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**LAURA ADAMS:** Hello, and welcome to *Money Girls, Quick and Dirty Tips for a Richer Life*. I'm your host, Laura Adams. In today's show, I'll share tips for managing debt in our current financial environment.

Everyone's on the edge of their seats about the current credit crisis and the volatile financial markets. As the economy has declined, many consumers have been relying on credit sources, such as credit cards and home equity loans, for everyday spending. But we've come to realize that the days of free-flowing credit are over. Banks and lenders are lowering credit limits on credit cards and scrutinizing new borrowers under their dusty microscopes. For many, this tight credit market will be the catalyst to address financial problems sooner rather than later.

If you've been living above your means, addicted to credit of any kind, consider this podcast your personal financial intervention. Debt management is not a one-size-fits-all topic because every debt holder is unique. Your debt could be the result of many different circumstances, such as overspending, job loss, or medical bills. You have to gauge your own situation and face up to your ability, or inability, to help yourself.

If you're seriously drowning in debt, the worst case scenario is to declare bankruptcy. This is the debt management option of last resort. Because a bankruptcy can stay on your credit report for up to 10 years, it will affect many aspects of your life for a long time. If you're considering this option, you'll need to consult a bankruptcy attorney for help with some tough decisions.

Anyone who intends to declare bankruptcy must get pre-filing credit counseling from an approved agency within six months before the filing. The agency must be approved by the US Department of Justice in the judicial district where you plan to file bankruptcy. You must also complete a pre-discharge education course in order for debts to be officially satisfied.

If you're not considering bankruptcy, but have a debt problem that's gotten out of control, you should also contact a credit counselor. You'll want to seek out a nonprofit credit counseling agency that gets most of their funding from your creditors, not from you. They may require nominal fees, but won't try to sell you anything. Make sure to choose a company that's

accredited with an industry agency such as the National Foundation for Credit Counseling or the Association of Independent Consumer Credit Counseling Agencies.

A good credit counseling agency should be open-minded to every option you have to improve your financial situation. They should help you create a budget and offer free educational resources. Try to meet with them in person if possible.

The debt negotiation industry is growing rapidly. These companies are not low-fee, nonprofit counselors, but representatives who aggressively work with your creditors. Many claim to be able to reduce debts by 50% or more. Be careful when dealing with these companies. As there have been some publicized scams, look for one that is certified by the International Association of Professional Debt Arbitrators and review fees schedules and contracts closely.

You may be eligible to enroll in a debt management plan, or DMP. These are also called one pay plans because the agency collects one monthly payment from you. They distribute the money to your creditors after negotiating lower payments on your behalf.

If you enroll in a DMP, protect yourself by confirming the plan directly with your creditors. Don't send any payments to a counseling agency or a debt negotiation firm until you know the plan is legit. I'll put a link in the show notes to some facts about DMPs from the Federal Trade Commission.

Another tool for debt management is debt consolidation. This entails paying off one debt with another debt. This may make sense if you can get a lower interest rate or even a discount on the principal amount of the loan. Loan consolidation may help alleviate pressure with lower monthly payments. But if lower payments are achieved by simply extending the terms of the loan, your underlying debt has not been reduced.

Debt settlement is another option if you have cash to offer. You or your attorney can contact your creditor in writing to offer a final cash settlement by a certain date. This is an effective strategy that could result in a deep discount on the debt. Also, be aware that the IRS considers forgiven debt as income subject to normal income tax.

In the best case debt scenario, your credit rating is still good, but you're simply living above your means. You know who you are. Debt is usually the symptom of saving too little and spending too much, a deadly combination. The solution is to permanently change your financial behavior by becoming more disciplined with your money. Is it easy? Absolutely not.

But the rewards of living life without a credit addiction include much less stress and better sleep.

So the bottom line on eliminating debt and practicing good money management is what you probably already knew, but needed to hear-- spend less than you make, or make more than you spend, then pay the difference to your debts on a regular basis.

In order to learn more about the personal finance and money topics that you are most interested in, we've created a very short survey. It's on the *Money Girl* section of the Quick and Dirty Tips website on the left side of the page at [moneygirl.quickanddirtytips.com](http://moneygirl.quickanddirtytips.com). You can easily complete this survey in less than two minutes. It will help me create better podcasts and determine what topics to cover in my upcoming book.

Chaching! That's all for now, courtesy of *Money Girl*, your guide to a richer life.

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