

CREDIT MANAGEMENT & DEBT REDUCTION



CREDIT MANAGEMENT &
DEBT REDUCTION GUIDE
Information to help you
build your financial future.



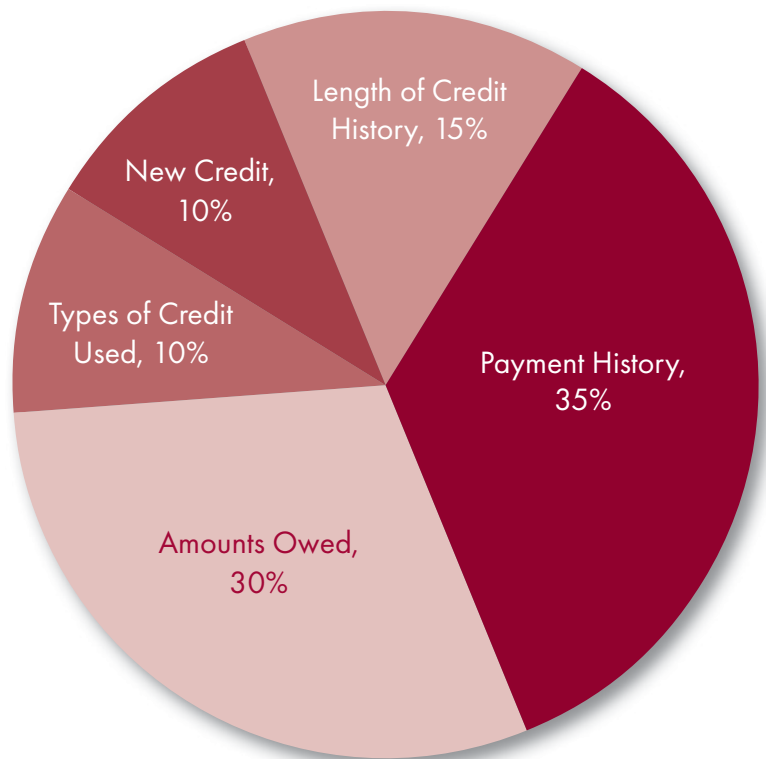
Good Credit and Why It's Important

- Helps you build personal financial wealth.
- Allows you to secure goods and services now, but pay for them later.
- Increases the confidence of lenders or creditors.
- Affects interest rates and fees you pay.
- Helps you to achieve short and long term financial goals.

Understanding Your Credit Score

- Your Fair Isaac Co. (FICO) score is used by lenders to determine your credit risk.
- Your FICO score is a mathematical equation that evaluates different categories of information on your credit report to identify your future credit risk.
- Your credit report does not contain information about your income.
- To check out your FICO score, visit www.myfico.com.

How Credit Score is Determined:



How do you get your credit report?

Equifax:

www.equifax.com
P.O. Box 740241
Atlanta, GA 30374-0241
800.685.1111

TransUnion:

www.transunion.com
P.O. Box 390
Springfield, PA 19064
800.888.4213

Experian:

www.experian.com
P.O. Box 949
Allen, TX 75013-0949
888.397.3742

How long does information stay on your credit report?

- Bankruptcy 10 years
- Judgment, Suit 7 years
- Tax Lien 7 years
- Collection, Charge-off 7 years
- Inquires/Late Payments 2 years

How do you improve your score?

- **Do** pay your bills on time.
- **Do** keep credit card balances low and pay off when possible.
- **Do** get your bills current and stay current.
- **Don't** close unused credit cards to try and boost your score. This will raise your balance to limit ratio, and can actually lower your score.
- **Don't** open accounts if you can avoid it.

The Ultimate Guide to Getting Out of Debt

1. Commit to getting out of debt.

Getting out of debt is hard. It takes maintaining discipline over a long period of time. It demands lifestyle changes.

While you shouldn't build a plan so strict that it would be impossible to stick to, you will have to make some tough choices. If you're used to treating yourself to spa days or shopping sprees, you're going to have to give up some of these tangible and expensive pleasures in order to obtain being debt-free. If you and your partner are collectively in debt, they'll need to be on board as well. It's not possible to do this on your own if your other half is still spending up a storm.

For motivation, create a visual reminder of what you're working toward, such as a photo of the kind of house you'd like to buy, or the destination you plan on hitting when you can afford it. Put the image in your wallet, on your computer or wherever you spend money — to remind yourself of what you'd really like to do when you get out of debt.

2. On a spreadsheet, list all your debt, balances, interest rates and minimum payments — and find out the total of what you owe.

Knowing the total will give you a rough sense of how long this might take. If you're shocked by the number you see, just remind yourself that this is the highest the number will be. Within the next month, it will start to get smaller. Knowing your minimum payments will help you budget, and having your interest rates will help you decide on your debt repayment strategy. List your debts in order of highest interest rate to lowest. Tally up your minimum payments so you know the minimum amount you need to put toward your bills every month. Keep the list easily accessible and editable so you can refer back to it in the coming months.

3. Start tracking your spending.

In order to pay down your debt, you'll need to find ways to free up the money you already have. Knowing where your money goes will help you spot where you can cut expenses. Look for big expenses that don't align with your priorities. If you're surprised to see that you spend \$200 a month for work lunches, start packing lunch from home. Also keep an eye out for expenses that you're not utilizing (do you actually use that monthly gym membership or Netflix subscription?). Note anything that was more expensive than it should have been, and get used to searching for coupon codes for online purchases and only shopping at in-store sales — if you must shop.

4. Do a first pass at your budget.

Figure out your annual take-home pay — what hits your bank account after taxes and 401(k) retirement contributions. If you receive a paycheck every other week, multiply the amount by 26 then divide by 12 to get the exact monthly figure. Tally up your necessary expenses: housing, transportation, utilities and groceries. Try to come up with a reasonable amount for your monthly groceries that you can stick to.

If the sum of your necessary expenses is greater than 50% of your take-home pay, it might be hard for you to pay off your debt quickly. (If you have other necessary expenses like childcare, which allows you to work, then it's fine to go over the 50% threshold). Otherwise, if you're exceeding the 50% mark, see if you can cut back on any of these expenses in any way.

5. Work your debt and expenses into your budget.

Now, calculate what percentage of your take-home pay your minimum debt payments are. If your necessary expenses are 50% or less, aim to put 20% of your take-home income toward your debt. If your minimum payments are less than 20%, you'll be able to put more than the minimum toward your debt each month.

Finally, see how much you have left to live on each month. From your monthly take-home pay, subtract your necessary expenses and your projected 20% debt payment. Divide the leftover by 4.33 to see how much you can spend each week. Is this enough to live on each week for your dining out, shopping, gym, entertainment, travel, gifts, cable, health and other costs?

If not, get the numbers to a ballpark range that feels doable, even if it means not hitting that 20% debt repayment goal. Expect that you'll have to go through a period of trial and error before you find the exact plan for you. But make a decision and head into the next step knowing what you'll be paying toward your debt every month.

6. Start your debt repayment plan.

Now that you have a monthly debt repayment target, go back to your debt spreadsheet. Pay the minimums on every debt except the highest interest rate debt. Put the rest of your debt repayment money toward that debt every month until it's gone. Afterward, cross it off the list and do the same for what is currently the second highest interest rate debt. Continue like this down the list. This method of repayment will ensure you pay the least interest.

7. Stick to your weekly allowance.

The only way you'll be able to pay off your debt is if you don't keep adding to it. This means being vigilant about living within your means. Depending on your income and the cost of living in your area, this can be difficult unless you keep an eye on it. If you know you need to make a shift in your spending habits, try using cash. Take out your weekly allowance in cash each week and only let yourself spend that amount until it runs out.

8. Adapt to your new lifestyle.

Now that you've started on your plan, you need to learn what behaviors will support it. If you feel comfortable doing so, tell friends and family about your debt repayment goal so they understand why you're suggesting more potlucks. If a friend suggests an activity that will be difficult on your budget, look for good free or inexpensive alternatives.

Even for non-social activities like personal hobbies, look for ways to cut costs: If you dropped the gym, can you run outside or play tennis with a friend? Maybe you realize that with advanced planning, you can more inexpensively stock up on household items by buying in bulk. To freshen up your wardrobe, browse good local thrift shops or hold clothing swaps with friends.

9. Earn more money, and put gifts and windfalls toward your debt.

Finally, one of the best ways to get out of debt is to earn more money. While cutting costs might free up a few hundred every month, a solid side gig could give you an extra \$1,000 or more to put toward your debt. Do you have a hidden talent that you could put to work for you? If so, let everyone in your network know that you're looking for freelance gigs. Put your gifts and windfalls to work as well. If you receive a large sum, put the vast majority toward your debt. With a little discipline, you really can become debt-free!



If you need help getting your
credit score back on track or
managing your debt – we can help!

732.312.1500

firstffcu.com



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