

## ***START OVER, FINISH RICH***

### **ACTION STEP: DEAL WITH YOUR CREDIT CARD DEBT**

American consumers currently owe nearly \$1 trillion in credit card debt and are paying an additional \$15 billion or so each year in fees they don't deserve. And according to Federal Reserve Statistics, the average family that carries a credit card balance owes nearly \$17,000. If you are one of the estimated 50 million Americans who are drowning in credit card debt, know that while it may not be easy you *can* get out of debt—and probably without outside help.

#### **Figure Out How You Got in Credit Card Debt in the First Place**

The amazing thing about credit cards is that they don't have arms and legs. They can't jump out of your wallet and go on a spending spree on their own. So if you are over your head in credit card debt, ask yourself how you got there. Be honest. Did you buy things you *wanted* or things you *needed*? Did you live beyond your means? Or did you run into a crisis, like having to pay for an expensive medical procedure or feed your family after you lost your job? Recognize that whatever got you into credit card debt is going to keep you there *if you don't change how you spend money*. Start living by the adage, "If you can't pay cash, you can't afford to buy it." And if you are drowning in credit card debt, STOP USING YOUR CREDIT CARDS.

#### **Use the DOLP (Dead On Last Payment) Debt-Reduction System**

If you can afford to make the minimum payments on your cards, use Bach's simple, proven DOLP (Dead on Last Payment) system to prioritize your debts and figure out in minutes how to pay them off quickly and efficiently. The DOLP system works by identifying the card you can pay off most quickly and then having you pay it off first. Fill out a DOLP worksheet (free at [www.finishrich.com/dolp](http://www.finishrich.com/dolp)), writing out the name of each account you have, the outstanding balance you owe, the minimum monthly payment, and the payment due date. Then give each account its own DOLP number, which you calculate by dividing the outstanding balance by the minimum monthly payment. Assign a DOLP ranking for each account, with the account with the lowest DOLP number ranked # 1. Enter the payment due dates for all your credit accounts in your computer's calendar system, with the computer set to remind you of each due date at least five days in advance so you won't make any late payments. Then start paying down the debt the DOLP way by making the minimum monthly payment on every account except for the one with the # 1 DOLP ranking. For that card, make as big a payment as you can afford—ideally, at least double the minimum. Once a card has been paid off entirely, retire it and start paying down the card with the # 2 DOLP ranking. Repeat until you have paid off the full balance due on every card.

#### **Get Your Credit Card Interest Rate Lowered**

You can make your DOLP plan work even faster by lowering the interest rate on your cards. First, know the rate you are paying on each of your cards (listed as the "annual percentage rate" or "APR" at the bottom of your most recent credit card statement). Second, find out how your interest rates compare to the national average by visiting a website like [www.bankrate.com](http://www.bankrate.com), [www.lowcards.com](http://www.lowcards.com), or [www.cardtrak.com](http://www.cardtrak.com). Make sure you are being charged a fair rate for the category of borrower you are—super-prime (for the most creditworthy); prime (for average borrowers); sub-prime (for below-average borrowers); promotional (for new customers); and punitive (for those who've broken the rules by missing payments or exceeding their credit limits). Make sure the interest rate you are being charged is fair for the category of borrower you are. Then call your credit card company's dedicated help line to try to get your interest rate lowered.

### **If You Can't Afford to Make the Minimum Payments**

If you cannot afford to make minimum payments, please don't ignore the situation. First, take advantage of Help With My Credit ([www.helpwithmycredit.org](http://www.helpwithmycredit.org)), a resource for struggling consumers created by a group of major card issuers, including Bank of America, Citi, Discover Card, and the Visa and Mastercard networks. Then, ask the credit companies about their "debt-management plans." In a typical DMP, you can get your interest rate slashed (and sometimes eliminated entirely) in return for signing on to a guaranteed repayment program in which payments are automatically debited from your checking account each month.

If the credit card companies can't help you, contact the National Foundation for Credit Counseling ([www.debtadvice.org](http://www.debtadvice.org)) to get connected with a reputable nonprofit credit counseling agency that can help you deal with your spending and create a payment plan to pay down your debt. Beware, however, of "debt-settlement companies" that offer to negotiate a settlement on your behalf with your creditors, often promising they can "wipe out your debt or cut it in half." Many of them simply steal your money.

### **What to Do If Your Credit Card Debt Has Already Been "Charged Off"**

If you've gotten really behind on your credit card payments, the credit card company may "charge off your debt"—write off the debt as a loss and sell it to a collection agency. If this has happened to you, get copies of your credit reports and check if the debt shows up as having been "charged off." If it does, the damage is basically done and the charge off will stay on your credit report for seven years, bringing down your credit score. The good news is that the collection agency that bought your debt from the credit card company and is calling you is simply trying to make money on their investment, which means you may have more leverage than you think. In addition, in most states there is a statute of limitations on your "time barred" debt—usually between three to ten years (rules vary from state to state.) Visit [www.FTC.gov](http://www.FTC.gov) and search "time- barred debts" to determine if your debt has already cleared the date from which you can be sued by a creditor or debt collector.

#### **To Do in 2010**

- ✓ **If you are drowning in debt, STOP USING YOUR CREDIT CARDS.**
- ✓ **Use the DOLP (Dead on Last Payment) system to get out of debt quickly, paying the minimum on every card except one. Pay as much as you can on that one card until it is paid off. Repeat with the next card.**
- ✓ **Determine what kind of interest rate you should be getting on your credit cards, from Super-Prime to Punitive, then go to [www.bankrate.com](http://www.bankrate.com), [www.lowcards.com](http://www.lowcards.com), or [www.cardtrak.com](http://www.cardtrak.com) to find out how your cards' interest rates compare to the national average. Armed with this knowledge, contact the credit card companies and ask for the lower interest rate you deserve.**
- ✓ **If you can't afford to make your minimum payments, ask your credit card companies about their debt-management plan—and if they can't (or won't) help you, get credit counseling from a reputable nonprofit agency recommended by the National Foundation for Credit Counseling.**
- ✓ **If your debt has been sold to a collection agency, prioritize this debt last and when you are ready, negotiate to pay a fraction of the debt.**

- ✓ Before you settle any debt, visit [www.ftc.gov](http://www.ftc.gov) and search “time barred debts” to determine if your debt has already cleared the date from which you can be sued by a creditor or debt collector.

Adapted from *START OVER, FINISH RICH* by David Bach, copyright ©2009 by David Bach