



IMPROVING YOUR CREDIT AND DEBT

The Credit & Debt Problem

Americans are loaded with credit-card debt.

The average American household with at least one credit card has nearly \$15,950 in credit-card debt (in 2012), according to CreditCards.com.

The average interest rate runs in the mid- to high teens at any given time

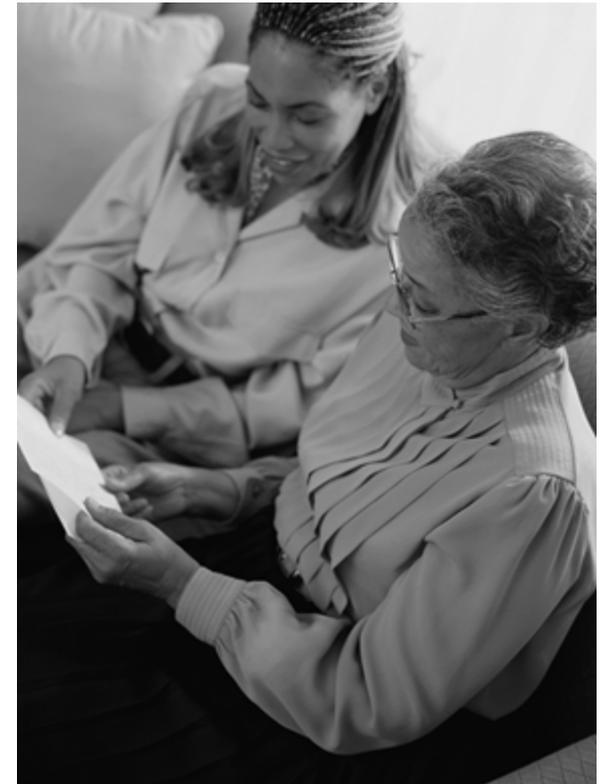




How Credit & Debt Impact Your Life

The importance of having good credit

- Lower cost mortgage loans
- Lower cost automobile interest rates
- Ability to secure needed credit
- To be able to rent an apartment
- To get job offers





Your Credit Report

A photo of you - financially

- Snapshot of your financial life
- List of credit inquiries tell you who checks to see if you are a good credit risk





Your Credit Score

How is it determined?

- 35% payment history
 - 30% amount of debt owed
 - 15% length of credit history
 - 10% new requests for credit
 - 10% other factors/types of credit
-
- Lenders use a FICO score, other scoring models for decisions and interest rates
-
- Cleaning up your credit increases your credit score.





Why should you care?

- A variety of sources can request access to credit history.
- Low credit scores reflect too much debt – a roadblock to long-term financial security.
- Credit reports can help keep an eye out for fraud.
- Check for errors.





Where to Check Your Credit Report

Annualcreditreport.com

You are legally entitled to one free report from each of the three reporting companies every year—

- ✓ Equifax
- ✓ Experian
- ✓ Transunion

You can request them all at the same time or spread them out over 12 months.





How to Read Your Credit Report

- Under Personal Information, be sure that your name, address, Social Security number, and date of birth are all correct, down to the letter and number.
- In the Credit Account section, be sure that the accounts – both active and closed – actually belong to you.
- The Inquiries section will show the applications for credit that you've made, and will also show when others check your credit.
- Finally, the section on Public Records will include tax liens, bankruptcies, foreclosures, and court judgments. Be sure that these are actually yours.



Clean up Your Credit Card Debt

- Sloan Center on Aging & Work at Boston College found that 30 percent of workers age 55-plus had more in credit card debt than retirement savings.
- Don't use retirement savings to pay off debt. Instead, look for other ways to reduce expenses.
- Call the toll-free number on the back of each credit card and ask for a lower rate.
- Pay the minimum amount on each of your cards except the one with the highest interest rate — on that one pay as much extra as you can.
- Call the National Foundation for Credit Counseling at 1-800-388-2227 to find an accredited counselor in your area to help you with repayment strategies.

Ways to Pay Off Credit Card Debt

Which one do I dump first?

1. High interest rates paid off first.

2. High account balances paid off first.

3. Low account balances paid off first.

(Then snowball)





Pay Off High Interest Rates

High interest rate goes first

- Store brand cards could be higher than Visa, MasterCard, etc.
- “Default” interest rates.





High Dollar Balances

Highest Balance Goes First

- Focus on the cards with the highest dollar balances.
- Instead of looking at the interest rate, shift the focus to the highest dollar balance and pay it down.





Relief from Multiple Accounts

Lowest Balance Goes First

- Choose to focus on the cards with the lowest dollar balance.
- Then take that amount and apply it toward the next credit card bill (snowball).



PHOTO: JOE BRADLE/GETTY IMAGES



Ways to Pay Off Credit Card Debt

Which option do I choose?

Answer: The way that works for you.

Just pick one and do it!



Managing Debt

Types of Debt: Good and Bad

- Mortgage
- Home equity loan or line of credit
- Car loan or personal loan
- Credit card balance
- Student Loans





Warning Signs

- Am I spending more than my income on a regular basis?
- Do I spend more than 20 percent of my monthly income on debt other than my mortgage?
- Do I carry a balance on at least one credit card?
- Do I tend to pay only the minimum required on credit card bills?
- Have I maxed out any credit cards?
- Do I borrow money from one credit card to pay on another one?



Add up Your Debt

- Make a list of what you owe, and how much you're paying out each month.
- Mortgage—An adjustable rate mortgage (ARM) for example, can go up on a schedule that you agreed to when you took the mortgage.
- Auto loan—The finance charge is usually a fixed rate.
- Home equity loan or line of credit—Your home equity loan will have a fixed interest rate, but if you have a Home Equity Line of Credit (HELOC), the rate may have risen since the last time you looked.
- Personal loans—Be sure to check the rate on loans you may have from a bank, credit union or other financial institution. Keep up the payments so you don't end up with late fees.
- Credit cards—Credit card rates can also vary tremendously.



Preventing More Debt

Breaking bad habits

- Eating out a lot
- Driving when there's an option for public transit
- Living lights and heat on
- Buying things you don't need
- Consistently paying with a credit card
- Spending more than you make





FOR MORE INFORMATION:

www.aarp.org/financialfreedom

www.aarp.org/orderfinancialpubs