



Repaying Credit Debts and Loans

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“Money often costs too much.”
(Ralph Waldo Emerson,
1803-1882)

What is credit?

Credit is the ability to borrow money, or spending tomorrow's income today. Credit is an important part of the financial functioning of individuals, families, cities and, ultimately, nations. Without credit, many people would not be able to purchase an automobile, unless they had the entire cost of the auto in cash.

What is credit debt?

Credit debt is the unpaid balance on auto loans, credit cards, student loans and any other non-mortgage debt. In 1970, Americans had \$5 billion in credit card debt. By 2000, total credit card debt equaled approximately \$565 billion.

Counting all forms of credit debt, Americans have gone from \$131 billion in 1970 to almost \$1.4 trillion in 2000.

Why is credit debt dangerous?

Excess borrowing creates high monthly payments, which can strain even a well-planned budget. As demonstrated by the national data above, the pace of borrowing can often exceed the growth in incomes, creating a form of

“credit debt bondage.” The interest cost of credit debt can be very high, even 21 percent per year in some cases. For example, Jim has a \$1,200 credit card balance. The credit card has a 21 percent APR (annual percentage rate). If Jim makes a \$40 payment each month it will take 43 months (or 3.5 years) to repay the balance. Jim will end up paying \$520 in finance charges (that is, interest) on the \$1,200 balance!

Individuals, families, cities and nations that have high monthly payments going toward debt repayment often sacrifice financial goals, most notably saving and investing money. Moreover, budgets which are strained by high amounts of debt repayment are less able to deal with crises situations, such as unexpected repairs to a car or home, or medical emergencies.

How can credit debt bondage be eliminated?

There is no easy way out of excess credit debt. The most obvious solution is to begin a debt repayment plan. If a person has sufficient income to meet all his or her monthly obligations, the task of repayment will simply take **time**.

Two facts are important to remember:

1. The reason you are in debt is because you spent more than you earned, and

2. The only way you can eliminate your debt is by spending less than you earn and paying back what you borrowed.

There is no instant gratification when it comes to repaying debt

A vitally important ingredient is persistence. Prepare a monthly budget and stick to it! Stop spending money in frivolous ways. Take a lunch to work instead of eating out. Stay home and play games or work on hobbies instead of purchasing entertainment. Keep track of expenditures. Don't purchase big-ticket items on the spur of the moment.

If a person does not have sufficient income to repay each month's bills, help will be needed. One form of help is Consumer Credit Counseling Service (CCCS). There is a CCCS office in most large cities and in many smaller cities (check your local phone directory under “Consumer Credit Counseling”). The job of CCCS is to assist individuals in formulating a debt management plan. CCC will not repay bills for individuals, but they can help negotiate with creditors to accept lower monthly payments that allow the individual to balance his or her monthly budget. You can locate the nearest CCCS office by calling 1-800-388-2227. The CCCS is

also available on the internet at www.nfcc.org. Many CCCS offices now offer telephone and internet counseling in addition to face-to-face counseling.

Ignoring your debt is not an option. You might not be able to pay it, and you may not want a debt counselor to get involved, but it still cannot be ignored. By ignoring past due bills you will only be setting yourself up for even worse circumstances, including a chain of events that you probably do not want to experience. Creditors may take action against you in an effort to get payment. Or, your bill can be turned over to a debt collector. Your property can be repossessed. Wages may be assigned or garnished. You may even be forced into bankruptcy.

Some people choose bankruptcy — it should only be considered as a last resort. Bankruptcy has long-term negative effects on an individual's credit rating.

How can a budget help to avoid or eliminate credit debt bondage?

If you really want to eliminate debt, making out a budget is essential. A budget is a plan for spending money written down before the spending takes place. For example, the monthly budget for November would be prepared at the end of October. November's income (if known in advance) is compared to November's estimated expenditures.

Many people find it helpful to budget expenditures by category, such as rent or house payment, utilities, food, gasoline, debt payments, phone, etc. A budget worksheet is printed below. Feel free to make photocopies of it so that you can budget your income and record your expenditures each and every month. If you don't keep track of expenditures as they occur, it's easy to overspend.

By budgeting income and recording

expenditures each month you may be able to spend less. Money saved by careful budgeting can then be used to accelerate the repayment of debts; you will reduce your finance charges and save money! For more information on budgeting see MU publication GH 3830, *Managing Your Money*.

Helpful Web sites

University of Missouri Outreach and Extension, missourifamilies.org

University of Missouri Outreach and Extension publications: <http://muextension.missouri.edu/xplor/hesguide>

Federal Consumer Information Center: <http://www.pueblo.gsa.gov>

Federal Trade Commission: <http://www.ftc.gov>

National Foundation for Credit Counseling: <http://www.nfcc.org>

Budget Worksheet for the Month of _____

	<u>Source 1</u>	<u>Source 2</u>	<u>Total Income</u>	<u>Expenses</u>	<u>Surplus or (Deficit)</u>
Income:	\$ _____	+ _____	= _____	- _____	= _____
<u>CATEGORY:</u>	<u>PLANNED:</u>		<u>ACTUAL:</u>		<u>DIFFERENCE:</u>
Mortgage/Rent	_____		_____		_____
Utilities	_____		_____		_____
Phone	_____		_____		_____
Food	_____		_____		_____
Clothing	_____		_____		_____
Gas	_____		_____		_____
Car	_____		_____		_____
Insurance	_____		_____		_____
Debt	_____		_____		_____
Medical	_____		_____		_____
Educational	_____		_____		_____
Recreation/Misc.	_____		_____		_____
Gifts/Donations	_____		_____		_____
Investments	_____		_____		_____
Savings	_____		_____		_____
TOTAL EXPENSES:	_____		_____		_____



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