

## Keeping Credit Cards Under Control

Strategies for paying off debt quickly and wisely...

provided by Jude Wilson RFC, MBA

In today's economy, where job losses are common and many are short on cash, credit card balances are on the rise. At the end of 2008, the average credit card debt per household in the U.S. was \$8,329 (Source: Nilson Report, April 2009). While it's tempting to put expenditures on credit cards with intentions of paying off those cards once cash flow situations improve, running up credit card bills can be a costly and dangerous venture that can get out of control quickly. Here are some strategies to help keep that credit card debt low and pay it off quickly and wisely.

Pay more than the monthly minimum. Credit card issuers bank on your paying only the minimum on your cards each month so that they can continue to charge you interest. When the bill comes each month, pay off as much as you can at once to avoid paying unnecessary interest charges. Try to find ways to cut out other expenses so you can double the minimum payment. Even paying just a little bit more along the way can make a big difference in the long run.

Consolidate your cards. If you are paying more than one credit card bill each month and haven't reached your credit limits on them all, transfer balances to the card with the lowest interest rate. This will save you extra inter-

est payments and extra bills each month. Pay close attention to special offers to transfer balances at lower interest rates, noting how high the interest rates climb after the introductory periods are over. Take advantage of these offers, but read the fine print to ensure that if you don't pay off the debt in the introductory period, then you aren't stuck with an astronomical new rate.

Renegotiate your interest rate. Take a close look at the interest rates on your credit cards and ask for a lower rate. Tell them you've received other credit card offers and ask them how low they can go. If you aren't able to make your payments, tell the credit card company your situation. Ask not only for a lower interest rate but for a new and lower repayment schedule. Creditors will do what they can to keep your business and ensure they continue to receive payments.

Consider using your savings to pay off debt. If your credit cards are charging you more interest than you are earning in your savings account, then it may be wise to use those savings to pay off the debt. Even if your debt interest is at 12%, your investments would have to pay more than 18% before federal and state taxes to equal that outflow of dollars. In this scenario, paying off the debt is the same

as getting that 18% return without any risk on your part.

**Borrow your own money.** If you have a life insurance plan with cash value or 401(k) qualified retirement plan at work, in most cases you can borrow against the plans to pay off your credit cards so that you pay interest to yourself. Interest rates are typically well below commercial rates, and you can typically take your time repaying the loans.

If you do borrow from a life insurance account, not repaying before you die will mean the outstanding balance plus interest will be deducted from the face value of the policy payable to the beneficiary. If you borrow from your 401(k), the loan and interest will be repaid with after-tax dollars, but the interest will be taxed again when you withdraw money from the 401(k) years later. Additionally, you must repay this loan within five years. If you leave your employment prior to full repayment, the outstanding balance becomes due and payable immediately. If it's not repaid, that amount will be treated as a distribution to

you, meaning you'll be taxed on that amount at ordinary rates. And if you're under the age of 59 and one-half years, you will also be assessed an additional 10% excise tax as a penalty for an early withdrawal of retirement funds. So make sure you'll be able to repay the loan before you leave your job.

**Get a home equity loan.** If you have equity in your home that has accumulated through the years, you might consider getting a home equity line of credit to pay off credit card debt. By using home equity loan proceeds to pay off your credit card debt, you'll trade down to a much lower interest rate. And, home equity loan interest is in most circumstances tax deductible.

Regardless of you pay off your debt, the trick is to not get into the habit of running it up again. Take a close look at your monthly budget and find ways to cut back. As your financial advisor, I can help you find the most beneficial ways to pay off your debt with money you already have to make sure your overall financial situation is a healthy one.

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#### Citations.

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