

ELIMINATING DEBT

Increases credit score

Decreases credit score

Do you have money to make debt payments?

YES

YES, but...

NO

Can you pay more than the minimum payments?

YES

NO

If you have money to make extra payments, which lender do you target for elimination first?

Strategy:
Spending Plan

- How can you reduce expenses and increase monthly debt payments?

Strategy:

Debt Management Plan

- Debt Mgmt. company negotiates lower interest rates, and often lower minimums
- Single monthly payment, but monthly fee and often a lot of paperwork to maintain.
- Alternative to bankruptcy.

If you're in collections, but receive a one-time sum of money...

Strategy:

Settlement

- You may be able to negotiate with collectors to settle for a fraction of the total balance owed.
- Do not accept any offer that does not guarantee removal of the debt from your credit report.
- **GET IT IN WRITING.** You can sue if they don't remove the debt from your report.

Strategy:

Statute of Limitations

- In CA, unpaid debts drop off your credit report after **7 years** from DLA.
- The clock starts when you miss the first payment.
- Be careful not to "restart the clock" by making a new payment.
- Consult a professional if your debts are more than **4 years** past due.

Strategy:

Debt Avalanche (highest rate)

- Put all extra payments toward the debt with the highest interest rate.
- The most efficient method, but you can lose momentum if it seems like it's taking too long.
- Good option for those with strong discipline.

Strategy:

Debt Snowball (smallest balance)

- Put all extra payments toward the debt with the lowest balance.
- Get an emotional boost by paying off one lender sooner
- Good option if it's going to take years to pay off balance, and you need to stay motivated.

Strategy:

Debt Tsunami (emotional value)

- Prioritize any debt that has a high emotional value.

Strategy: **Bankruptcy**