



- ❑ Know what's in your report so you can be prepared when calling the credit card companies. You have the right to one free credit report per calendar year from each of the 3 major credit agencies Experian, EquiFax, and TransUnion. You also have the right to a free report if a bank or lender takes adverse action against you or denies credit, etc.
- ❑ If you decide to get them, you must pay for your FICO score from each of the agencies, usually about \$10 to \$20. Yes, you have 3 separate FICO scores, but Experian no longer sells their FICO score to consumers, so only 2 are available to you (unfortunately). Your score is not essential to negotiate your credit card rates. Beware of other credit scores that are not true FICO scores.
- ❑ Gather together any credit card offers you've received in the mail and note the interest rates, any annual fees (preferably none), and other credit terms. Decide what rate you want to negotiate from your current credit card company based on your other existing cards and any mail offers.
- ❑ Call your company with your latest statement and credit report in hand. Be polite and tell them you're looking for their help. I've found that calling during daytime hours might get you a U.S. based representative with more ability to help. Explain how you've been a long time customer, how you pay on time (if that's the case, you did check your credit report, right?), and you'd like to remain a customer if they can lower your rate. You can reference rates on other cards and offers that you have received, if they are lower. You get the idea.

*If they say they can't do anything, be polite and ask for a supervisor or someone who has the authority to help you; work your way up the chain as needed. Be polite but firm. If they still say no, ask if there is any other way they can help reduce your rate or fees. You can always call back another day if you don't get the answer you want. Don't close your account in haste if they don't help you. Just thank them and hang up politely.*

- ❑ If you have received new card offers with low rates in the mail, you probably have a good credit score. You can consider opening new accounts and transferring the balances if you cannot reduce the rate on your current high interest card(s). *Remember you will be paying 3 to 5% to transfer the balances (or about 2 to 3 months of interest at 18%) so it only makes sense if the lower rate is locked in long enough and you have enough extra cash each month to allow you to pay down the balance and save more than the transfer fee. **Do NOT get more cards to accumulate more debt or delay paying it off!***

### ❑ **Step 3. Stop using your credit cards and pay down your debt faster and faster!**

- ❑ Stop using your cards altogether if possible. Use cash or debit cards for your monthly expenses using the envelope system (or your own system) and follow your new budget. Use cash for small purchases like coffee, lunch & drive-throughs not you credit card and keep the receipts. You will be much more in touch with how those little things add up quickly.
- ❑ If your cash flow is so bad you need to float bills for now, at least stop using the higher rate cards and charge no more than you can afford to pay off each month. Stop all non-essential expenses. (Starbucks is NOT essential and bag lunches can be healthy.)

Need or Want?

- Put your card in a paper sleeve or add a sticker with a phrase like “Are You Sure”, “Is it a Want or Need?”, “No Credit Today” or whatever resonates with you on your credit card to remind you to only spend what you really need, not what you want!

***Buying on credit usually takes years to pay off. Imagine you are still paying for that cup of coffee or fast food years later !!!  
That’s really crazy if you think about it!***



- Put the unused cards in a drawer, cut them up, or freeze them in a can so they aren’t available for impulse purchases. (You can’t microwave them to melt the ice faster!!!) Don’t close the unused accounts, even after they are paid off, which can hurt your credit score.
- Use any free cash to pay down the highest interest rate card first by paying only the minimum on all other cards. (In some cases it may be a balance with the highest rate on a card that has more than one interest rate.)
- One great feature of the new credit card rules is the statement shows how you can pay off the card in only 36 months by just paying a bit more than the minimum. If you free up enough cash every month, you can easily be credit card debt free in only 3 years.
- Once the highest interest rate balance is paid off, then you pay off the 2<sup>nd</sup> highest rate balance using all the money freed up from the paid off balance plus the 2<sup>nd</sup> card’s original minimum payment, while continuing to pay the minimum on the other remaining cards. Each paid off card frees up its minimum payment increasing the cash available so you pay off the cards faster and faster creating a “snowball” effect.

***Remember that if you are still using your cards you will need to pay the amount you have charged for the month in addition to the pay down amount shown in the spreadsheet in order to pay off your card as fast as planned.***

- Optional: If it feels better for you to pay off a small credit card balance first then do it and stop using that card.
- Change the due dates to better match your cash flow, if needed. For instance if you are paid twice a month and pay your rent or mortgage on the 1<sup>st</sup> maybe paying the cards on the 15<sup>th</sup> or 20<sup>th</sup> will work better for you. If you’re paid weekly, you can spread the due dates across the month. With the new rules the due date must remain the same each month.
- Set up Automatic Minimum Payments to avoid late payments, penalties, and marks against your credit report, especially when on vacation etc. You can usually do this online. You can make extra payments as needed by check or online to pay more than the minimum.

***A free initial consumer debt consultation is available by contacting:***

**National Foundation for Credit Counseling**

(also known as Consumer Credit Counseling Service or CCCS)

**[www.nfcc.org](http://www.nfcc.org) or 800-388-2227 (your call will be routed to the nearest office)**

**Counseling can be very helpful, but one warning. Be aware that if enroll in a DMP (Debt Management Plan), it will show up on your credit report. Your enrollment may not hurt your**

**FICO score directly, but since existing cards will be closed, your available credit will be reduced and YOUR CREDIT SCORE IS USUALLY HURT. Other creditors can also view it negatively and close your other accounts.** Of course, it will hurt less than bankruptcy or a Credit Card Debt Settlement. And paying off your debt is almost always more important than your credit score. It depends on your individual situation and much of the information on the web is misleading.

**I am not recommending this service, but there is more complete explanation here:**  
<http://damonday.com/3654/does-credit-counseling-hurt-your-credit/>

### *Common Questions and Answers:*

**Q: How are my payments applied to my credit card bill?**

A: When you pay more than the minimum required, the card issuer must generally apply the amount you pay over the minimum to the balance with the highest interest rate. It is generally up to the card issuer to decide to which balance it will apply the minimum amount portion of your total payment

**Q: I have a deferred interest plan. Can I pay my deferred interest balance before my other balance?**

A: If you pay more than the minimum payment due, you may ask the card issuer to apply any amount paid above the minimum to the deferred interest balance before other balances. However, they are not obligated to honor this request if they apply your payment in excess of the minimum amount to the balance with the highest annual percentage rate and any remaining portion to the other balances in descending order based on the applicable interest rate. But, the card issuer must, for the two billing cycles prior to the end of the deferred interest period, apply your payment in excess of the minimum amount to the deferred interest rate balance first. So you can at least be sure to pay this deferred amount off in the last 2 months.

**Q: How is my minimum payment calculated?**

A: Surprisingly, it varies from one card provider to another. A typical amount is 1% of the current balance plus any interest, fees and penalties. This is more than it was in the past. Still it can take 10 years or more to pay off the card just paying the minimum, especially since it can be applied to just the lowest interest rate balance. [www.creditcards.com](http://www.creditcards.com) did a nice survey in January 2012 of the formulas used by different card issuers. <http://www.creditcards.com/credit-card-news/minimum-credit-card-payments-survey-1276.php>

**Q: How can I pay down my debt faster?**

A: By now it should be obvious, pay more than the minimum. The new CARD rules have changed the statement so now you can see the amount needed to pay off your card in 3 years. Looking at the example below, you can see that just a small amount more per month can pay off the card much faster than you think!  
*Here is an example from the Federal Reserve for a \$3,000 debt:*

<b>If you make no additional charges using this card and each month you pay. . .</b>	<b>You will pay off the balance shown on this statement in about. . .</b>	<b>And you will end up paying an estimated total of. . .</b>
Only the minimum payment \$93	11 years	\$4,745
\$103	3years (36 months)	\$3,712 (Savings = \$1,033)

***Note: In order to pay off the debt in 36 months, you must pay the \$103/ month for the full 3 years and not make any new charges. As you pay down the balance, the 36 month payoff amount shown on the credit card bill will drop, but that extends the time to pay it off. Don't make that mistake!***

**Q: Can my credit card provider change my rate or other terms?**

A: There are certain restrictions about what changes the card issuer can make. For example, card issuers generally cannot increase the interest rate you pay on existing balances. There are also rules about the maximum amount the issuer can charge for a late or overlimit fee and the minimum amount of time you must be given before your payment is due. But if the card issuer does not violate any of these rules, it can make changes to your agreement.

Also, card providers generally can increase or decrease credit limits without giving you notice, including reducing your credit limit so that you no longer have any available credit. If the card issuer does so, you cannot make any charges until you pay off some of your existing balance. However, without advance notice, the issuer will not be able to impose overlimit fees if you exceed the newly reduced credit limit, even if you previously opted in to the payment of overlimit transactions. In no event may the issuer charge overlimit fees if you have not opted in.

For many changes, you have the right to opt out. However, if you opt out, the card issuer may close your account. If so, you do not have to pay the balance in full immediately after the account is closed, but you will still be responsible for making payments until the balance is paid in full. Depending upon the card issuer's policies, your payment may increase, but the amount of the new payment cannot exceed the higher of the amount needed to pay the loan off in five years or double the prior minimum periodic payment.

Sources used in compiling this action plan and for more information:

[http://www.federalreserve.gov/consumerinfo/wyntk\\_creditcardrules.htm](http://www.federalreserve.gov/consumerinfo/wyntk_creditcardrules.htm) New Credit 'CARD' rules

[http://www.federalreserve.gov/consumerinfo/files/wyntk\\_ccrules.pdf](http://www.federalreserve.gov/consumerinfo/files/wyntk_ccrules.pdf) downloadable 'CARD' rules

[www.nfcc.org](http://www.nfcc.org) - NFCC helps you find a credit counselor in your area, has other resources

[www.creditcards.com](http://www.creditcards.com) - many articles on credit card issues

<http://www.creditcards.com/credit-card-news/minimum-credit-card-payments-survey-1276.php>

<http://damonday.com/3654/does-credit-counseling-hurt-your-credit/> FICO score effects

<http://www.kiplinger.com/columns/ask/archive/how-to-negotiate-a-lower-creditcard-rate.html>

<http://www.lowcards.com/> - comparison of low cost cards