Get Out of Debt

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Get Out of Debt

Lesson 1: Setting the Foundation

In our first lesson, we focused on some general principles of debt management:

- It's simple, but not easy, to get out of debt. We know what to do — spend less than we earn — but we don't always have the self-discipline to do it.
- There's a difference between "good" and "bad" debt.
- You should understand the effect of compound interest on both debt and savings. If you get on the wrong side of that compound divide, high credit-card interest rates can make it harder and harder for you to dig out.

Step 1. Where do you stand?

In order to get where you want to go, you need to know where you're starting from. Let's list all the different debts you currently have, and divide them into "good" and "bad" categories.

Let's also take a look at what kind of interest you'll pay this year, which will involve a little math. Don't worry. It's not too complicated, if you do it the right way: with a calculator! Just follow our example.

BAD DEBTS (credit cards, store charge cards, car loans)

Name of Card / Loan	**Amount owed**	**Interest rate**	**Estimated annual interest payment**
Example:			
Bank of America Visa	*$4,379.27*	*17.65%*	*$4,379.27 x 0.1765 =$772.94**
TOTAL:			

** This is just a rough estimate — all we need for this exercise. It's the amount you would pay in interest if your balance (amount owed) remained unchanged for one year. Ideally you will pay down your balance over the next year, reducing your total interest payments from this estimate. On the other hand, if you miss payments or charge more on this account, your total interest could be higher.*

GOOD DEBTS (student loans, mortgage, investments in things that might grow in value)

Name of loan	**Amount owed**	**Interest rate**	**Estimated annual interest payment**
Example:			
Mortgage	*$84,200.00*	*7.25%*	*$84,200 x 0.0725 =$6,104.50**
TOTAL:			

** Again, just a rough estimate, so don't worry if it squares exactly with your records.*

Step 2. Do you have too much bad debt?

Look at your total bad debt — not your interest payments, but the debts themselves — and compare this number to your annual after-tax income. Since you'll want to pay off this bad debt as soon as possible, you don't want it to take up too large a chunk of your income.

If you've been reading other financial advice, you may think we've made a mistake. A common suggestion is to divide your after-tax income by your annual debt payments (the money you have to come up with just to pay the mortgage, other loan payments, and credit card minimums). Because we're aiming to get you out of debt — not to just leave you afloat so that you remain enslaved to the bankers — we're doing two things differently:

1. We're leaving good debt out of the equation. It's tougher to give a rule of thumb for the whole ball of wax. Suffice it to say that if you're having trouble just paying all the minimums — you're not regularly saving or paying down debt — you've probably got too much debt period, good or bad.
2. We're dividing your after-tax income by total bad debt because we want to focus on eliminating all of bad debt as quickly as possible, not just keeping up with the payments.

Here's an example, using numbers we stole from one of our co-workers by rummaging around in his personal stuff (just kidding, we made them up):

Example:
Total bad debt: $6,437
Total after-tax annual income: $30,000
Bad debt-to-income ratio: 6,437 / 30,000 = 21.4%

Danger, Will Robinson! A 21.4% bad debt-to-income ratio is awfully high, especially if it's all — or mostly — credit cards and charge cards. If it includes a car loan at below 10% annual interest, that's a little better, but a debt load of this magnitude (relative to income) is still going to take a serious effort to bring down.

The ideal number here is zero, but at the very least you want to keep bad debt — including car loans — to 15% or less of your after-tax income. Otherwise, your debt payments will eat up too big a chunk of your paycheck. Sure, some banks will advise you to go well beyond 15%, but remember who profits if you stay on the debtor side of the divide — they do!

Step 3. How much are your total interest payments?

Now, take a quick look at your total estimated annual interest payments for bad debt. Surprise you? This is how much you're spending annually — roughly — for the honor of being in debt. And, unlike a mortgage or student loan, these interest payments are just money down the drain.

More importantly, this is the money you could be saving annually, if you were to pay off your bad debts. Imagine what you could do with all this money!

Step 4. How's your cash flow?

There's one more aspect of debt to consider. You can have a retirement stock portfolio to beat the band and the biggest house on the block, but you still have to meet your minimum monthly debt payments. The bankers don't care how much you're worth. They want cash.

Debt goes from a destructive, anti-wealth-building habit to a serious financial crisis when these required monthly payments get so big, relative to your income, that you can no longer make minimum payments on a consistent basis. For now, we'll just reinforce the point that this should be a serious red flag. We'll delve into the solutions — building a budget cushion, protecting yourself from financial emergencies, and restructuring your debts (getting smaller monthly payments in exchange for paying more over the long run) in subsequent lessons.

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Lesson 2: Six Steps to Eliminating Credit Card Debt

In Lesson 2, we discussed six steps you can take to eliminate your credit card debt. Now you're going to roll up your sleeves and implement some of these steps. While this will be work, keep in mind that these are critical first steps on the road to financial independence — freeing you from the slavery of debt. These steps can also be excellent stress busters. There's nothing like taking active control of a bad situation to reduce your anxiety. So let's go!

Step 1. Planning the payoff order

Let's take a look at the list you compiled in Lesson 1, where you've written down all your credit cards, their balances, and their interest rates.

For this exercise, write down your credit card debts again, but this time in order: from highest interest rate to lowest. Generally, that's the order in which you should be aiming to pay them off. After all, the higher the interest rate, the less of your monthly payment goes to paying down your balance. Start with the higher-interest cards first.

CREDIT CARDS

Name of card	**Amount owed on card**	**Interest rate**
______________________	______________________________	____________________________________
______________________	______________________________	____________________________________
______________________	______________________________	____________________________________
______________________	______________________________	____________________________________

Step 2. Reducing your interest rates with a phone call

As you probably remember from Lesson 2, it's sometimes possible to reduce the interest rates you pay by negotiating with the credit card provider. While it may not work every time, you should definitely give it a try.

What could success mean for you? Lower payments and a lot of savings, that's what! Let's look at an example. We'll compare the total interest paid on $5,000 in credit card debt across two different interest rates — a typical rate of 18% versus a reduced rate of 12%. Assume that no further charges are made and that the cardholder makes a regular payment of $200 per month until the entire balance is paid off.

Credit card debt	**Interest rate**	**Total interest payments**
$5,000	18%	$1,358
$5,000	12%	$810

There you go — a savings of $548 with just one phone call! That's worth a few minutes of discomfort, eh? So, what are you waiting for?

Now that we've seen the difference a lower interest rate can make, it's time to make that call. Rarely do you get anything in this world without asking, after all. Start with a card that you've had for a while, and to which you haven't made any late payments.

Then, consider this sample script for ideas on what to say:

You: "I just got this incredibly great offer in the mail for a new credit card that has an introductory interest rate of only 5.9%! I don't really want to switch cards, since your service has been great. But even though I've had your card for three years, I'm still paying a 17% rate on my balance. I'm going to have to transfer my balance unless you can lower the interest rate."

Them: (The sound of typewriter keys tapping and your credit and payment history being scrutinized.) "Hmmm... well, that *is* the going rate... let's see...."

You: "Sure, but I can pay a lot less in interest if I transfer my balance. I need you to reduce the rate to 11% or so."

Them: "Let me check with my supervisor.... OK, how about 11.8%?"

You: "No problem." (Now go treat yourself to a snack — a cheap one! — for saving some bucks!)

This may not work as well if you're frequently late with your payments and deeply in debt. But it can't hurt to at least try on all your cards. If you have a solid track record, you should be able to get a rate reduction, even if you really haven't gotten a recent offer for a card with a lower rate (you may not want to take such an offer anyway, since those rates are usually only temporary).

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Lesson 3: The “B” Word

“Budget” sure is a dirty word. Not only is it a pain in the neck to do the work, but also, if you’re like most people, the result isn’t all that fun or inspiring either.

As a result, this is often the point at which we start losing a lot of people. It’s not really possible to make this fun. All we can say is “please stay.” We’ll make it as simple as possible, avoiding all the annoying details.

The bottom line, though, is that it’s tough to make any real progress on the debt front without at least a rough understanding of your fundamental cash inflow and outflow.

Step 1. Figuring the size of your monthly cushion

There are two basic types of expenses — those you have to pay and those you don’t have to pay. The stuff you don’t necessarily have to pay for is called discretionary; the must-pay items are non-discretionary (as in “where’s my money, pal”). An important piece of information, when it comes to planning your way out of debt, is the rough size of your monthly “cushion” — the money left over after you’ve taken care of your non-discretionary expenses.

Don’t make the mistake of thinking non-discretionary is a small piece of the pie. This pot of money is all you have for:

- Important, necessary expenses that do not typically come due monthly — like clothing, home and automobile maintenance, annual vacations, holiday gifts, etc.
- Savings — for everything from the new fridge to retirement savings.
- Debt payments — this is the category you hope to eliminate.
- True discretionary income — this is the fun stuff!

To determine your cushion, we’ll use the worksheet on the following pages. Some things to keep in mind as you fill it in:

- Use monthly amounts. If a bill comes due every three to six months — as is the case with many insurance bills and some utility bills — just estimate the monthly cost. To get this number, just divide the total bill (or average total bill) by the number of months it covers.
  Example: You pay $600 twice a year for auto insurance. Divide $600 by 6 (months) to get $100 per month.
- Since utility bills can vary dramatically from season to season, you’ll want to compute a rough average. Aim for the high side.
  Example: In the dead of winter, your total utility bill has been as much as $150. In the worst summer months, electricity costs have pushed your total utility bill as high as $100. Add these two bills to get $250, then divide by two to get $125. You’d enter $125 into the worksheet as your monthly utility bill. This method is likely to overestimate your actual costs, but when it comes to energy bills, it pays to be conservative these days!

- In this exercise, we're only talking about necessities! We'll get to other stuff later. This means that if you're not sure if it's a necessity, leave it off the list. Only include the things that are required to keep you warm, safe, and employed.
  Example: In this context, cable TV is not a utility. We're not saying that you have to live without it, just that you could. So it doesn't belong in this first worksheet. We'll get to entertainment expenses later.
- If your employer provides benefits like health insurance and takes the cost out of your paycheck, don't put these expenses in the worksheet. We're aiming for simple and it's simplest to consider everything on an after-tax, after-benefits, take-home pay basis.

FIGURING YOUR MONTHLY CUSHION	**Example**	**You**
MONTHLY TAKE-HOME INCOME (After Tax, Benefits)		
Me	$1,200	
Spouse	$720	
Other		
Total Income	$1,920	
NO-CHOICE MONTHLY BILLS		
Income Protection (only if not covered by employer)		
Health Insurance		
Disability Insurance		
Life Insurance		
HOUSING		
Rent	$550	
Mortgage Payment		
Condo or Co-op Fee		
Homeowners/Renters Insurance	$11	
Other		
STAPLES		
Groceries	$400	
Toiletries	$30	

FIGURING YOUR MONTHLY CUSHION *(continued)*	**Example**	**You**
UTILITIES		
Gas	$85	
Electric	$35	
Heating Oil		
Water and Sewer	$25	
Other		
TRANSPORTATION FOR WORK		
Car Loan or Lease Payment(s)	$210	
Auto Insurance	$100	
Gas	$40	
Tolls and Parking		
Bus, Train Fare, Ride-share fees		
TELEPHONE		
Local	$22	
Long Distance	$35	
Cellular/Pager		
Other		
OTHER		
Total Expenses	$1,543	
TOTALS		
Monthly Take-Home Income (After Tax)	$1,920	
No-Choice Monthly Bills	$1,543	
Basic Monthly Cushion (Subtract Bills from Income)	$377	

Step 2. Preparing to split up your cushion

Take your monthly cushion and multiply it by twelve:

Example: $377 x 12 = $4,524

You: $ ______________ x 12 = ______________

This new figure is your **annual cushion**.

If it's less than zero, you're going to have to make some pretty drastic changes to avoid eventual bankruptcy. Either downsize the dwelling or take on extra work. Otherwise, you have no hope of ever making more money than you spend on a regular basis.

If your cushion is positive, then, congratulations, you're in the game! But we're not home yet. We have to divide up the cushion.

Let's start with a look at how our example household might choose to split up its $4,524 annual cushion:

EXAMPLE FAMILY DIVIDES ITS ANNUAL CUSHION

Item	**Monthly**	**Annual (x 12)**
Savings	**$83.33**	**$1,000**
Debt Repayment	**$83.33**	**$1,000**
Home Maintenance		$250
Auto Maintenance		$150
Cable TV	$21.17	$254
Clothing		$500
Annual Vacation		$650
Eating out	$20	$240
Holidays (all gifts)	$20	$240
Short-term Savings Goal	**$20**	**$240**
Total		$4,524

In a second, we'll give you a chance to split up your own cushion, but first, let's take some lessons away from our example household. In particular, note the three bold items in the list. These are all numbers that we have talked about already:

1. **Savings:** If you're ever going to get to the winning side of the compound interest divide, you're going to have to push this number up. Eventually, you'll want to push it way up.

   While you're repaying debt, though, you may want to skimp a little on the savings, but only if you use the difference to pay down debt. Either way, put a little something down for savings each month, even if it's just a token amount. The habit alone is worth the few bucks it'll cost you in debt interest to start saving right away.

   So be aggressive, pick a goal for the next year and enter this number first in the "Annual" column.

2. **Debt Repayment:** From the first two lessons, you should have a pretty good idea about what kind of debt repayment amount, on an annual basis, it'll take get you out of the credit hole in a reasonable time frame. Forget all about "minimum payments" on your cards. These just keep you out of bankruptcy court and beholden to the bank; they don't get you out of debt.

   Aim much higher and put a serious dent in your credit burden. Enter this number second.

3. **Short-term Savings Goal:** Here's where you enter the motivational goal we covered in Lesson 3. Think of a one-year reward that will motivate you — and the spouse and kids if appropriate — to stand firm in moments of potential weakness. Make it attractive, write in the total amount you'll need to pay for the reward (in the "Annual" column), and get started saving right away!

   There's no substitute for putting your agreed-upon award in writing for all to see (even if it's just you looking!). Seeing it in black and white makes it real. Record your goal in the space below:

Through regular monthly savings of $__________,
we will accumulate savings of $__________ over twelve months.
This money will be spent on a reward.
We've decided that this reward will be:

____

Step 3. Enter the important numbers first

After you get these three key items entered (Savings, Debt Repayment, and Short-term Savings Goal), add them together. Subtract this total from your annual cushion to see what's left over for everything else.

Make sure you get the order right: savings first, then debt repayment, and then the motivational savings goal. Only then do you split up what's left over, not vice versa.

Example: Our example family had an annual cushion of $4,524. They set these three goals:

1. Savings: $1,000
2. Debt Repayment: $1,000
3. Motivating Short-Term Savings Goal: $240

Add these three together and you get $2,240. Subtract this from $4,524, and you get $2,284. This is the amount our pretend family had left over, to fund everything else on their list.

Step 4. Everything else

For the remaining items — the remaining expenses that you enter — pick either a monthly or an annual amount to enter in the worksheet. Depending on the item, either monthly or yearly will be easier to think about. If you go with the monthly cost, multiply it by twelve to fill in the "Annual" column.

Here's the trick: You have to manipulate the numbers so that the total of the "Annual" column is less than or equal to your annual cushion. If you're like most people, there'll be a sacrifice or two along the way. Don't take it too hard. Recognize that this is where all the work pays off.

YOU DIVIDE YOUR OWN ANNUAL CUSHION

Item	**Monthly**	**Annual (x 12)**
Savings		
Debt Repayment		
Short-term Savings Goal		
Total		

Step 5. Go forth and make progress!

Congratulations, Fool! If you've gotten this far, you've already done more than most people will *ever* do to get their financial house in order. You have good cause to be proud.

Now, go out into the world, motivated by your savings goal, educated by your budget exercise, and confident in your willpower. And always ask yourself the same question when you're about to purchase a non-essential item on credit: If I can't pay for it this month, where will the money come from next month? Where will the extra income or reduced spending come from? Be specific and you'll be successful!

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Lesson 4: Avoiding Setbacks

Step 1. Know your debt

Go back to your list of all debts from the first workbook lesson. Go through each one and ask yourself the following questions:

1) Is this secured or unsecured debt?

First the easy part: Credit cards are **unsecured** debt. If you get way behind on payments, you can be sure you'll get reminded relentlessly by the bank and its bill collectors, but this is really all they can do to you when the debt is unsecured.

The most common types of **secured** debt are home mortgages and car loans. These are a fundamentally different can of worms. If you violate the terms of these loans, the bank can come looking for your house or car. You agreed, when you signed the loan, that the bank could take possession of your stuff and sell it to recoup their losses, should you default on the deal. In general, any loan in which you put up some kind of "collateral" is a secured loan.

Go through your list of debts and mark each with an "S" for secured or a "U" for unsecured.

2) How flexible is the repayment plan?

The ultimate in flexibility is the credit card. As long as you pay a tiny "minimum" each month, most banks are only too happy to let you stretch out the loan as long as you care to. Sometimes student loans have flexible repayment options too, such as the ability to suspend payments for a few years if you go back to school.

Installment loans, like home or car loans, are on the other side of the flexibility spectrum. Unless you refinance the loan — write out a whole new contract — you more or less have to make the required payments on time, without excuses.

Go through your list of debts again. This time, mark the flexible ones with an "F" and the inflexible ones with an "I."

Step 2. Plan for the worst

When most people think of debt, they think of careless spending. In truth, though, even prudent spenders find themselves in debt through no fault of their own — other than failing to plan for the worst.

People lose jobs every day, often when they least expect it. And it gets worse. According to the Social Security Administration, "a 20-year-old worker has a 3-in-10 chance of becoming disabled before reaching retirement age." That's three people in every ten. Divorce and medical emergencies can also cause sudden debt problems.

Sorry about the laundry list of doom. We don't mean to get you down, but these things do happen all the time, to people like you and me. Being prepared for them is a big part of avoiding crippling debt — every bit as important as controlled spending.

Here's a list of debt-prevention safeguards you should consider. We can't get into specifics on all of them here, but we encourage you to take this checklist seriously, and to work through each topic on your own. Take our word for it. You'll sleep a lot better.

1. **Disability Insurance** — According to government statistics, the average American 20-year-old has just a 17% chance of dying before age 65. These odds are much lower than the 30% odds of becoming disabled before retirement that we trotted out above. That's right, disability stamps out a lot more regular paychecks than death, yet more people have life insurance than disability insurance. Don't be one of them. Most disability insurance is sold through employers, so talk to your human resources contact at work about your disability coverage options.

2. **Life Insurance** — What happens to your financial dependents should you die? Please don't fail to address this possibility head on. You may drive your family down a one-way highway to overwhelming debt. It's hard enough to get out of the hole with you and your paycheck, right?

3. **Health Insurance** — Should you endure a period of unemployment in the future, the government provides a backup option — known as the COBRA plan — for your employer-sponsored health insurance coverage. In the midst of scrambling to find a new job, health insurance is likely to be one of the last things on your mind. But failure to bridge the gap could end up putting you in a debt hole from which you'll be hard pressed to ever get out.

4. **Emergency Fund** — This just might be the most important element of sound financial planning. Most experts recommend a goal of three to six months of basic monthly expenses in an account with predictable interest payments, like short-term CDs or a brokerage money market fund. It's a tall order for most people, but that's what the "Savings" line in our Lesson 3 budget was all about. Don't be afraid to start small on the path to achieving this goal.

   Moreover, the discipline required to amass this cash cushion is a major wake-up call for most people. It teaches firsthand 1) how tough it is to save this much dough; and 2) how paying off an equivalent debt will be even more challenging, since compound interest will be working against you; and 3) how pleasant it is to be on the receiving end of significant interest payments for a change.

Step 3. A final review of your debts

Now that we've looked at types of debt in a little more depth and talked about some unexpected problems that could derail your best laid plans, let's look back at the list of debts you made in Lesson 1 one more time. Here are some things to think about as you review the list:

- It should be crystal clear by now why you should pay down credit card debt first. Not only do they generally charge the highest rate of interest, they're also very flexible. We want you to live a blessed and calamity-free life. But if the worst case does come knocking on your door, you can always fall back to running up the card balances again. Of course we hate to see this happen to anybody, but we have to admit that it sure beats losing a home.

- The opposite of unsecured, flexible credit-card debt is secured, inflexible home and automobile debt. At a minimum, then, you should have a big enough monthly income cushion (remember Lesson 3's workbook assignment?) to easily pay these in full every month. If this isn't the case, you should seriously consider a smaller apartment, car, or house. We know this sounds drastic, but it just may end up improving your quality of life in the long run.
- Before you start aggressively paying down "good" loans like mortgages and student loans, make sure that you've considered each of the four emergency planning steps above. We're not trying to scare you. Really. We're just trying to steer you permanently clear of the growing "bankruptcy through bad luck" crowd.

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Lesson 5: (Optional) Debt Triage

In the first four lessons, we've attempted to teach the basics of sound, long-term debt management. If you're in the midst of a crisis, however, it can be next to impossible to think clearly and employ these steps. This optional lesson, then, is targeted for those in crisis mode. We want to steer you toward a more stable life — free of overwhelming and immediate stress. From there, you will be able to build and execute your measured plan for a long-term solution.

Unfortunately, there's not much we can do — directly — if you've fallen deep into the debt hole. We can, however, offer a list of valuable resources, and plenty of 'em. No matter how bad it looks today, believe us when we say that you're not alone. You're likely one phone call away from somebody who's seen it all before — and worse. So pick up the phone or fire up your Web browser and get started.

Step 1. Some general consumer protection resources

- **The Federal Trade Commission** (FTC) is your national source for information about debt and credit laws that protect you, the consumer. They *cannot* address your individual situation — go to bat for you, specifically — but they *do* provide information either online or through the mail, and track consumer complaints nationwide, looking for patterns that signal common problems.
  - Consumer Credit Website: http://www.ftc.gov/bcp/menu-credit.htm
  - *Knee Deep in Debt:* http://www.ftc.gov/bcp/conline/pubs/credit/kneedeep.htm
  - Phone: 1-877-FTC-HELP

- **State Attorneys General** cover some of the same consumer protection turf on the state level that the FTC covers on the national level.
  - Find your state's attorney general: http://www.naag.org/about/ag1.cfm
  - Phone: Check your state government listings.

- **Your local Better Business Bureau** (BBB) is a good source for complaints about specific companies and organizations in your area. They might be able to help you check out a particular debt counseling service to see if it's a reputable organization, or tell you if a particular creditor (somebody you owe) has a history of taking advantage of consumers.
  - Find your local BBB: http://www.bbb.org/BBBComplaints/lookup.asp
  - Check the complaint record of a local company: http://www.bbb.org/reports/bizreports.asp
  - Phone: Look under "Better Business Bureau" in your local phone book or dial (703) 276-0100 for the National Council of BBBs.

- **Consumers Union** is the non-profit publisher of *Consumer Reports* magazine. Its website is a good source for information regarding the latest in credit and bankruptcy laws.
  - Website: http://www.consumersunion.org/finance/finance.htm
  - Phone for National Headquarters: (914) 378-2000

- **The Motley Fool** is serious about helping people get out of debt.
  - Our "Getting Out of Debt" Education Center: http://www.fool.com/credit/credit.htm
  - Our Consumer Credit discussion board: http:// boards.fool.com/Messages.asp?bid=100145 Informal discussion board support from a community of helpful people. A good source of both 1) tips and tricks and 2) emotional support, as many of the regular participants are themselves one-time heavy debtors who were helped by the board community.

Step 2. Help with troublesome bill collectors

- **Fair Debt Collection** rules and regulations are enforced by the FTC. We discussed a few of these in the lesson, but this document goes into greater depth. In general, contact either the FTC or your state's attorney general (see above) to report violations of these fair credit collection laws.
  - Web page: http://www.ftc.gov/bcp/conline/pubs/credit/fdc.htm
  - Phone: 1-877-FTC-HELP and ask for information on the *Fair Debt Collection Practices Act*.

Step 3. Finding a good credit counselor

- **National Foundation for Credit Counseling** (NFCC) is a great place to start your search for a credit counselor. It offers a national, non-profit network of in-person financial counselors, an emergency phone number, and even online counseling. Along with your local Better Business Bureau, the NFCC staff may also help you investigate other counselors (outside of its network) in your area.
  - Website: http://www.nfcc.org/
  - Toll-free crisis hotline: 1-800-388-2227

- **Some Questions to Ask a Credit Counseling Agency** (from *FTC Facts for Consumers, Choosing a Credit Counselor*, online at http://www.ftc.gov/bcp/conline/pubs/credit/fiscal.htm):
  - What services do you offer?
  - Do you have educational materials? If so, will you send them to me? Are they free? Can I access them on the Internet?
  - In addition to helping me solve my immediate problem, will you help me develop a plan for avoiding problems in the future?

- What are your fees? Do I have to pay anything before you can help me? Are there monthly fees? What's the basis for the fees?
- What is the source of your funding?
- Will I have a formal written agreement or contract with you?
- How soon can you take my case?
- Who regulates, oversees and/or licenses your agency? Is your agency audited?
- What are the qualifications of your counselors? Are they accredited or certified? If not, how are they trained?
- How does your debt repayment plan work? How will I know my creditors have received payments? Is client money put in a separate account from operating funds?
- Can you get my creditors to lower or eliminate interest and finance charges or waive late fees?
- What assurance do I have that information about me (including my address and phone number) will be kept confidential?

Step 3. Understanding and improving your credit rating

- **General information is available from The Motley Fool:**
  - "The Lowdown on Your Credit Rating": http://www.fool.com/Specials/2001/sp010315.htm
  - "A Fool's Guide to Credit Scoring": http://www.fool.com/specials/2000/sp000807.htm

- **Get an explanation of (FICO) credit scoring** from Fair, Isaac and Company, the designers of this most commonly used credit scoring system. For a fee, Fair, Isaac — in combination with Equifax, one of the three largest national credit bureaus — now offers online delivery of your current FICO score.
  - Website: http://www.myfico.com
  - Phone: 1-888-532-0179 (Equifax customer service)

- **The three major national credit bureaus** have huge computer databases that keep track of all your loan and credit transactions. For a fee, they'll send you a copy of your current file (available free under certain circumstances). To get the full picture, you'll have to order from all three bureaus, though, since there will be differences in your file from bureau to bureau.
  - Experian
P. O. Box 2002
Allen, TX 75013
1-888-397-3742
http://www.experian.com/consumer/cac/01_LoginPrivacyPage.htm

- Equifax Credit Information Services, Inc.
  P. O. Box 740241
  Atlanta, GA 30374
  1-800-685-1111
  http://www.equifax.com/contact_us/personal_credit_rpt.html

- TransUnion LLC
  Consumer Disclosure Center
  P. O. Box 1000
  Chester, PA 19022
  1-800-888-4213
  http://www.transunion.com/Personal/PersCreditReportSystem.asp

Step 5. Other useful websites

- http://www.bankrate.com — Gives up-to-date information on current loan interest rates. A good news source for tracking proposed changes to consumer debt laws.

- http://www.cardweb.com — A great site for comparing offers across many credit card companies. The site eliminates the need to sift through home mailing and provides interesting statistics on U.S. consumer debt.

- http://www.myvesta.org — Offers some excellent resources for getting out of debt.