit the funds necessary to tackle that obstacle.

Debt Worksheet				
	Creditor Name	Interest Rate	Monthly Payment	Balance
1				
2				
3				
4				
5				
6				
7				
8				
9				
10				
11				
12				
13				
14				
15				

## The Bottom Line

Add your expenses, the amount you need to save to reach your goals and the payments to your creditors and subtract this from your income. If the numbers balance, congratulations – you're on the right track. If not, you will need to take action. Revisit your spending plan and consider all the changes you can make that will enable you to not just make ends meet, but to hasten debt repayment. Look to everything from increasing income, decreasing expenses, adjusting your goals, or a combination of these activities.

Bottom Line Worksheet				
Monthly Net Income	Total Essential Expenses	Total Discretionary Expenses	Total Debt Payment	Balance
	—	—	—	=

## Live Within Your Means

It would be impossible to live debt-free without living within – or under – your means. And while this is simple common sense, it is also a major challenge for many of us. There are many internal and external pressures to overspend, and getting your finances under control takes know-how and discipline.

### **Increase Income**

You may have a few options for increasing your income. Working overtime, getting a part-time job, a better paying job, or applying for a promotion are great ways to bring in more money. Selling assets can bring in lump sums that can be used for eliminating debt or applying to savings plans for future goals. If you decide to liquidate assets, be sure to find out if you will have any tax consequences or penalties for doing so. If you have family members who can contribute to the household income, ask them for their participation.

### **Decrease Spending**

Most of us have some expenses we can reduce or eliminate. Fixed living expenses are generally more difficult to adjust than discretionary expenses. However, if you are truly committed to your goals, a little creativity can go a long way. When it comes to your discretionary expenses, consider them carefully. Is there anything you currently spend money on that you can reduce, substitute, postpone, or forego?

## Controlling Spending Urges

It can be extremely difficult to resist the lure of overspending if you have the ability to do so. To combat these urges, leave the credit cards at home and shop with cash or a debit card.

Many people use shopping as a form of social activity. Instead of meeting at the mall, visit friends in places where you won't be tempted to make the outing a shopping excursion, such as a park or a museum.

Keeping within a budget can feel like hard work. To reduce the feeling of want, reward yourself along the way with small, affordable luxury purchases – that you budget for. Always keep in mind though, that if debt-free living is your objective, all purchases should support that goal.

## Delete Your Debt

What are the secrets to deleting debt quickly? Discipline and commitment. You can start by making a pact with yourself to live a cash-only lifestyle. After all, before you can reduce your balances, you need to stop increasing them. If you really feel like you can't control yourself, consider closing your accounts. Keep an emergency credit card in a secure place in your home rather than in your wallet.

Increasing payments and reducing interest rates are the two most significant tools in repaying debt effectively and efficiently. Increasing your payments will dramatically reduce the length of time, and thus the cost, of paying your creditors. Reducing interest rates will also save you repayment time and money. If your credit rating is good, requesting better rates from your lenders may work. Transferring balances to lower rate accounts is also effective. If you have equity in your home, converting high-interest credit card debt to low-interest secured debt is a tool to consider – and it may be tax deductible. Be sure you can handle the payments involved in this option, though, as defaulting on a loan secured by your home can have dire consequences. If you do transfer balances to lower rate cards or secured debt, make sure you close the old accounts to keep from using them again.

By paying attention to your balances, interest rates, and finance charges, you can make educated decisions about how to most assertively get out of debt.

It is very important to bear in mind that credit is not a bad thing – it's a reality of our society and in many ways can help us achieve our goals. A mortgage loan used to buy a home or a student loan used to get an education can be debt that works in your favor in the long run – it's an investment and in many cases, the interest can be tax-deductible. It's using credit to pay for necessary expenses, or for too many items that decrease in value that is problematic over time.

## Your Credit Report

Too much debt has a major impact on a credit rating. And since credit reports and credit scores are an ever more important aspect of our financial lives, not just affecting the cost of credit we receive, but where we live, insurance rates we pay – even the jobs we can get – keeping our credit history good is vital. By understanding the credit reporting and scoring process, your rights and responsibilities as a consumer, and how to recover from inaccuracies, you can establish, maintain and protect a strong credit history and good credit score.

There are three major credit reporting bureaus in the U.S.: TransUnion, Equifax, and Experian. All collect and provide information about your credit history to any organization with a legitimate business need. Reports may reflect lawsuits, judgments, liens, foreclosures, Chapter 13 bankruptcies, late payments, or any other negative information for seven years from the time it was reported. For charged-off accounts in collection agencies, the period begins on the date the account was written off by the original creditor and sent to the collection agency. Judgments, if not paid, can be renewed until they are satisfied. A Chapter 7 bankruptcy will remain on a credit report for ten years from the date of filing. Inquiries, an indication that your credit report has been accessed for a credit, insurance, or employment application, are reflected on your credit report for two years.

These timelines do not apply to positive credit information. Any accounts that have been consistently paid on time, or that were paid in full as agreed may be reported indefinitely. Having this kind of long-term positive information on your report reflects quite positively on you as a credit risk.



## Overcoming a Negative Credit Rating

If your credit rating is not where you want it to be, don't despair. It is possible to improve your credit report through responsible credit use and good payment history.

- Review your credit report – it is your right and responsibility as a consumer to check your credit report annually. Many reports contain errors that could make you ineligible for a loan or a good interest rate.
- Repay old debts – if you have accounts lingering in collection agencies, you can make a vast difference in your credit rating immediately by taking care of them. Clearing up these debts can be done in a variety of ways. Of course, you can pay the debt in full at any time. If you can't afford to do that, consider making payment arrangements with the creditor or offering a settlement for less than the amount owed.
- Commit to timely payments – Even if you have made late payments in the past, by committing to always paying in a timely fashion now and in the future you can make a significant difference in your credit rating over time.

## Credit Scoring

Your credit score is one of several factors lenders use when evaluating your application for credit – and frequently the most significant one. It is a number guide representative of the risk determined by your credit history. The most common score used is a FICO score. This is a model developed by The Fair, Isaac Company based on an analysis of many credit factors and the past history of many consumers. The FICO score ranges from 300 to 850, with a higher score being indicative of less risk. Therefore, in many cases, those with higher scores are more easily granted credit and often have more favorable interest rates made available to them.

## Improving Your Score

Think of a credit score as a snapshot of the past. Everything you do today as it pertains to credit creates a new image. You can improve your score by making a few key changes to the way you use credit:

- Pay consistently on time – timely payments make a big difference in your score.
- Limit open accounts – keep unsecured accounts to between two to four. While having several accounts, even ones with zero balances, can show capacity (a credit positive), having too much available credit can make you risky to a lender.
- Keep your balances significantly less than the limit on revolving credit – high balance-to-limit ratios represent greater risk because it gives the impression that you are applying for new credit to take the place of the "maxed out" account.

- Avoid balance transfers – while transferring balances to “teaser rate” cards can be a way to efficiently get out of debt, it may have a negative effect on your credit score. The accounts will be new, and likely have balances close to the limit in order to maximize the advantage of the low rate – two factors that have a negative impact on scoring. Bear in mind, however, the cost of credit. If your goal is to get out of debt, the lower your interest rate, the better.
- Avoid excess credit applications – each time you apply for credit, your score decreases minimally. Many applications in a short period of time can be damaging. Only apply for what you really need.

## Staying on Track

Overwhelming debt can be very depressing and stressful, and making changes in your life takes time and effort. You can stay on track by keeping your goals in mind. Take pride in watching your credit balances drop – it is hard work and worth every moment of difficulty. Set up a reward system for yourself to ensure you celebrate your successes. Don't worry if you experience setbacks along the way. Just be sure to think about what caused them, take steps to ensure they don't happen again, and get back to your plan.