DEPARTMENT OF FINANCIAL PROTECTION & INNOVATION

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Education and Outreach

The DFPI's education and outreach programs provide tools to make smart financial decisions, so consumers can operate safely in the financial marketplace.

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Reduce Your Debt

If you can soundly manage your debt, you will strengthen your personal finances and take more control of your economic future.

Understand Your Debt

Not all debts are equal. Knowing what kind of debts you have is important. For example, home and school loans may reduce your taxes, and increase your wealth and earning power. Other debt, such as credit card debt, doesn't have that benefit. If you're not careful, it can trap you in a cycle of debt that harms your financial security.

Credit enables you to make purchases without using cash. Never forget, though, that the convenience has a price interest. And the longer it takes you to pay off the credit balance, the more interest you pay. To reduce debt, it's wiser to not borrow more than you can afford to pay off every month.

Signs of Financial Trouble

Financial difficulties may lead to greater use of credit cards, cash advance loans, or other high cost options. Be careful – this may lead to a cycle of debt from which it will be very difficult to escape.

If any of the following apply to you or your family, you may be in danger of falling into a debt trap:

- You make late payments, miss payments, or juggle payments
- Your total credit card debt is more than your total monthly income
- You don't have any savings and are unable to save money
- You can only pay the minimum on a credit card for two consecutive months

- You or a family member can't stop overspending. (For advice and support, go to Spenders Anonymous www.spenders.org)

5 Steps to Get Out of Debt

1. Make a Budget
Make a budget, and stick to it. List all your income sources, and calculate how much you need to spend every month to pay bills, living expenses, debt and other expenses. Keep track of every purchase for a month - coffee, parking, etc. This will help identify opportunities to reduce your spending, making more money available to pay off debt.

2. Prioritize Your Debts
Evaluate which debts to tackle first. You might begin by aggressively paying off the debt with the highest interest rate, while making lower payments on debts with lower interest rates. When the debt with the highest interest rate is paid off, apply the same aggressive payment strategy to the debt with the next highest interest rate, and so on.

However, if interest rates on your debts are similar, you may want first repay the debt with the lowest balance owed. Paying off even a small debt provides a sense of accomplishment that can energize you to tackle larger debts.

3 Reduce Your Interest Costs
Whenever possible, pay off the entire balance of your credit card(s) and other debts each month. If that's not possible, try to at least pay more than the minimum monthly payment. Remember, interest rapidly increases the total amount owed. Credit cards typically charge high interest rates, so making only the minimum payment means you will end up paying far more interest than if you make a larger (or full) payment. If possible, make one additional payment per year on large loans (like those for cars and houses) – this can significantly reduce your interest costs over time.

4. Find Out Your Credit Score
Your credit score is used by lenders to determine whether you qualify for a specific loan, credit card or financial service. The better (higher) your credit score, the lower your interest rates on current and future loans.

Your credit score is based on the amount of credit you already have, how your debt compares to your income, and your payment history. For a modest fee, you can get your credit score information at **www.myfico.com.** You also can get your credit report (not score) free of charge once a year from each of these three companies: Equifax, Experian and Trans Union.

5. Improve Your Credit Score
Pay bills on time. If you miss a payment, get current and stay current.

- Manage your credit responsibly.
- Keep balances low on "revolving credit" accounts (those without a fixed number of payments, such as gasoline or retail store credit cards).
- Don't move debt around. Opening new cards with low introductory rates to move large balances from accounts with higher interest may be risky. If you don't pay the balance off in full before the introductory rate expires, you may end up paying even higher interest rates later.
- Re-establish your credit history if you have had problems. Open a new account and pay it off on time - this will raise your credit score over time.

Financial Difficulties

If you or family members frequently spend more than you can afford, worry about making ends meet, fear opening monthly bills, or suffer stress when applying for a loan – it's time to take action! Don't let fear or embarrassment prevent you from seeking help. If you can't pay your bills, contact creditors *before* payments are due.
Be persistent– a few phone calls can make a big difference. Ask your creditors to waive fees, reduce the interest rate, or help you create a payment schedule that will work within your budget.

If You Have Credit Problems

For assistance with credit problems and creditors, go to National Foundation for Credit Counseling (NFCC) at **www.nfcc.org** or call toll-free **1-800-388-2227**.

If You Are Facing Bankruptcy

Recent federal law requires mandatory credit counseling before you can declare bankruptcy. Go to **https://consumer.ftc.gov/articles/filing-bankruptcy-what-know** to learn more.

The U.S. Department of Justice Trustee Program approves organizations to provide mandatory counseling *before* you declare bankruptcy and mandatory debtor education *after* you declare bankruptcy. For more information, go to **www.justice.gov/ust/credit-counseling-debtor-education-information**.

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