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Debt Relief Strategies

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Clear steps and strategies to avoid debt, manage debt and recover from debt

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Understanding the Concept of Debt

Budgeting is an important aspect of living and a person who knows how to budget will go a long way in this commercialized society. Budgeting has a lot to do with keeping the expenses less than the total income of the household. Those who are very good at budgeting can come up with savings even if they have meager incomes.

The problem sets in when a person fails to make an efficient financial plan and his expenses exceed his earnings. When this happens, a person has no choice but to borrow money to make up for his financial deficiencies. Borrowing once or twice because of a mismanaged financial plan is normal but when borrowing becomes a regular thing that can put a person in serious debt problems.

A person who borrows money from another is said to be in debt. The debts of a person can be minimal or can reach up to millions depending on the credit limits of each person. Sometimes, a person who has assets but isn't liquid can use these assets to get cash. Under this term, the person can be indebted for an amount less or more than his assets.

There are laws that provide that a person can never be forced to render services as payment for his debts. This is called undue servitude and is prohibited by the laws of some countries. However, there are situations when the person who is in debt opts to settle his obligation by rendering his services.

This can happen if a person is so talented in his craft like painting and he opts to pay for his debts by creating a painting of the creditor or the assignee of the creditor. Sometimes, a person can pay his debts gradually or on an installment basis.

When a person dies, the law has provided for a hierarchy of preferences in the payment of such debts. Of course, payment of taxes to the government will always come first. The second priority for debt payments includes funeral expenses of the deceased and the payment for the wages of people.

Debt is really just a simple concept, which provides that a person who borrowed something from another is duty bound to pay that debt. However, the concept of debt becomes more complicated with the introduction of other concepts like mortgage, interest rates and other charges. Interest makes most debts double or even triple in amount. More often, the interest rates due for a certain debt is even higher than the principal amount borrowed.

A person who wants to get credit can do so in the form of a loan. A loan can either be secured to unsecured. A secured loan means the debtor borrowed some money and supported the loan by collateral or a security for the loan. The

security or collateral can come in the form of a house and lot, a car or any asset of the debtor. An unsecured loan means otherwise.

Most creditors require a security before granting a loan because it gives them something to hold on to or to forfeit in case the debtor defaults in payment. When the debtor fails to pay the debt within the agreed timeframe then the creditor can foreclose the security or the collateral.

However, having an unsecured loan doesn't mean that the debtor can renege on his debts. When the debtor fails to pay his loans, the creditor can still run after him by filing a case in court. When this happens, the debtor who has no cash can sell some of his assets to pay for his outstanding loan.

Being in debt is common even for the rich and the famous; the only difference between them and the common people is that their debts can be in the millions since they have more assets to support their loan. Unsecured loans most often have higher interest rates to make up for the lack of security.

Even third world countries are indebted to more developed countries. However, the debts of a country can go on forever because they keep on paying their loan but they also get new credits as their credit ratings go up.

What Are Expenses?

Society is becoming so commercialized that no person is exempt from this worldwide phenomenon called spending and mounting expenses. The high cost of living has paved the way for an increase in the spending habits of people.

An expense refers to disbursement or spending and it generally has something to do with money. Anyone who lives today isn't exempt from having expenditures even just for day-to-day living.

Expenses can either be essential meaning those expenses necessary for the survival of a person, or non-essential expenses, which refer to expenses that aren't really necessary or are considered as luxury expenses.

The most common and essential expenses are those spent for food and for the daily subsistence of a person. A person couldn't survive without food and water so almost all people are forced to spend money on these items. Expenses for housing utilities like water and lights are also considered essential expenses because any household will not operate efficiently without them.

For people on the go, the cost of fuel or fare is also considered an essential expense because they couldn't go about their daily work without spending for these items.

Essential expenses are the expenditures that a person couldn't live without because these are necessary for the day-to-day subsistence of a person. Try scrimping on food expenses and any person will soon realize how essential food is in the daily household budget.

People work so they will earn money that will be used to pay for their essential expenses. A person who isn't lucky enough to get a good paying job will definitely have no choice but to tighten the budget even for his essential expenses. This means cutting back on basic needs like food, water and power consumption and even toiletries.

However, there are some people who earn less but still spend more for their household expenses. These people have failed to manage their finances and they will soon be deep in debt. The key to successful household management is to keep expenses to the minimum.

The expenses of every person differ and the money allotted for each type of expense depends on the priorities of the person. While each person has a household expense, there are other expenses that are necessary to fulfill his various responsibilities in life.

A person who is engaged in business will definitely be familiar with business expenses. These are the necessary expenses to run a business and sometimes it is called overhead expenses. Any entrepreneur should keep his expenses at a minimum and it should be much less than the total sales of the business so that the business will be able to make a profit.

An entrepreneur can have expenditures related to the promotion of the business, advertising, maintenance of the business establishment like expenses for power and water, salaries and wages for the employees and other expenses. A person who works at home can claim a certain percentage of the household expense as a business expense.

While business enterprises should cut back on their overhead expenses to get a decent margin of profit, a homeowner should keep his household expenses to the minimum to achieve a reasonable savings. Savings advocates, however, argue that savings shouldn't be the remaining cash after the expenses are deducted from the total income. They say savings should be deducted from the total income first and the remaining cash should be the basis of the monthly budget of the person.

Every person who wants to profit and to achieve savings should be a wise spender. You can keep the expenses at a minimum by availing yourself of grocery sales, promotions, and free coupons. You can choose to buy a cheaper product with the same functions and quality as another known product that is more expensive.

It is always wise to become a critical spender so manage your finances wisely and keep the expenses low by following different strategies like buying from the bakery when it is near closing time as most shops discount their bread products by as much as fifty percent during this time.

There are a thousand and one ways to save money and keep expenses low; it is however up to you to achieve these goals.

Exploring Your Own Debt

The rising cost of living and dying has made people more reliant on loans and credit. Most people have been indebted to someone at some point in their lives. A debt is an obligation that should be paid and accounted for no matter how meager the amount.

Being in debt is normal considering that no one has a monopoly of all the money in the world. People will always have the tendency to accumulate debts no matter how rich. In fact, rich people have more debts than poor people because they have more needs and they have more collateral or security.

Being indebted isn't something that you should be ashamed of provided you are a responsible debtor. This means the money was used for a very good cause or purpose and the debtor is religious in looking after his responsibility to pay his debts.

Even a person who is savvy in financial management can get into debt for one reason or another. However, a person who is good in managing his finances should also be good in managing his debts. Managing debts would include the ability to know how much a person owes and from where he would get the money to pay such debts.

The ability to know the total indebtedness is a must in debt management because the person who is in debt is aware of the total amount he has to produce to pay off his debts. There are people who don't practice good debt management and they keep borrowing money without being able to monitor how much they already owe individuals or financial institutions.

Debt management means that at the time the loan was made, the borrower knows where he would source the payment for such debt. This makes the debt manageable because it would appear that the person has some source of income and he is just not liquid at the time he borrowed the money.

People who don't have a steady source of income should be discouraged from borrowing because there is a tendency for their debts to pile up without being paid at all. Unemployed people who resort to borrowing for their essential expenses like food and daily subsistence may borrow from another creditor to pay off a debt that is already due and demandable. The same thing happens to the second and the next loans after which it becomes a vicious cycle.

A person who is indebted to someone should take an inventory of his assets that can be used to pay off his debts. There is no problem if the debtor is looking at a possible income that hasn't yet been paid. Such unpaid income can be considered an asset that can be used to pay his debts.

Debts are easily made but they are difficult to pay. Thus, every person should be careful when borrowing money from others. Make sure that you have something to pay for the debt like an incoming income or check, or assets that can be sold to pay off the debt.

Some people get indebted by virtue of loans that have varying interest rates. This means that aside from the principal amount borrowed, the debtors still have to pay for the interest rate. A person who borrowed \$100 at ten percent interest rate per month will have to pay the principal plus the interest rate of \$10 per month. Some interest rates are based on the actual balance like if the debtor has already paid \$20 then the interest rates would only be pegged on the balance of \$80. However, there are some interest rates pegged at the original amount borrowed.

While being in debt is prevalent, every person should learn how to manage his debt and how to stay out of debt if possible. One of the major factors why most Americans are indebted today is the misuse of credit cards.

Credit cards are those plastic cards that can be used to pay for almost any purchase even if you don't have cash. People find it easier to spend when using their cards because they just swipe it and voila----it works like a genie granting their every wish!

However, most people who fail to use their credit cards wisely become indebted and are faced with legal actions for failing to pay their cards when they become due and demandable.

Go ahead, borrow if you must but always take charge of your debts to make sure they don't lead you to declaring insolvency or bankruptcy.

Create a Budget

No man is an island. We all need help once-in-a-while. We're not only referring to personal matters. We're talking about financial matters. We reach a point where we have to buy something out of necessity, but we can't pay in full just yet. An example of this is a home.

Now the time has come for you to repay on what you own. You must have the discipline to plan out how much you should have saved so when your time is up and you have to shell out the money you owed there and then (plus interest), you wouldn't have a hard time doing so.

Prioritize which of the debts must be paid first. Prioritize your bills. Make a list so it will be more organized so you can see it right in front of you.

This is what you call establishing goals. First establish what must be prioritized over those you could schedule paying some other time.

The essential debts are debts that should be on top of your list. These are:

- Rent or mortgage. Of course, who in his right mind won't pay up as soon as possible? Paying your rent or mortgage bills on time helps you have a roof over your head.

- Child support. If you don't pay on time, there's a possibility you can be held behind bars.

- Utility bills. As much as possible, set aside a budget on gas, heating, water, electricity and/or telephone when you get your paycheck. In doing so, when the bill comes, then you have something prepared.

- Car payments. This also includes car maintenance.

- Other secured loans. If you don't repay collaterals, the creditor takes the property even without court interference.

The non-essential debts can be set aside because when these aren't paid, they don't have that much of a side effect. It's a desired goal but not really a priority. The only concern that can be considered when you don't pay non-essentials debts for a long period of time is the negative image it could project on your credit report.

- Department store and gasoline charges. Failure to pay these charges may result in losing credit card privileges. If it's too large, you might be sued.

- Loans from friends and relatives. Morally speaking, there is an obligation to pay but sometimes since they're family, we think that they will understand if we can't. Check with them if you can delay the payment and ask them for how long.

- Newspaper and magazine subscriptions. Little by little, if you haven't paid, they'll mount to sizeable figures.

- Legal and accounting bills. If these remain unpaid after a long period of time, you might be sued.

- Other unsecured loans. In unsecured loans, there's no collateral for the debt. This means that the creditor can sue and then collect the debt.

Here's the confusing part. Some of the bills border between essential and non-essential. If you let these bills defer for a long period of time, it could have consequences in your personal life.

- Auto insurance. The consequence in some states is losing your driver's license.

- Medical insurance. If you have a tainted record, you might have a hard time getting new insurance in the future.

- Credit and charge cards. If you don't pay your bills on time, you might lose your credit privileges and would have a hard time applying for a new credit card.

Now that we laid out the groundwork on how you can prioritize which bill to pay first, we move on to having a timeframe.

It's best that you have a calendar in front of you. A palm pilot or the calendar in your Microsoft Office program will do. Mark the dates wherein you would have to pay the specific debt – be it essential or non-essential. Then what you can do is set aside the bill that is allotted for that debt.

As for the budget, prevention is always better than cure. You know how much you get in a month. Keeping that in mind, you must allot how much percentage of your salary shall go to pay certain expenses. Then do your best to stick to that budget.

If "X" is how much you should spend for leisure, then that's how much you should spend for leisure. If at one point, it went overboard, then there would have to be a sacrifice on another aspect, such as food. That seems off, right?

So even in budgeting, you must also list which is number one for you. Have the discipline to stick to your priority, your budget and your time frame. If you succeeded, paying the bills won't be any problem.

Control High Interest Debt

Your net worth is your assets minus your liabilities. Liabilities are debts. The more debts you owe, the lower your net worth will be. Plus whenever you have debts, you also pay for the interest, that's why you lose more.

For practical reasons, it's understandable why people borrow. Take for example; buying a car or a home, it's hard to shell out cash for large expenses. That's why debt is a tool that, when used wisely, can benefit the borrower. However, the borrower must comprehend that a debt is still a debt and must be paid in due time – with interest.

When people don't manage their money well, they get in financial trouble. It's a cycle. They run short of cash, that's why they borrow. Then they're not able to stick to a budget so they can't pay the debt.

Reasons why people get into serious debt are:

- Unemployment
- High cause of medical bills
- Settling divorce finances
- Spend-aholic or could not control spending
- Wasn't able to save
- Not in the know on financial and credit matters

When talking about health, prevention is always better than cure. That's the same with your money, better to save for a rainy day. Here are some tips:

- Make a budget and do your best to stick to it. When it's payday, have an amount allotted for the bills that have to be paid as soon as possible. This includes setting aside some for credit card debts.
- Save 10% of your salary for emergency. You don't know what could happen the next day, next week or next month.
- When you have a choice of buying a purchase for a lower and
- practical price, then go for that one. Think, think, and think before investing on something.
- If you have to borrow, research the loan. Study the interest rate and the penalty fees. Then after borrowing, make a budget of how much you can save so that you can pay promptly.

You can control your credit card debt by looking at the interest rates of any loan you're considering to sign up for before doing so. Interest rates vary and it is practical that you get one where you wouldn't lose as much.

As much as possible, have at least one or two credit cards. Too many credit cards in your wallet can indulge you in buying something you don't really need. You just buy it because you know you can. However, you're not sure if you can pay off your debt when the occasion arises.

If you want to cut down on high credit card bills, you can:

- Pay cash instead
- Limit yourself on charging. Record it and do your best to not exceed that amount. You must always, always keep track.
- Choose the credit card that offers the lowest interest rate and has no annual fee.
- Just because you're getting a free gift or a discount on a purchase, you'll sign up for that credit card. This is their marketing strategy for possible customers.
- Most importantly, pay bills on time. This is for you to avoid late charges, plus additional interests.

Just bear this in mind: if you don't pay on time then it will be reflected on your credit history. This could result in you having a hard time borrowing the next time. Banks and other credit lenders check your credit history before they grant your loan. Creditors look at the recent two-year history and those who have credit record that contains a lot of late payments, delinquencies or defaults may not be able to get the loan.

To put it simply, in order for you to invest, the best advice we could give is to choose the right loan.

Look for the lowest interest rate. The interest that you save can be spent on other investments.

Studies show that by increasing your monthly payments, it can shorten the payment term on your loan. The longer you wait, the higher the interest you're paying. Besides, signing up for a shorter payment term equals less agony when it comes to coming up with the money to pay the debt.

The key is maximizing your net worth by minimizing your liabilities and maximizing your assets. Know how much you have and strategize on how you can increase it without losing much of it just to pay for debts.

Find Your Hidden Money

When you sign up for loans, you pay them within a year, 5 years at most. Individual credit unions offer special loan rates that are beneficial to the borrower. A number of people consider signing up for credit union loans.

The features of a credit union loan are:

- The insurance of the loan isn't a direct cost to the eligible borrower
- There is an offer of repayment protection insurance
- There are no hidden fees or transaction charges whatsoever
- Repayments are calculated depending on the reducing balance of the total loan. Smaller interest repayments are relative on how frequent you repay your loan.
- There is a variety of repayment loans to choose from, depending on the livelihood of the borrower.
- It is so flexible that the borrower can repay the loan before due or he can make large repayments than what had been agreed on without any penalty whatsoever.
- The additional lump sum repayments the borrower has paid will be accepted without penalty.

Credit Unions are like banks but the former have some unique characteristics and an educated customer would take advantage of the best deal that is offered at Credit Unions and not at banks.

First and foremost, the customers own credit unions. This is as opposed to banks where clients are the customers. Banks prioritize profit and the shareholders usually own the bank.

On the other hand, credit unions are organizations that are non-profit. Their goal is to provide service over profitability.

One might ask, if the bank has shareholders who run the management of the institute, then who runs the credit union?

The upper management is composed of a board of directors deciding on the operations of the credit union. These are elected volunteers. They don't do it for the salary. They are the members who want their opinion to be heard on how the institute should be run.

One can be a Credit Union member if they share a common bond. These are people of the same geographic community, a workplace or a religion.

That's why credit unions are different from banks. It's because their offer is limited to their members. But it's harder for them to achieve credibility because if a credit union isn't able to limit membership, then they lose their status as a credit union.

That's why there's hidden money to credit unions. Credit unions offer the same services and products as the larger banks do but the credit unions don't have the same amount of volume as the banks.

Small credit unions can challenge banks when it comes to the income they generate. Credit unions have the tendency to focus on service over profit, that's why the rate is always better at the credit union.

Don't worry. Your money will be as safe in credit unions as it will be in bank deposits. As explained above, because of the cheaper down payment a member gives to a credit union, compared to the bank, there is hidden money for him.

Another direction you could look at is hidden money on home equity loans. As a homeowner, home equity loans allow you to use your equity as the collateral.

The hidden money here is that since it is a debt on your property that is in your possession, and secures your debt loan. If the creditor wants his money back, then it can be sold.

A home equity loan can either have a fixed rate mortgage or an adjustable rate mortgage.

The expenses that make a home equity loan useful are medical bills, debt consolidation and home repairs. The tax benefit for families who have home equity loans can enjoy a home equity rate loan that is charged as tax deductible. It is because the loan is used for primary functions. All these means lower monthly payment rate – allowing you to save more.

It's always practical to save on your expenses. That is why as much as possible we suggest that you look up credit unions as opposed to banks and you sign up for home equity loan than the home mortgage. If you write it on a piece of paper, you'll discover that you can actually save more with credit unions and home equity rates.

Debt Counseling

Statistical reports show that nearly 80% of consumer expenses in the United States are on credit and the most convenient way to shop is to use plastic, or more popularly known as credit cards. Moreover, the average debt is more than \$8,000 with a typical interest rate of 18.9%.

No wonder so many people are now heavily buried in debt. Along with it came lots of debt relief programs aiming to provide consumers effective ways out of debt.

Among the many debt relief programs available today, debt counseling is one of the most well liked programs, helping more than the average consumers who seek debt consolidations.

Debt counseling is one way of teaching consumers how to administer their profits and expenditures. This program will also teach them how to avoid further accumulation of debts.

In essence, debt counseling should have been a preventive measure for accumulating debt, but the problem is that most people use this after they have already mounted lots of debts.

With debt counseling, you can learn the different ways on how to avoid debts. The main focus of debt counseling is to educate the consumer regarding their expenses, balances and the credit score.

All of these things will put a great impact on the interest rates as well as the types of loans one can pursue. It is important for every consumer to seek debt counseling before they start charging their expenses.

Here is a list of things that your debt counselor can do for you:

1. Debt counselors can teach you the whole credit card process

One of the greatest problems why many people accumulate debts more than what they can afford to pay is that they aren't aware of the actual operation of their credit cards.

According to surveys, almost 75% of credit card holders aren't aware of their balances, not even the amount they are paying off monthly.

How is that? This happens when consumers only try to pay the minimum required balance stated on their credit card bill. They are only prolonging the process and accumulating bigger debts through interest rates.

The point here is that paying the minimum balance on your credit card won't get you any farther. It may lessen your actual balance but may only aggravate the situation because of the time it will take you to finish everything off.

With debt counseling, you are made aware of your payments and on how you should go about your balances so as not to accumulate more debt.

2. Money management is the ultimate tool that they can teach you

Debt counselors can give you complete details on money management. Here, consumers are taught how to manage their expenses and their credit card bills.

Debt counseling programs will teach you how to be aware of your credit card billing statements every month. In this way, you become conscious of your expenses and your available credit limit. The key is not to exceed your credit limit so as not to accumulate debts.

The problem with most consumers who are heavily buried in debt is that they are not aware of their monthly expenditures, thus, tending to cross over the specified credit limit.

Keep in mind that credit limits will most likely keep you in track. Once you have gone overboard, chances are you will find it hard to pay off your balances.

3. They will teach you how to use cash instead of plastic

Since the emergence of credit cards, consumers tend to neglect the real functions of credit cards. They don't understand that credit cards aren't extensions of their profits. Any amount used on credit cards is still payable.

So if you have been charging more than what you can pay in a month, you will definitely accumulate more debt.

Moreover, debt counseling will teach you not to use your credit cards when paying for your basic necessities like gasoline and groceries. These items are so basic that you should have included them in your monthly budget.

By any chance, acquiring them on credit will only entice you to get more than what your budget allows.

Indeed, debt counseling is a very effective way of managing debts. You should realize that debt counseling works better if they are used beforehand and not after the consumers have accumulated debt.

Refinancing a Mortgage

Refinancing a Mortgage: The Essential Guide to Saving More Money on Mortgages

Many people may have been enjoying mortgage rates that are lower than what you have right now, but it isn't easy.

Why? Because getting a lower mortgage rate isn't that easy. First, you have to think about the refinancing schemes that mortgage lenders will provide you in case you want to lower your rates. Lending companies wouldn't give you something good without the necessary qualification.

So the next step is for you to consider if it is high time for you to refinance your mortgage. Some people think that refinancing their mortgage will be a lot easier to do because of the financial history they have built with the company. Most of them believe that refinancing is always a good choice of getting lower rates.

In some ways, refinancing a mortgage can be a good idea, but it still depends on the situation or on the type of mortgage that you have.

Lending companies may no longer need new research on your properties or a simple property assessment. In most cases, lending companies are also willing to give lower rates.

All of these things are easily provided to those who wish to refinance their mortgages because lending companies believe that it is easier to maintain a paying customer than to find another one.

So the question now lies on whether it is time for you to refinance or not because not all refinancing schemes are created equal. This goes to show that every refinancing scheme may differ from the others and would entirely depend on the kind of program you wish to pursue.

For instance, would you like to have a plain refinancing scheme for your mortgage? Or would you like to have lower rates and still cash out to pay down other debt?

Before you can decide on such things, it is best that you consider first the reasons why you are refinancing your mortgage in the first place. Here are some of the common reasons consumers make whenever they decide on refinancing their mortgages:

1. To gain benefit from an enhanced credit rating

Some people are lucky enough to get mortgages in spite of their bad credit rating. However, they may have to suffer the consequence such as having higher interest rates.

As time goes by, these consumers try to build up their credit rating by paying their dues on time. Nevertheless, having high interest rates can be very expensive to maintain. That is why they opt to refinance and desire for lower interest rates.

In this way, refinancing now could be the best time for you to save more than to continue paying higher interest rates in spite of your good credit rating.

Besides, maintaining higher interest rates may only bring you troubles considering the fact that at any point in time, you may not be able to sustain higher interest charges.

2. Modify your loan

If you have chosen an adjustable mortgage rate in the first place, you may find it reasonable now to get a fixed-rate mortgage considering the discrepancies on the interest rates.

Adjustable rate mortgage may appear very low at some point in time because they are primarily dependent on the different factors that affect the interest rates set by the Federal Reserve.

But then again, adjustable rate mortgage can change a maximum of twice a year. So that goes to show that interest rates such as these can change from time to time. So to speak, you can get either a lower or a higher rate depending on the kind of adjustable rate mortgage you have.

On the other hand, fixed-rate mortgage can give you lower rates in the end because they don't change whatever happens in the market.

So if you want to convert your loan into a fixed-rate mortgage, you have to refinance your mortgage.

3. Get a lower interest rate and cash out and pay other debts.

Some consumers want to have a better deal. They want to refinance their mortgage but would also like to cash out at closing so that they can use the money to pay their other debts.

It is like hitting two birds with one stone. There are some people taking charge of their home equity whenever the prime rate is lower than the standard rate of a fixed-rate mortgage with a 30-year pay out plan.

Financial experts say that getting home equity is the better option at this point because the rates will be cheaper. However, as time passes by, cashing out and still get lower rates through refinancing schemes is still the best choice.

Refinancing your mortgage to a lower rate and still get to cash out to pay your other debts would simply mean getting more than what you presently have a loan from, and subsequently taking the change.

For instance, you have an existing loan of \$50,000 on a \$90,000 house. You have decided to get a lower interest rate on that loan and still get \$10,000 cash to pay off your car loan.

Through cash-out refinancing, you can easily get your heart's desire by refinancing your mortgage from \$50,000 to \$60,000. In that way, you were able to lower your mortgage interest rate on your standing balance of \$50,000 and still get cash as you wish.

With all these things, refinancing might just be the answers to your prayers. It really pays to know the difference. Don't just take somebody's word for it. Work on it...now!

Know Your Rights

Building good credit history is extremely important. There are many things that you can be deprived of if you don't have a good credit history.

The magnitude of building credit goes far beyond clothes and groceries. It is more than just those petty cash advances or cash back rewards. Building credit would appropriately mean building your life as well.

Why? Simply because the way you handle your credit places a great impact on your way of life, on your career, the way you transact business with other people, and even on the place where you live.

Your credit history is one of the most important factors employers, lenders, property owners, or business owners will consider.

For this reason, it is extremely important for you to learn how credit is bestowed or rejected. It is also imperative to know what to do in case you have been unduly reported.

In the United States, the Federal Government had provided its citizens certain major laws that control credit. These rights have been stated as provisions on Fair Debt Collection Practices Act and Fair Credit Reporting Act.

With these two particular laws, every consumer is entitled to such rights stated therein. It is extremely important that consumers know these rights so as to bear witness on whatever maltreatments or bad practices of debt collectors and lenders.

Fair Debt Collection Practices Act

The Fair Debt Collection Practices Act is one of the written laws of the United States, which had been included in the United States Code as Title VIII of the “Consumer Credit Protection Act.”

The main focus of this particular law is on the guaranteed “ethical practices” in the ways of collecting debts upon the consumers. It also seeks to present consumers with an opportunity to obtain and dispute legalization of any information regarding a particular debt so as to guarantee the data’s correctness.

In essence, Fair Debt Collection Practices Act encourages just, rational, and non-discriminatory treatment of consumers by forbidding debt collectors from utilizing unjust, offensive, or misleading actions.

The Fair Debt Collection Practices Act is applicable to qualified debt collectors capable of collecting loans that they didn't create.

However, this act doesn't theoretically pertain to department stores, banks, and other lending institutions that have their own debt collectors; no lending company of good reputation is allowed to make use of the said practices.

Under the Fair Debt Collection Practices Act, the following provisions were made:

1. Debt collectors are only allowed to contact other people, aside from the debtor himself, only to find out any whereabouts of the debtor.
2. Debt collectors aren't allowed to contact the debtor before 8:00 a.m. and after 9:00 p.m. local time.
3. Debt collectors aren't permitted to intimidate, pressure, or make threats to the consumer with legal action or arrest if it is not duly planned, considered, or made known to third parties, or at least talk about debts with them.

Fair Credit Reporting Act

The Fair Credit Reporting Act upholds the confidentiality, discretion, and truth of information as used in creating customer credit reports. It seeks to control the distribution, collection, and utilization of “consumer credit information.”

Under this law, the credit reporting agencies are required to uphold absolute, full, and accurate files and information.

With this act, consumers are entitled to receive their credit reports and to take actions to validate the correctness of information contested by a customer.

The consumers are entitled to such actions under this law:

1. Credit bureaus are permitted to provide credit reports only to those with a lawful business cause

Credit bureaus are not allowed to disclose any information or credit report to institutions that have no legal basis as to their request for particular credit report information. Only entities such as insurers, employers, creditors, and government agencies are allowed to receive an individual's credit report as part of the evaluation process.

2. The consumer's right to know regarding denied credit

In cases like denied credit, consumers have the right to know about the details of such report. With this, consumers can identify which credit bureau issued such report.

In this way, the consumer will be able to check if there has been any discrepancy.

These are just some of the rights consumers can enjoy under the Fair Credit Reporting Act and the Fair Debt Collection Practices Act.

With these laws, the rights of the consumer to a just and fair treatment are upheld.

How to Deal With Creditors

Interactions with creditors, especially if you don't have the money to pay them, can be quite stressful and frustrating. The challenge here is to be able to get them on your side in spite of a difficult financial situation.

There are certainly several ways of putting an end to unnecessary harassment and even bargaining for better repayment terms, deferred payment schedules, and other possible arrangements when tough times strike. Unfortunate financial circumstances shouldn't lead to a rift in your good relationship with the creditors. Consequently, the creditors must be cognizant of the fact that you have a right against unfair debt collection and credit reporting practices no matter what is stipulated by the Fair Debt Collection Practices Act.

As soon as you encounter problems with your personal cash flow, don't wait until you have missed your payment schedule. Inform your creditors early on of your concern. In such a way, you don't create a delinquent image as you manifest sincerity to settle your responsibilities. Likewise, solutions to the problem may be given ahead of time. Creditors will be willing to help if they are aware of your situation.

Early intervention is indeed the key here. Such may eliminate or lessen late charges. You may even have the option of paying only for the interest in the meantime. The service or utility may not be halted as well. Depending on the need, it may also be possible that your payment be deferred to as far off as the end of your contract. In other words, you may be able to negotiate for a more manageable payment scheme. As such, your account will remain under their care instead of those collection or credit reporting agencies.

Make sure though that before contacting them, you have figured out a certain plan of action. This plan should be realistic but, at the same time, auspicious to you and the creditors. Consider how much is left of your income for other expenses. List down all your fixed payments such as those for mortgage, loans, etc. Since you are on a tight budget already, you might want to reduce your flexible expenses such as clothes, night-outs, etc. It would also be wise to think of possible ways of incurring additional income. When your own financial status has been laid down with which you have identified some sound courses of action, present it to the creditors. They will give you feedback about it as well as suggestions, if any.

You creditors may come from different institutions and make sure that you give priorities to them accordingly. Creditors from law enforcement agencies imposing on you as a result of court judgments such as those for child support, for example, are usually the strictest when it comes to making payments on time. They may disrupt your tax returns, collect your income, enforce encumbrances on property or suspension of licenses, and many others. They should normally be on top of your priorities. Next would be those for investments such as houses and cars as they can easily order turn over of the property. Of course, creditors from insurance, utility, and credit card companies should be prioritized as well but they normally have programs that offer some sort of a leeway during hard times. To get those is what you want to negotiate properly so work it out as soon as you observe symptoms of financial crisis.

There are several ways of contacting them. Initial explanation may be done over the phone. It will help if you are ready with a script so as to keep you composed and alert while you clearly give the details of your situation. Take note of what the other person is telling you. Further meetings, for example, may be set up and you definitely don't want to miss those. If, in case arrangements were finalized over the phone, it would be advantageous to send a confirmation letter stating what you actually have agreed upon. This documents your conversation and safeguards you from possible denial and inconsistencies in the future.

The bottom line here is that whoever the creditor is, you must understand the consequences of not being able to pay them on time and weigh it out against realistic figures. Don't expect that, by doing so, they will just forget about your credit. It will definitely still remain your responsibility but you can make it more controllable at the moment.

Debt Consolidators

Debt consolidators usually attract positive attention at the start because they give the impression that they will neatly arrange all your debts into an organized and even lighter one. Their campaigns make debt relief seem to be so straightforward. They will just consolidate all your bills and convert the interest rates to as low as 0%. Unfortunately, people who have fallen prey to them have experiences worse than the opposite of these empty promises.

Normal tendency when experiencing financial crisis is to get loans to cover up for previous credits. This being a well-known phenomenon, debt consolidators do their best to entice people into these types of situations with debt consolidation loans which promise easy and immediate processing and approval as well as lower monthly payments and interest rates. Being close to desperation, people tend to become easily lured by such and grab them without a second thought.

If these people only compute how much they actually pay in totality, they would be surprised when they learn that it is a lot higher. Sure, the monthly payments are lower but this is mainly because they are spread over a longer period of time. What are usually unnoticed are the interest rates that are, in fact, higher. In most instances, rates go as high as 21% or 22% and these subtly and discreetly wring people dry while burying them deeper into a financial rut.

Debt consolidators also assure customers that they will be in charge of everything. They will apparently coordinate with your creditors. All that is left to do is make one easy payment every month. However, what happens in reality is that they actually charge for such service by taking hold of about 10% of payment given monthly. This is about \$50 for every \$500 monthly payment. Instead of such amount being used to significantly reduce debt, it automatically goes to the deceiving hands of debt consolidators.

Most of their services are obviously those that you can do on your own given the right information. You yourself can negotiate with your creditors to make payments more manageable in the light of a current financial difficulty. You need not shell out such a large amount for that. Most creditors are willing to bend a little but only if they are aware of the circumstances.

What makes doing the negotiations and payments on your own a lot better is that certain cases have already been reported where the debt consolidators themselves are making late payments. They regularly ask the payment from their customers

but they remit them late thus causing the customers more charges which they are not made aware of. This will only be added up to the monthly payments unnoticed.

Balance transfer cards are also prevalent nowadays, which are usual debt consolidation tools. Just the same, they promise lower interest rates. However, you have to take note that such low rates aren't going to be the case forever. After a few months, they will increase. Of course, when that happens, you will look for another provider. The network of credit companies sees this kind of activity and considers you as a risk thinking that something else is behind your switching. Thus, your switching may not be approved and you are left without a choice but to hold on to the card and suffer with its high rates.

It is obviously wiser to think of other options instead of resorting to the services of debt consolidators. Home equity loans, for example, are better options because of their single-digit interest rates, which are even tax-deductible. In such cases also, since you do have a home equity, your property may be up for a higher amount of refinancing. In turn, you can use the excess money to settle your debts. You may also try personal loans especially if you used to have a good credit history. The interest rate may still be high, around 11%, but this remains a better alternative as compared to the 20%++ rate of debt consolidators.

There are several other options that you can try out. If you want to know more about them, you can seek advice and gather information from certain organizations providing credit counseling. Once you have the information that you need, you deal with the situation yourself. Most debt consolidators have already been proven to be unhelpful thus should not take part in your alternatives anymore. You need not worry about being exposed to harassment, as there are laws such as the Fair Debt Collection Practices Act to protect you.

Sell Off Assets

With the modernization of current society comes the surge in expenses. This is mainly because there seems to be endless things to shell out finances for in spite of the ever-increasing prices. Spending goes on and on and before you realize, you are trapped in a deep financial rut.

No one wants to be in this kind of situation. To significantly avoid it, you must be sensitive to some symptoms of financial crisis in order to be able to control the circumstances while it is still early. Remember that prevention is always better than cure. Don't wait until your options are too limited to solve your problem.

If you are starting to have difficulty paying for your fixed and expected monthly bills with your net income, the crisis must have been at its initial stage already. Look closely at your spending curve. Where does your money usually go? There could be an excess of flexible expenses such as clothes, night-outs, home decorations, gadgets, etc. Consider the realistic figures sensibly. If at least 25% of your monthly income is what is enough to settle your credit card's minimum monthly payment due, you must have been spending impulsively the past days and weeks.

You might also want to look at how much you are actually able to save with your income. If you are unable to save at all, there could be something wrong at some point. You should likewise have some allotments for unforeseen expenses such as of emergencies, illnesses, sudden need for repairs, etc. If these are likewise unavailable, again you have to reconsider your spending style.

There are indeed several aspects to watch out for. However, supposing you insensitively took all these for granted in the past and are now being chased by a lot of creditors, what will you do? Sure, you can discuss your situation with your creditors and get a more manageable payment scheme but just the same, you have payments to make. The responsibility remains no matter what happens and no matter how understandable your reason for being in such situation may be.

The most common solution is the sale of assets, which is in fact, a good option especially if you have valuable properties. What is important here is to be able to identify the item's reasonable value as well as find the right buyer in the soonest time possible. Timing is very important because, of course, you wouldn't want to under price your properties so much just because you are desperate.

Pieces of jewelry are usually the easiest and most satisfying to sell. Their value normally doesn't depreciate over time as long as the aesthetic component is well maintained. The best thing to do is to have them appraised first by an expert. Based on the appraisal, you can identify their price that you can compare against current market standards. There are even circumstances where the value even goes higher so watch out for such opportunities.

Real estate properties are considered as good investments because of their increasing value. This also makes them a good sell-off asset. However, it may not be a good option if you are in dire need of money to repay debts since you may not be guaranteed of a quick sale. This is especially the case if you intend not to make it available on installment since there are several other options out there that do offer such a plan. Nevertheless, if you are in need of a considerable amount to settle your debt then this option is worth holding on to.

Shares of stocks may likewise be sold but you have to consider the economic condition when doing so as their value and salability may depend on that. This is a very volatile type of investment thus you have to take into consideration several aspects.

Moreover, cars, gadgets, tools, and things of this sort are normally sold at a depreciated value. Higher return may be expected if the item is still of good condition but it remains downgraded just the same. What is good is that you need not worry about too many documents such as property titles and the like when selling these types. However, you may need to document the state of the item upon sale to protect you from complaints or returns in the future.

These are certainly good options to lessen debt. They may effectively control your financial concerns but if you return to the same lifestyle that brought such problems in the first place, then these solutions will just be temporary. It is still best to have control at the very start.

Bankruptcy

Bankruptcy is a process of the federal court that is aimed at helping both businesses and individuals in clearing up their debts and repaying under the protection given by the bankruptcy court. There are basically two types: liquidation and reorganization.

Liquidation bankruptcy, under Chapter 7 of the bankruptcy code, occurs when you plead the court to have your debts discharged. Some of your properties will then be liquidated or sold by the bankruptcy court, returns of which shall be divided among your creditors. This type of bankruptcy proceeding lasts for four to six months, which is quite fast, and only one appearance at the courthouse is necessary. It is very convenient and doesn't require payments stretched over time.

Chapter 7 bankruptcy isn't available to everyone, though. You won't benefit from it if in the past six to eight years, you have benefited from a bankruptcy discharge. Likewise, if after examination of your income, expenses, and overall debt, it was found out that the other type of bankruptcy proceeding is more appropriate you can't insist on pursuing this kind. Veterans who are now disabled and who incurred their debt at the time of their active duty are almost automatically allowed to file. In addition, those people whose debts are caused by running a business are qualified as well. For those people not belonging to any of these categories, certain criteria must be met.

The criterion has been affected by the new rules imposed on bankruptcy. One of the considerations is your current monthly income that in turn will be compared against the median income for a family of similar size in your state. This isn't your income at the time of your filing. Instead, it is your average income for the past six months before filing. Social Security benefits like retirement and disability benefits aren't included in the computation. If your income appears to be enough to support the other type of bankruptcy proceeding in spite of permitted expenses and payments for child support, tax debts, and others, liquidation bankruptcy is unfortunately not allowed.

Many people, if given a choice, would prefer this type since repayment of a portion of the debt is unnecessary. You may lose some of your properties but some courts permit some sort of a leeway that doesn't take all to give you something to start with afterwards.

On the other hand, reorganization bankruptcy, usually under Chapter 13, happens when you file to a bankruptcy court a plan on how you intend to settle your debts. You indicate how much each of your creditors will get, depending on your finances. There will be a three- or five-year repayment plan, only after which can you be discharged of your debts, if any still remains. At times,

however, due to obvious financial difficulties, the court itself decides to give a discharge earlier than planned and this is what usually happens.

An additional requirement for both types of bankruptcy is completion of credit counseling conducted by an agency recognized and approved by the United States Trustee's office. This helps you look closely at the situation at hand and identify if bankruptcy is really essential. This allows you to see several possibilities of informal repayment that you may have overlooked in the past. Even if such is obviously impossible, counseling remains a major requirement. Furthermore, completion of post-counseling is required after the proceedings. This aims to teach you financial management to avoid encountering the same situation in the future. The bankruptcy discharge will not be released unless this is fulfilled.

Bankruptcy may be beneficial for both the debtor and creditor. This is a way of recognizing one's responsibilities and mistakes that led to the financial difficulty. The entire process takes into consideration both parties' interests and leads to the development of an action plan that fulfills them. Any debtor thinking that a court is there to intervene shouldn't abuse this law.

Bankruptcy, although generally advantageous, must be considered as a last resort. You should, in all circumstances, work hard to be in full control of your finances to avoid being estranged in difficulties. Discipline is indeed a very crucial trait that must be maintained at all times.

Lifestyle Changes

Too many temptations in this world lead to being piled with insurmountable debts. Advertisements tell us that with credit cards, nothing's impossible. Salespeople and credit businessmen tell us that it won't hurt to have a debt here and some debts there. Little do we know that debt could actually lead to death! It's POSSIBLE to DIE from DEBTS.

How, you may ask. Ever heard of suicides committed just because one has too much debt that that person could not think of any other solution but to get out of his debt-laden world through killing himself? No? You're not reading enough news.

So, how do you avoid being victimized by debts? Learn a thing or two from the following bits of advice on how to manage a debt-free life and remember all that we have discussed up to now:

Get the Drift of Being Thrifty

One major way to avoid having debts is to have enough money for your needs and even for your wants! How? Aside from landing a high-paying job, being a savings-savvy person at the same time is the solution. But what if you don't have a well paying job? Knowing how to save will still help you in your goal. Here are some simple tips:

Budgeting well whatever amount of money lands in your wallet every payday should be one of the major goals of a debt-free life advocate. You have to evaluate yourself to know what type of budgeting will suit your tolerance and lifestyle. Do you need a daily budget scheme? How about a weekly or a monthly one? Your cash flow will be better monitored if you list all of your expenditures and actual expenses.

Brown bagging should become a common practice if you are to make yourself debt-free sooner. Now if you haven't fallen for the culprit yet and you are just so not into the food you prepare yourself, consider compromising. Instead of bringing a lunch box of some sort, learn to drink your office coffee so that you have enough moolah for your lunch.

Coupon clipping is a good move, too. This will not only help save but can earn you some friends too that may support you in your debt-free life campaign. How? Look for other coupon-clippers and trade.

Do you know how to save on phone services? If you need to make long distance calls, don't be sweet-talked by the smooth operator. Asking for help from the operator means having to spend more. If you use phone cards, check the expiration date and know if there are any hidden charges.

Club memberships that are rarely used should be dumped, too. Why waste money on things that don't get used, right? Speaking of rarely used things, how about stopping credit card use all at once? Learn to afford not swiping that evil card if you want a debt-free life. It's one of the biggest temptations in this world!

Distinguish the Evil Forms of Debt

There are two kinds of debt. The good one is that kind of debt with which the item that caused your debt could be sold and the proceeds could help you repay the debt. The bad one is a loan that has a diminishing value.

An example of a good debt is a home loan that is if such home loan, particularly a home equity loan will add value to your home but if you will acquire such loan for unnecessary items, you're doomed. An example of a bad debt is clothes, unless you're a celebrity of course, wherein you can auction off your clothes when you get tired of them.

School loans aren't advisable because it will most likely be hard for someone to pay off his or her debt even after landing a good job since there are various expenses that will come when working life starts.

So, how do you stay debt-free or at least be able to manage well your debts through the abovementioned information? Avoid bad debts!

None of this would be possible without taking the first step. Begin tracking your spending habits today and adjust your moves to meet your debt-free life goals. Self-discipline will help you breeze through it all.

Start Saving

Yeah, yeah. You won't be able to bring your money with you to the grave. But you will also be nearer to being six feet underground if you don't have money. So better start knowing how to handle your finances, right?

Many people don't want to embark on this endeavor either because they don't want to be perceived as stingy or they simply feel deprived when they don't acquire what they use to satisfy their whims. But if you don't start learning how to unlearn your crappy big spender deeds, you might be found lying on the sidewalk soon. Do you want that to happen? Definitely NOT, right? So here's what you could do to avoid becoming one of those pitiful beggars:

Spare Change Matters

Never lose those spare coins because they matter if you try saving them in a cookie jar or in any container you don't use. Believe it or not, there are some people who have made their dream vacation come true just through their loose coin savings. After a day's work, how about putting all your loose coins in a jar? You can also purchase a cheap piggy bank. The glass made ones are advisable since it will avoid you from breaking it too soon unlike the plastic ones which you can open anytime you can't get over the temptation.

Let Technology Help You

Manually doing the depositing of money to your savings account could be a bit tedious for many. However, if you let the advancement of technology lend you a hand, you can easily do that by setting up an automatic transfer from your checking account to your savings account. Online banking has made it well facilitated too for the savings-savvy but lazy people out there. You can just log in through your Internet-connected computer and do an online transfer to your savings account. One more way to explore the potential of the Internet to let you save is through traveling cheap with the help of online scourers for cheap flights. Just key in "travel cheap search engines" and you'll see thousands of results that will lead you to a non-bank-breaking travel arrangement.

Learn the Trading Game

Ever did baby-sitting for your neighbors during teen years? You can still do that now while saving. Who would've known that keeping an eye on an extra kid while playing with your own kids will save you some bucks? How? Trade services by having a free ride to your office in exchange for a simple babysitting favor. Do you pack lunch for your hubby? Ask if he knows some office friends who would like to have brown-bagged food prepared in exchange for a ride home. You might even turn those little favors into small businesses.

Save Electricity While Living in the City

You don't have to forget about the urban life while saving. You can do away with some of the electrical appliances, though. Instead of using a vacuum cleaner in cleaning your carpets, a carpet sweeper can do the job just as well. Lawn mowing can be done manually through the help of Edward Scissorhands, er, a pair of shears and maybe an extra pair of hands. You can even use the manual lawn mowing as a bonding time with your partner. Just be a tad more creative than the usual and you'll see how you can save in the process.

Entertainment is Cheap, NOT

Maybe you're used to having a late night out with your partner almost weekly to unwind. If you're into fine dining, how about learning how to prepare one romantic candle-lit dinner yourself? Aside from the skills you will hone, your partner will surely have another good-cookie point recorded for you. If you're into going to the movies, you can save and be better entertained by reading reviews online first before going to just about any movie that's being shown. Reviews can have a big impact on your itch to watch. And, would you like to save big time? Avoid being a couch potato! Watching TV can make you succumb to impulse purchases.

These can't be carried out quite well without a good amount of self-discipline, of course. Also, taking that first step will jumpstart your saving feat.

Good luck and start saving TODAY!