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# Tackle Your Debt

Game Plan for a  
Touchdown!

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The mission of Broadview Financial Well-Being is to guide and encourage individuals to focus on achieving economic stability—using innovative tools, making informed decisions, and encouraging positive habits.

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## Welcome to “Tackle Your Debt”!

Getting out of debt takes a great deal of focus, determination, and commitment. Once you start, remember that the payoffs will be significant. As you pay down your debt, family and friends may also learn the importance of financial planning and setting priorities. Sometimes it takes a second job or some freelance work to earn the extra cash you need to tackle your debt.

There are things you need. And then there are things you want. Only you know the difference. As you begin to tackle your debt, focus on your needs—plan for what you want later. Most importantly, create a budget and stick to it. Be creative through this process and consider ways to save money.

If you begin to be discouraged at any time, reach out to trusted family and friends to support you. Remember, you can do it!

Go for the goal! Tackle your debt for a touchdown and win!



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# Good Debt vs. Bad Debt

**Not all debt is equal.** Under the right circumstances, mortgage, student and auto loan debt can help strengthen your financial position. However, credit card debt—and other debt with high interest rates—tends to be unnecessarily costly and should be paid off as soon as possible.

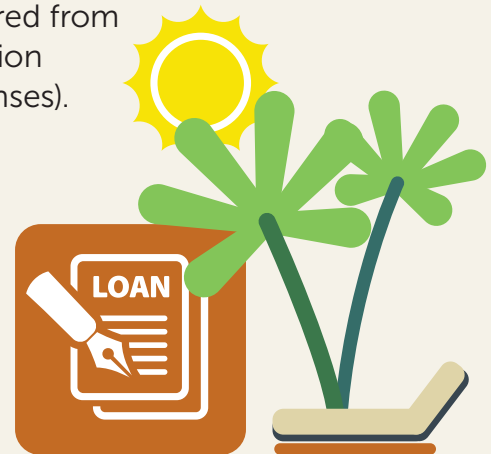
Most people have good and bad debt throughout their lifetime. The terms only refer to whether or not the debt increases your net worth.

**(Assets – Liabilities = Net Worth)**

**GOOD DEBT** is debt that increases an individual's net worth, and helps to generate value, (i.e., mortgage to buy a home).



**VS. BAD DEBT** does not increase an individual's wealth and is typically used to purchase goods or services that have no lasting value, (i.e., credit card debt incurred from vacation expenses).



## What are the questions you have about debt today?

Write them down.



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# Types of Loans

## Open-Ended and Closed-Ended Loans

**Open-ended loans** are loans that you can borrow over and over. Credit cards and lines of credit are the most common types of open-ended loans. Both of these loans have a credit limit which is the maximum amount you can borrow at one time. You can use all or part of your credit limit depending on your needs. Each time you make a purchase, your available credit decreases. As you make payments, your available amount increases, allowing you to use the same credit over and over as long as you abide by the terms. This is also referred to as “revolving credit”.

**Closed-ended loans** are one-time loans that are repaid over a specific period of time. As you make payments on closed-ended loans, the balance of the loan goes down. However, there is no revolving credit on closed-ended loans. If you need to borrow more money, you have to apply for another loan and are subject to the approval process again. Common types of closed-ended loans include mortgage loans, auto loans, and student loans.

## Secured and Unsecured Loans

**Secured loans** rely on an asset as collateral for the loan. In the event of loan default, the lender can take possession of the asset and use it to cover the loan. Interest rates for secured loans may be lower than those for unsecured loans. The asset may need to be appraised to confirm its value before you can borrow a secured loan. The lender may only allow you to borrow up to the value of the asset. An auto loan is an example of a secured loan.

**Unsecured loans** don't require an asset for collateral. These loans may be more difficult to get and have

higher interest rates. Unsecured loans rely solely on your credit history and your income to qualify you for the loan. If you default on an unsecured loan, the lender has to exhaust collection options, including debt collectors and a lawsuit, to recover the loan. Credit cards and personal loans are examples of unsecured loans.

## Loans to Avoid

Certain types of loans should be avoided because they are predatory and take advantage of consumers.

**Payday loans** are short-term loans borrowed using your next paycheck as guarantee for the loan. Payday loans have notoriously high annual percentage rates (APRs) and can be difficult to pay off. If you are in a financial crunch, seek all other alternatives before taking out a payday loan.

**Advance-fee loans** are not really loans at all. In fact, they are scams to trick you into paying money. Advance-fee loans use different tactics to convince borrowers to send money as an upfront fee to obtain the loan. Once the money is sent (usually wired), the “lender” typically disappears without ever sending the loan.

## Finance Charge

A fee charged for the use of credit or the extension of existing credit is called a **finance charge**. It may be a flat fee or a percentage of borrowings, with percentage-based finance charges being the most common. A finance charge is often an aggregated cost, including the cost of carrying the debt itself along with any related transaction fees, account maintenance fees, or late fees charged by the lender.

## Record the different types of loans and debts as discussed.

Then check whether the loan/debt is open-ended, closed-ended, secured, unsecured, good debt or bad debt.



TYPES OF LOANS/DEBT	OPEN-ENDED	CLOSED-ENDED	SECURED	UNSECURED	GOOD	BAD



# Annual Percentage Rate (APR)

## For credit cards, the Annual Percentage Rate or APR is the annual interest rate.

The APR is applied to your balance to calculate the interest you owe. The dollar amount of interest you owe is shown as a finance charge on your billing statement for any month you are charged interest. By law, credit card companies and loan issuers must show customers the APR to facilitate their understanding of the actual rate applicable to their agreement.

### True Cost of Borrowing

**APR = Annual Percentage Rate is the annual cost of a loan in terms of a percentage.**

**Know your APR for credit cards and any other loan before you commit.**

**There are many online loan calculators that help you identify the total interest you will pay for any loan.**

**Loan Calculator**  
This loan calculator will help you determine the monthly payments on a loan. Simply enter the loan amount, term and interest rate in the fields below and click calculate. This calculator can be used for mortgage, auto, or any other fixed loan types.

Loan amount	\$	5,000
Loan term in years		5
or		
Term in months		60
Interest rate per year	%	4.50
<b>TODAY'S RATES</b>		
Loan start date		20 Oct 2016

**\$93.22**  
MONTHLY PAYMENTS

■ Interest ■ Principal

## Can a Credit Card have multiple APRs?

Yes. Different APRs may apply to different types of balances. While you may think about having a single balance, you might actually have several types of balances, each with a unique APR and/or repayment terms. The following balance types are common examples.

**Purchase balances.** Purchase balances reflect transactions you made in order to purchase something in a store or online. Some cards also have special purchase balances for promotional purchases. Account fees, such as late fees, are usually added to the main purchase balance.

**Cash advance balances.** Many credit cards let you get cash advances from ATMs, convenience checks, or at a bank. This can be useful when you need cash in an emergency. Be aware, however, that you usually pay interest from the date you take the cash advance. In addition, you usually pay a higher APR on cash advances and a transaction fee.

**Balance transfer balances.** Many credit cards allow you to transfer balances from other creditors.

You may get a promotional offer with a low APR on transferred balances for a limited amount of time.

This can save you money, but only if you manage your account wisely. Be aware of the balance transfer offer's full set of terms before accepting it. You should make sure you understand:

- How long the initial APR lasts and the APR that applies afterwards.
- The events that may cause you to lose a low APR. For example, if you are late on a payment or go over your limit, the APR may change.
- If a transaction fee applies to the balance transfer. If it does, see how much the fee will reduce your savings to a lower APR.

## What should I know about an introductory APR?

Some credit cards offer low introductory APRs. The low APR usually ends after a number of months. Then a higher APR applies. Before you accept a low APR offer, make sure you understand:

- How long the introductory APR lasts
- The APR that applies afterwards
- Any conditions
- The events that may cause you to lose a low APR. For example, your APR may change if you make a late payment, go over your limit, or you fail to make a minimum number of purchases each month.
- If a transaction fee applies to the balance transfer. If it does, see how much the fee will reduce your savings from a lower APR.



# Debt to Income Ratio (DTI)

## What is Your Debt to Income Ratio?

This number is one way lenders measure your ability to manage the payments you make every month to repay the money you have borrowed. Your DTI ratio helps lenders evaluate how much additional debt you can handle and how much of a credit risk you pose. It is generally calculated by dividing your monthly income by your total monthly debt payments, including minimum credit card payments, auto loan and student loan payments and any other regular debt obligations. Your income isn't reported in your credit report, so as part of a loan application, lenders will often request either a self-reported estimate or documentation confirming income.

## Standard Rule of Thumb

As a general rule, your DTI ratio should be less than 36 percent. Keep in mind that a DTI ratio as high as 36 percent could put you at risk of paying higher interest rates or being denied altogether. The Consumer Financial Protection Bureau also highlights 43 percent as an important number because it is generally the highest debt-to-income ratio a consumer can have while still being eligible for a Qualified Mortgage.

- If you want a quick picture of what your current DTI is, try this simple calculation. Approximate your monthly gross income and multiply that number by 36 percent. For example, if you have a \$2,200 monthly gross income:

**CALCULATION: Monthly Gross Income x .36 = Generally Recommended Maximum DTI**

\$2,200 (Gross monthly income) x .36  
(Generally recommended maximum DTI)

= \$792 (Amount your total monthly debt payments should generally not exceed)

**This calculation gives you a quick guideline of what a comfortable debt load looks like for your monthly income.**



## DTI FAST FACTS

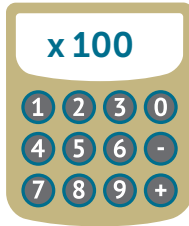
- If your DTI ratio is low, then you are more likely to have the income necessary to repay your debts. If your DTI ratio is high, then you may be overwhelmed by debt and unable to pay back new debt obligations.
- Lenders scrutinize your DTI ratio when you are applying for credit because it helps them evaluate your ability to repay your debts. Lenders may set your interest rates according to the risk you pose.
- Each lender sets its own DTI requirement. Not all personal loan providers publish a minimum debt-to-income ratio, but generally it will be more lenient than DTI limits for a mortgage.
- Although your DTI ratio is not one of the key factors that calculate your credit score, it can have a significant impact on your ability to get credit.
- To reduce your DTI ratio, you need to either make more money or reduce the monthly payments you owe.
- If your DTI is above 50%—especially if the majority of your debt is from credit cards—you may want to explore debt relief options such as credit card debt consolidation, debt management plans or, as a last resort, bankruptcy.



# DTI Calculation

To calculate DTI, divide total debt by total income and then convert the decimal to a percentage by multiplying the number by 100 (or by moving the decimal two places to the right).

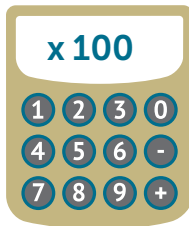
## Example Calculation of DTI:



DEBT	GROSS MONTHLY INCOME
\$1,200 Mortgage includes taxes, insurance, etc.	<b>\$5,000</b>
\$ 300 Auto Loan	
\$ 200 Credit Cards	
<b>\$1,700 TOTAL</b>	

<b>CALCULATION: Debt ÷ Gross Monthly Income = R x 100 = Your DTI</b>
\$1,700 ÷ \$5,000 = .34 (R)
.34 (R) x 100 = 34% (DTI)

## Now Calculate Your DTI



LIST ALL OF YOUR DEBT	DETERMINE YOUR GROSS MONTHLY INCOME

### YOUR CALCULATION:

**CALCULATION: Debt ÷ Gross Monthly Income = R x 100 = Your DTI**

$$\frac{\text{DEBT}}{\text{GROSS MONTHLY INCOME}} = \text{R} \times 100 = \text{DTI}$$

\*When you get (R) it is in decimal form. You can simply move the decimal 2 places to the right.



## Before you begin any debt pay down strategy, make sure that you.....

### 1 Know who and how much you owe.



### 2 Pay your bills on time each month.

- Late payments make it harder to pay off your debt since you will have to pay a late fee. Miss two payments in a row and your interest rate and finance charges may increase.
- If you use a calendaring system on your computer or smartphone, enter your payments there and set an alert to remind you several days before your payment is due. If you miss a payment, don't wait until the next due date to send your payment; by then it could be reported to a credit bureau. Instead, contact the creditor right away and make arrangements to send your payment as soon as possible.



### 3 Make minimum payments on all accounts and consider an acceleration amount. (See "Debt Tackle" on the next pages.) Create a monthly bill payment calendar.

- Use a bill payment calendar to help you figure out which bills to pay with which paycheck. On your calendar, write each bill's payment amount next to the due date. Then, fill in the date of each paycheck. If you get paid on the same days every month, like the 1st and 15th, you can use the same calendar from month to month. But, if your paychecks fall on different days, it would help to create a new calendar for each month.
- Use direct withdrawal for payments from your bank account. Set this up with the creditor and your bank.

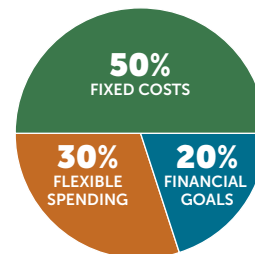


### 4 Pay off collections and charge-offs.

- A debt collection is a severely past due account that will make it difficult for you to get approved for new credit and loans. It is one of the worst types of entries you can have on your credit report.
- If you have a collection account on your report, it is likely affecting your credit score. This is especially true for more recent collections. You can improve your credit score by getting these collection accounts deleted from your report or at least having them reported as "Paid" or "Current."
- Before you pay off a collection account, first negotiate with the debt collector to have your credit report updated to something favorable. The only unacceptable scenario is to pay the collection without having the fact reflected in your credit report.



### 5 Use a monthly budget to plan your expenses.



### 6 Recognize the signs that you need help.

You cannot make payments on time and you are beginning to miss payments.





# Debt Consolidation Options



## 0% Balance Transfer Credit Card

This type of credit card charges no interest for a promotional period, often 12 to 18 months, and allows you to transfer all your other credit card balances over to it, usually for a fee, (e.g., 3%-5% of the amount transferred). This method works best if you have a plan to pay off your debt within the 0% promotional period.

**PROS:** Allows you to manage only one credit card payment at no interest, instead of multiple payments at high interest. Some cards even accept balances from certain types of non-credit-card debt.

**CONS:** Generally requires a good credit score to qualify. If debt cannot be repaid during the promotional period, you will need to find another balance transfer offer or you will face higher rates.

## Home Equity Line Of Credit (HELOC)

Home equity represents the value of your home that is not tied to a loan. Homeowners can take out a line of credit on the equity in their home. Interest rates are typically variable and low. A HELOC typically requires interest-only payments during the first few years. That means you will need to pay more than the minimum payment due to make a dent in your overall debt. When you borrow from a HELOC, you may be spreading the debt out over a longer period, which means you end up paying more in interest.

**PROS:** Lower interest rate than an unsecured loan.

**CONS:** This is a secured loan, which means that your house is on the line if you do not keep up with payments.

## Debt Consolidation Loans

A personal loan taken from your local bank or credit union or an online lender may give you a lower interest rate on your debt, or help you pay off your debt in a shorter period of time. You should shop around at different lenders and pick the one that gives you the most favorable terms and rate. The lowest rates go to those with the best credit. There are also some online lenders who focus on debt consolidation, and others that cater to those with bad credit by looking at nontraditional factors such as profession and education.

**PROS:** Fixed installment payments may be easier to work into your budget.

A personal loan may improve your credit score by moving credit card debt over to the installment loan column.

**CONS:** A debt consolidation loan is still debt. You cannot borrow your way to financial freedom; lower payments may help, but only if you use the money as intended and follow through as part of a larger plan.

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## 401(k) Loans

If you have an employer-sponsored retirement account, it is generally not a great idea to take a loan from it, since the goal of the account is to set aside money for when you retire. If you really need to pay off debt, however, this may be an option for you.

**PROS:** You are borrowing money from yourself, instead of someone else. The debt disappears from your credit reports as well, because 401(k) loans are not reported to the credit bureaus.

**CONS:** If you cannot repay the loan, you will owe a hefty penalty plus taxes on the unpaid balance—you may end up losing money to taxes and penalties. Most retirement plans typically require you to pay the loan back within five years. In the event that you lose your job, you have a limited period of time to repay the loan. You may be left struggling with more debt and no immediate income to pay it off. Longer term, you are borrowing money that should be left alone to grow, leaving you less prepared for retirement.

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## Life Insurance Loans

As with a 401(k) loan, it's not the best idea to borrow from a life insurance policy to pay off debt. Again, you may have to pay some interest for taking out a loan against your policy, and if you borrow more than the policy amount, you could lose your life insurance. Consider the tradeoffs carefully before you try this option.

**PROS:** You do not have a deadline to pay back the loan, and you can also choose not to pay it back.

**CONS:** You can borrow only against the cash value of your policy, which can be low during the policy's initial years. Any unpaid interest is added to the loan balance, so you essentially owe interest on the interest. If you do not pay it back, the amount you borrowed will be deducted from the proceeds paid out to your heirs. If the loan grows large enough, it could cause your policy to collapse — meaning nothing would be paid to your heirs, and there could even be a tax bill on the difference between the loan balance and the policy's face value.

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## Cash Advance/Payday/No-Credit-Check Installment Loans

A payday loan, also known as a cash advance loan, will give you money fast without a credit check, but such loans are a bad idea. They come with very high interest rates, which doesn't make sense if you are trying to pay off debt, and lenders also require the loan to be paid back on the borrower's next payday. Some loans that are available for longer terms are marketed as **no-credit-check installment loans**. They also come with very high interest rates.

**PROS:** None.

**CONS:** Interest rates significantly increase the cost of borrowing, which may be counterproductive to reducing debt.



# Debt Tackle

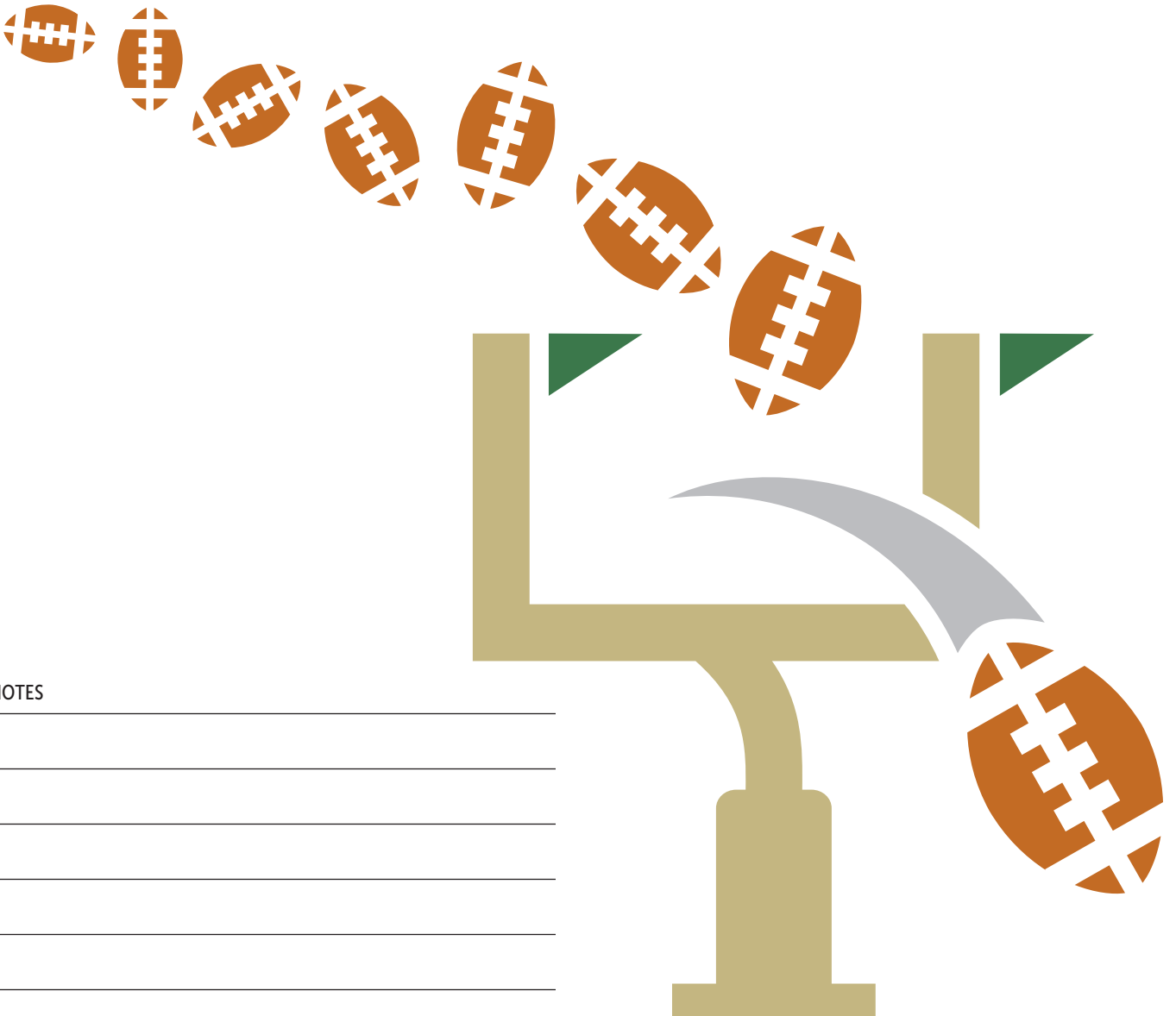
## (Debt-Snowball Method)

The debt-snowball method is a debt reduction strategy, whereby one who owes on more than one account pays off the accounts starting with the smallest balances first, while paying the minimum payment on larger debts. Once the smallest debt is paid off, one proceeds to the next larger debt above that, gradually proceeding to the larger ones later.

The idea of the tackle (debt snowball) is simple: make minimum payments on all of your debts except for the smallest one. As debts are paid off, add those payments to the next debt.

### ACCELERATION AMOUNT

This is the amount over your minimum payment. It is always best to add an acceleration amount to your first debt payment. If you have the ability, add an affordable acceleration amount to your future payments on other debt. Just like a running back, this will get you to your goal faster!!



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## TACKLE YOUR DEBT STEPS TEMPLATE EXAMPLE

Your Debt (mortgage, car loan, credit cards)	Balance (smallest to largest)	Minimum Payment Required	Interest Rate	Acceleration Amount (any amount that you are paying over required minimum)	NEW MONTHLY PAYMENT	TACKLE YOUR DEBT STEPS
MasterCard	\$2,000	\$25	15.99%	\$50—this is your acceleration amount	\$75	Pay the MasterCard first. (Pay \$25 +\$50 = \$75)
 <b>1ST DOWN—MASTERCARD PAID OFF!! CELEBRATE! AND TACKLE THE NEXT DEBT!</b>						
VISA	\$2,500	\$35	16.99%	\$75 Acceleration Amount If you cannot afford the full acceleration amount, use an amount you can afford.	\$110	Once the MasterCard is paid off, take the total monthly payment (\$75) you used to pay on the MasterCard + the minimum payment for the VISA (\$35) and your New Monthly Payment = \$110. Then, tackle the next debt on your list—the department store credit card.
<b>2ND DOWN—VISA PAID OFF! CELEBRATE! AND TACKLE THE NEXT DEBT!</b> 						
Department Store Credit Card	\$7,500	\$115	18.99%	\$110 Acceleration Amount If you cannot afford the full acceleration amount, use an amount you can afford.	\$225	Once the VISA is paid off, take the total monthly payment (\$110) made on the VISA + the minimum payment on the department store credit card and your New Monthly Payment = \$225. Then, tackle the next debt on your list—the Car Loan.
 <b>3RD DOWN—DEPARTMENT STORE CREDIT CARD PAID OFF! CELEBRATE!! AND TACKLE THE NEXT DEBT!</b>						
Car Loan	\$12,000	\$450	8%	\$225 Acceleration Amount If you cannot afford the full acceleration amount, use an amount you can afford.	\$675	Once the Department Store Card is paid off, take the total monthly payment (\$225) on the department store credit card + the minimum payment on the car loan (\$450). New Monthly Payment = \$675 and you have got a touchdown.
<b>ALL DEBT TACKLED!!! TOUCHDOWN!</b>						



# Steps to Tackling Debt

Use the sample statements below and the **Tackle Your Debt Steps Template** on the next page to complete the three debt tackle steps.

COMPANY	TYPE OF LOAN	INTEREST RATE	MINIMUM PAYMENT	PAY OFF AMOUNT
ABC Auto Lenders	Car Loan	6.00%	\$125	\$9,000
MasterCard	Credit card	19.00%	\$26	\$1,981
Visa	Credit card	21.99%	\$24	\$2,300
XYZ Department Store	Credit card	21.99%	\$45	\$3,310
Student Loan Lender	Student loan	4.00%	\$89	\$8,500
Mortgage Loan	Mortgage	3.00%	\$1,052	\$175,000

**The acceleration amount you wish to pay is \$25 for the first debt tackled.**

## Step 1

List the debts in order, from the smallest balance to the largest. Don't be concerned with interest rates, unless two debts have a similar payoff balance. In that case, list the one with the higher interest rate first.

Instead of paying more than the minimum of several cards at once, pay extra on just that first credit card. That is the acceleration amount. On all other debts, pay only the required minimums.

## Step 2

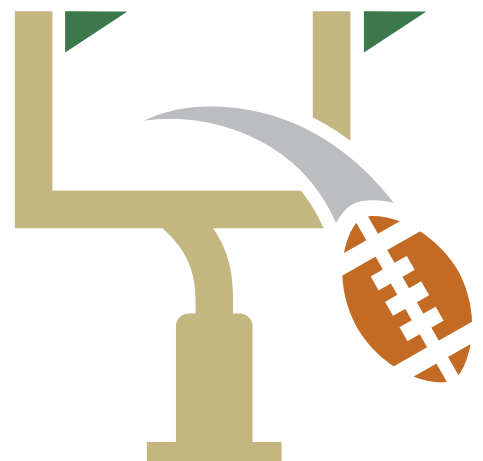
After the first debt is paid off, take the full amount you used to pay monthly (minimum plus the acceleration amount \$50, \$100, etc.) and add that to the minimum payment of next debt on your list.

Do what you can to pay off the smallest debt until it is gone. Then, you tackle the next one. Every time you pay a debt off, you apply its old minimum payment toward your next debt.

## Step 3

Redo this sheet every time you pay off a debt so that you can see how close you are getting to total debt freedom. Keep the old sheets for the big win!!

The "New Monthly Payment" is the total of the previous debt's payment PLUS the current debt's minimum. As these payments compound, you'll start making huge payments as you work down the list.











# Collections

## If you are unable to make a payment, your best course of action is to call the lender!

Do not wait for the loan to go to collections! If debt is on its way to collections (more than 180 days late), it is wise to work out a payment arrangement on this debt first. Remember, once a debt has gone to collections, your credit report is negatively impacted. If you are behind in paying your bills, or a creditor's records mistakenly make it appear that you are, a debt collector may be contacting you.

The Federal Trade Commission (FTC), the nation's consumer protection agency, enforces the **Fair Debt Collection Practices Act** (FDCPA), which prohibits debt collectors from using abusive, unfair, or deceptive practices to collect from you. Under the FDCPA, a debt collector is someone who regularly collects debts owed to others. This includes collection agencies, lawyers who collect debts on a regular basis, and companies that buy delinquent debts and then try to collect them.

### What types of debts are covered?

The Act covers personal, family, and household debts, including money you owe on a personal credit card account, an auto loan, a medical bill, and your

mortgage. The FDCPA doesn't cover debts you incurred to run a business.

### Can a debt collector contact me any time or any place?

No. A debt collector may not contact you at inconvenient times or places, such as before 8 in the morning or after 9 at night, unless you agree to it. Collectors may not contact you at work if they are told (orally or in writing) that you are not allowed to receive calls at the office.

Debt collectors can contact you by phone, letter, and email or text message to collect a debt, as long as they follow the rules and disclose that they are debt collectors. No matter how they communicate with you, it is against the law for a debt collector to pretend to be someone else—like an attorney or government agency—or to harass, threaten, or deceive you.

Report any problems you have with a debt collector to your **state Attorney General's office**, the **Federal Trade Commission**, and the **Consumer Financial Protection Bureau**. Many states have their own debt collection laws that are different from the federal Fair Debt Collection Practices Act. Your Attorney General's office can help you determine your rights under your state's law.

### For More Information

To learn more about credit-related issues, visit [MyMoney.gov](https://www.mymoney.gov), the U.S. government's portal to financial education.



# Bankruptcy

Deciding to declare bankruptcy is a very difficult decision to make. Before entering into bankruptcy consult a trusted financial professional.

## Two Types of Bankruptcy

**Chapter 7**—Individuals submit a petition using this section of the bankruptcy code. An “automatic stay” is put into effect, forbidding businesses from threatening a lawsuit against them or even trying to collect on the debt. A court appointed trustee will look over the debtor’s financial information and may sell some of his or her unprotected assets to pay off creditors. Under normal circumstances, the end result is a discharge

from any debts included in the filing even if the sale proceeds fall short of the amount due.

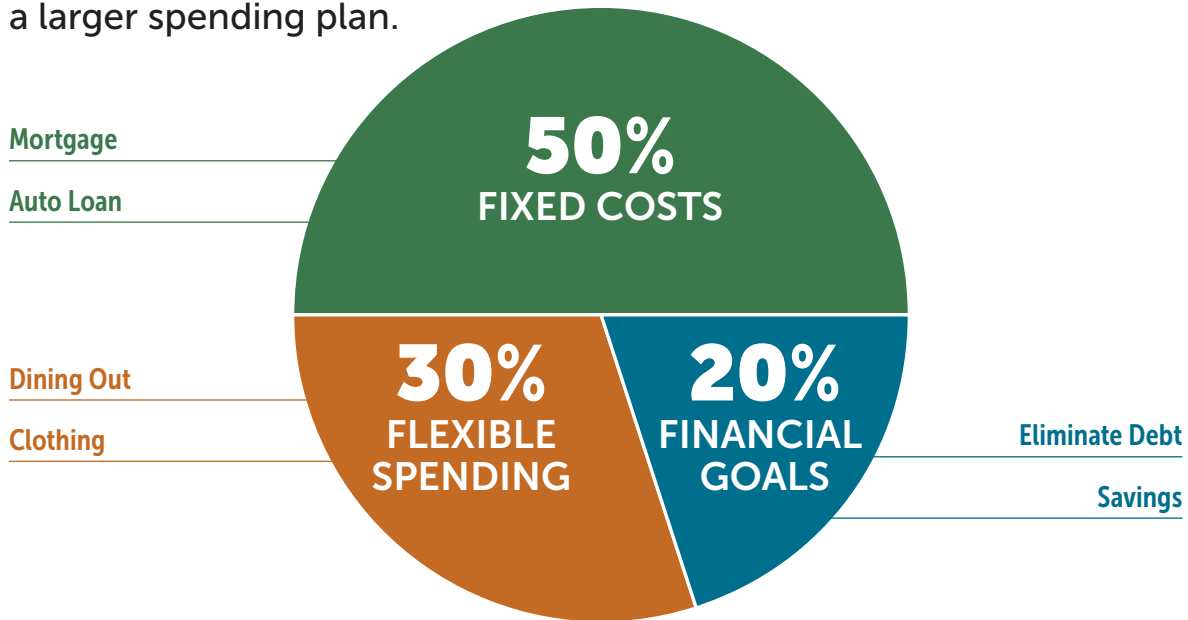
**Chapter 13**—A U.S. Bankruptcy proceeding occurs, in which the debtor undertakes a reorganization of his or her finances under the supervision and approval of the courts. As part of the reorganization, the debtor must submit and follow through with a plan to repay outstanding creditors within three to five years. In most circumstances the repayment plan must provide a substantial payback to creditors—at least equal to what they would receive under other forms of bankruptcy and it must, if needed, use 100% of the debtor’s income for repayment.

For further information, you can find the pros and cons for bankruptcy by visiting these two websites:  
<http://bankruptcy.findlaw.com/chapter-13/pros-and-cons-of-declaring-bankruptcy-under-chapter-13.html>  
<http://bankruptcy.findlaw.com/chapter-7/pros-and-cons-of-declaring-bankruptcy-under-chapter-7.html>



# My Game Plan

Your debt tackle is part of a larger spending plan.



1. What documents and information do I need to organize for my spending plan, (e.g., monthly income, bills)?

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2. What changes do I need to make to my spending plan (if any)?

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3. What are some possible sources of additional income?

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4. What steps will I take to avoid incurring new debt?

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