How Do I Get Out Of Debt?

A CredAbility Educational Course | Activity Worksheet

Managing debt to achieve financial goals
presented by CredAbility
version 1.0 revised May, 2010
Key Learning Points

The purpose of this course is to help you achieve your financial goals.

- Don't spend your future.
- Pay off charges quickly.
- Build a workable plan to pay off your debts.

A. Don't spend your future

**Good debt** is money borrowed to purchase something that will appreciate in value or yield a positive return. For example, houses have historically increased in value, so borrowing to purchase a home helps most people build long-term wealth. Another example of good debt is something that can increase your ability to earn additional income in the future. Research shows that people with more education or training earn more each year than people with just a high school diploma. Therefore, loans for technical training or college are generally considered to be good debt.

**Bad debt** is borrowed money that takes longer to pay off than the purchased item is worth. Too many consumers turn ordinary purchases made on credit cards—such as gas, groceries, clothes or eating out—into bad debt by not paying them off quickly. They end up paying interest on the items over many years, sometimes paying twice what the item originally cost. Automobiles also may fall into the bad debt category if you finance the car for a long period of time or if you finance more than the vehicle is worth.

Unless you can accurately predict the future, you need to be very careful about spending your future income. It is important that you carefully consider what debt you incur and whether it will help you reach your financial goals. Having too much debt of the wrong type can limit your future options and opportunities.

B. Pay charges off quickly.

Regardless of how much you owe, remember you didn’t get into debt over night, and it will take discipline and commitment to get yourself out of debt. There are simple steps you can take to systematically work your way out of debt by building and following a plan to pay down your debts. You can be in control in no time at all.
C. **Build a workable plan to pay off your debts.**

1. Make a list of your debts, including the balance and the interest rate for each. Put them in the order of smallest balance to the largest balance or by the highest interest rate to the lowest interest rate.

2. Write down the minimum monthly payment for each debt.

3. Determine how much extra money you will set aside in your spending plan to pay down your debts.

4. Add that extra money to the minimum payment of the first debt on your list.

5. Continue to make the minimum monthly payment on all other debts.

6. Once the first debt is paid off, add the monthly payment amount from the first debt to the minimum payment of the second debt in your list.

7. Continue the process until all debts are paid off.

8. Use any additional income you receive—tax refunds, raises, and unexpected income—as additional money to pay down your debts.

9. It is important to remember not to put more debt on any of your credit cards while they are being paid off.

10. If you are unable to build a workable plan to pay down your debts, you should seek the services of a credit counseling agency, such as CredAbility.
Follow-Up Activities
Activities to help you move from crisis to control to confidence in your personal finances.

- If you are experiencing a personal finance crisis and need to speak with a counselor, call us at: **800.251.2227**. We are available 24/7 every day.

- To gain more control over your daily spending and practice smart money-management habits, we recommend you take advantage of our free, self-guided online educational offerings. In particular, we recommend you view the following listen-on-demand courses at [www.CredAbility.org/education](http://www.CredAbility.org/education):
  
  * Where does my money go?*
  * Financial freedom starts here!*
  * Living on 70 cents.*

- To obtain your FICO credit score, go to [www.myfico.com](http://www.myfico.com) (there may be a fee for this service).

- For a free copy of your credit report, go to [www.annualcreditreport.com](http://www.annualcreditreport.com) or contact the credit bureaus:
  
  * Equifax 800.685.1111  Experian 888.397.3742  TransUnion 877.322.8228*

- To help you gain confidence in your personal finance knowledge, we recommend the following books:
  
  * **Debt Payment Guide To Surviving Debt** by Deanne Loonin and John Rao*
  * **Debt-Proof Living** by Mary Hunt*
  * **Pay it down** by Jean Chatzky*

For more information about our education programs or to schedule a workshop, call **866.255.2227** | [www.CredAbility.org/education](http://www.CredAbility.org/education)