GETTING OUT OF DEBT IN THE 21ST CENTURY

AN EDUCATIONAL GUIDE FOR BUDGET AND CREDIT ASSISTANCE

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COMMUNITY CREDIT COUNSELING CORP.

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Community Credit Counseling Corp. was formed in 1998 as a non-profit organization to assist consumers with their debt burden. The company is headquartered in Colts Neck, New Jersey. Our well-trained and certified credit counselors have helped tens of thousands of clients in addressing their debt situations. As a member of the American Association of Debt Management Organizations (AADMO), Community Credit Counseling Corp. takes great efforts to keep-up with changes in the credit-counseling industry.

This educational guide seeks to inform the consumer of many important aspects associated with financial steadiness. The information provided should assist consumers to properly manage their finances and to look for signs of financial trouble. A successful financial consumer must be patient and must take steps to diligently monitor his or her finances, as well as the causes for expenditures.

Community Credit Counseling Corp. provides free consultations to consumers. Contact us if you believe that our program may suit your needs.

If you have any questions, please call us toll-free at (800) 540-6814 or visit our website at www.DebtFreeFast.org.

We hope that this guide provides you with important financial information.

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Are high credit card balances taking up most of your budget and distressing your way of life? You are not alone. The average household has more than $9,000 in revolving debt. Most of this debt is credit card debt.

Unfortunately, many Americans try to keep up with their neighbors by buying many items that they want but do not necessarily need. This also means keeping up with Visa, MasterCard and Discover bills, plus juggling housing and vehicle expenses. If you spend more than you earn and make up the difference by charging on your credit cards, you are likely in financial trouble. At this point you must attack your debt problems.

The consumer must take necessary efforts to start to get out of debt. The following steps will guide the willing consumer toward financial freedom and out of credit card debt.

A. Create a Spending Plan

B. Plan a Debt Payment Strategy

C. Develop Good Money Habits

D. Slash Everyday Expenses

E. Build an Emergency Fund

F. Getting Help from a Professional

G. Improve Your Credit Score

A. CREATE A SPENDING PLAN

If your monthly payments exceed your monthly paycheck, you likely will be left weeks, months, or years short of your financial goals. Organize your income and expenses. Then develop a spending plan. A spending plan helps you get to know your money flow. Money flow is defined as money earned and money spent. Keep it simple.

Create two charts. One chart is for your income. The other chart is for your expenses. Divide expenses into two categories. The first category is for fixed expenses such as mortgage, rent and/or car payments. The second category is for flexible expenses such as utility bills, groceries and gas.

For a one-month period record your income and all your expenses, both cash and credit. Include all expenses including your coffee and doughnut purchases and fast food purchases. At the end of the one-month period total what you spent your money on and compare it to your income.

The results of this one-month test may surprise you. You could be spending much more than you had previously thought you were. The next step is to organize your bill paying and review your discretionary spending. Look to areas where you can cut back on discretionary spending. By reducing your discretionary spending you can fund your emergency savings and work to develop and execute on a successful “debt pay-off plan”.

SETTING UP A BUDGET

What is a budget?

A budget or spending plan usually makes you think of the image of a tired person scribbling numbers on a notepad or ledger sheet. This image does not have to become a reality. An actual budget is simple. Total up the amounts that currently come in and goes out. A projected budget is an expectation of future monies coming in and going out. Everyone who has money coming in and going out has an actual budget. However, in most cases, people just don’t put the *in writing*” part separates the prepared financially educated individual from the rest of the pack.

The Written Budget

A written budget is a piece of paper that has income and expense numbers on it. It is used to keep you informed of what comes in and what goes out each month. It works best when it is short and written on a computer. Microsoft Money or Intuit’s Quicken are software programs that help the user to keep track of his or her money. Both programs are user-friendly and affordable.

How to Start

Use a goal sheet to set financial goals. The goal sheet should in clued a list of how much comes in and how much goes out each month. You should stay aware of these amounts. The information on this goal sheet is important to you understanding how you can succeed.

Estimated Budget

The Internet has resources that can assist you. Budget calculators are helpful. Many sites managed by banking and financial institutions provide information and budgeting tools.

To determine income you can simply look at a recent pay stub to find income. You should use your net salary, which is your take-home pay after taxes. If applicable, you should also include any pension or retirement benefits. Estimating a budget on a monthly basis is the most efficient way. If you are paid on a weekly basis, multiply your weekly salary by 4, because most months are four weeks. If you are paid bi-weekly, or if you are paid twice during a month, multiply your salary by 2. Another way to more accurately estimate your monthly salary is to multiply your weekly salary by 52 (the number of weeks in a year) and divide by 12 (the number of months in a year).

You then should look at where your money goes each month. List a column of your monthly expenses and a column for the amount of the monthly expenses. Total up the Amount Column to determine your monthly expenses

Sample Monthly Expense Worksheet

Category:	Amount	Consisting of:
Housing/Dwelling		Rent or mortgage, Utilities
Transportation		Car Payments, Gas, Public Transportation
Insurance		Auto, Life, Health, Home or Renters
Food		Groceries, Takeout, Dining Out, Alcohol, Tobacco, Household Items
Health Care		Medical and Dental Expenses
Clothing		Clothes, Shoes, Laundry Expenses
Education		Tuition, Student Loans, Training
Retirement Plans		IRA and 401(k) Retirement Fund Contributions
Entertainment		Hobbies, Vacations, Movies
Charity		Gifts and Donations
Miscellaneous		All Other Expenses including those paid with Credit cards
Total		

Actual Budget

If you have a computer, software programs such as Microsoft Money or Quicken are excellent tools to assist you. If you do not have a computer or these programs you can use your checkbook and credit card statements to calculate the numbers. To make the process easier, you should round the numbers to the nearest dollar amount. By putting your budget in writing you can view your income and expenses together.

Projected Budget

A projected provides a structured guide for future spending. Use an expense sheet to list your goals for your expenses. Make notes next to each expense with ways you will attempt to reach your goals. You should want to make notes regarding methods to reduce discretionary expenses. This will help you to attain more financial freedom quicker.

B. PLAN A DEBT PAYMENT STRATEGY

Try to reduce any accumulation of new debt. Thus, do not make unnecessary purchases. If possible put away all your credit cards, except for one to be used for emergency purposes. Make a conscious decision to buy only necessities. Only after gaining control of your expenses then you can reward yourself by purchasing an unnecessary item with cash, not your credit card.

Set clear and specific goals for paying your debts. Choose a specific time to have your debt reduced to a specific amount. Work diligently to pay down the debt. Vague goals are more difficult to obtain than specific goals.

Begin by writing down all your debts. List them in order with the highest interest rate debt first. A good strategy is to pay the minimums on your lower interest rate debts and to pay as much as possible toward the highest interest rate debt. Then, you should pay as much as possible to the next highest interest rate debt on your list when the highest interest rate debt is extinguished. This strategy reduces your high interest rate debts and decreases your payoff time.

Frequently look for new ways to reduce your costs and expenses and for ways to earn more money.

Pay attention and Gain Control Over Your Credit Card Payments

Review your credit card statements carefully. Make sure that your payment arrives on or before the due date. Do not charge for more than your credit limit. Fees are the big income generators for credit card companies. In 2003, more than 30% of credit card companies' profits were from late fees and over-limit fees.

The average family has more than $9,000 in total credit card debt. Most interest rates on cards are near or exceed 20%. If you were to stop using your credit cards and pay only the minimum amount due on the balances, it likely would take as long as 30 years to pay off the debt. The credit card companies have the power if you let them control the situation. By paying only the minimums, making late payments or falling behind a few months on your payments, the credit card companies gain control and limit your abilities to pay your debts. Falling behind one payment causes the credit card companies to request two payments and late fees when the next bill is due. Also, many credit card companies raise your interest rates once you fall behind. This gives them control and provides them with more profit at your expense.

Payment Reduction Strategy

1. **No New Debts**
   Use only one credit card for emergency purposes. Do not borrow any money. Pay by cash or check for all items. If you do not have the cash or enough in your checking account do not make the purchase.

2. **Remind Yourself of Your Debt Payoff**
   Motivate yourself by keeping your written goals in a place where you often will see them. You can use a bedroom dresser, a refrigerator or your wallet. Remind yourself that you must live within your means and only use cash if possible. Remind yourself that the money you save will be used to get you out of debt.

3. **Draft a Debt Repayment Schedule**
   List your debts, balances, interest rates, monthly payments and, for loans, your payment period. Rank your debts in order of interest rates, with the highest listed first. Pay all extra monies toward the highest interest payment card or loan. If more than one card has the same or very close high interest rates, a good strategy is to split the extra monies available and to put a larger amount toward the card with the higher balance. If one of the higher interest cards has a much higher balance then pay the extra monies toward that card.

   Use the online calculators to see how much you can save by applying more monies each month toward your highest interest rate accounts. You can compare the payoff time of paying only the minimums versus applying more funds toward the higher interest rate accounts. You will be pleasantly surprised with the results of your strategy.

C. DEVELOP GOOD MONEY HABITS

You need good money management skills to reach your goals of becoming debt-free. You must quickly develop the habit of always paying your bills on time. Late fees will cause your balances to remain high.

Balance your payments throughout the month. Many consumers have their bills due at the same time of the month. Often, rent or mortgage payments, car payments and some credit card payments are due at the beginning of the month. A good idea is to move your cycle date on your credit cards so that they become due the middle of the month or in the last third of the month. This strategy permits you to spread your bill payments throughout the month and helps you to avoid making late payments. It definitely will help your cash flow.

A simple, yet often ignored, habit is to monitor your bank statement. Nearly half of all Americans do not reconcile their checkbooks and often ignore checking account statements.

Credit Card Penalties

Many major credit card issuers have recently increased their late payment penalties. Some late penalties are as high as $35 per occurrence. Additionally, credit card issuers have reduced or eliminated grace periods. Ten years ago it was common to be granted a 5 to 15 day grace period if your payment did not arrive on the due date. However, many creditors have eliminated this grace period. This gives the consumer less time to get his or her payment in after the bill arrives. If you are one day late with your payment then the penalty will kick in. Some issuers even will penalize you if your payment arrives on the due date, but after the posting time.

Many credit card issuers also are levying over-the-limit fees for consumers whose balances exceed the credit line in their agreements. Creditors have instituted fees on overseas transactions and balance transfers. Some issuers charge a 1 to 3 percent transaction fee for purchases made out of the United States. These fees are charged even though the card issuer does not do the conversion itself. MasterCard or Visa actually charge the fees directly. Some issuers charge transaction fees of 3 to 5 percent for balance transfers from other credit cards. These fees often are included in fine print in the balance transfer offers sent to you in the mail.

Credit card issuers have increased their reliance on fees. Credit card issuers impose these fees now because their income from finance charges has decreased. Increased competition has driven down interest rates. Increases in home prices and lower interest rates set by the Federal Reserve have made it easier for consumers to refinance their homes and include credit card balances in the refinanced loans. Thus, many consumers have paid off their balances. Additionally, many consumers are more willing to shop around for better interest rates.

Additionally, creditors often raise your interest rate if once you become late on your payments. Some credit card issuers will raise interest rates to nearly 30%. Many credit card issuers grant a one time courtesy and remove the late fee if you are a only few days late. However, some credit card issuers refuse to grant any courtesy and will not remove late payment fees.

Some credit card issuers offer introductory interest rates that are very low. These issuers, after the introductory period, raise the rates to a manageable percentage, usually under 15%. However, late payments during the introductory period will cause the interest rates to skyrocket. Some issuers increase the interest rate for a set period and then will reduce the rate if you pay on time. However, many will simply increase the interest rate permanently.

Thus, it is important to make your payments on time every time and to carefully review your credit card policy agreements and statements. You should also use your consumer power and shop around when applying for a card. You do not have to accept the card issuers initial terms offer. You can often negotiate a better interest rate for yourself. You should remember that using a credit card is actually temporarily borrowing money from the credit card issuer. Shop around for the best rate for this temporary loan. Do not rely simply on the offers that you get in the mail.

Alternative Credit Card Issuers

Look for alternatives to the traditionally large banking institutions that offer credit cards. Smaller card issuers, credit unions and local community banks often charge lower fees, are more flexible and are often more service oriented.

Late fees and over-the-limit fees at community banks usually are about $10 to $15. Also, community banks often do not charge over-the-limit fees if the consumer exceeds the limit by a few dollars. Some community banks will impose an over-the-limit fee only when a consumer exceeds his or her credit limit by 10 percent. Many community banks also offer grace periods of 10 to 15 days for late payments. Credit unions also provide more consumer-friendly guidelines. They often offer grace periods of 10 days and often charge less than $15 for late fees and over-the-limit fees.

Avoiding Late Fees

Late payments will be costly to the consumer. Some card issuers charge as much as $39 for late payments. The following strategies will help you to steer clear of late fees.

1. Be Aware of Payment Rules

Follow your credit card issuer's guidelines exactly. The guidelines are outlined on the back of every credit card statement. The details are extremely important and must be followed.

The guidelines include a specific payment address, the time of day that payment must be received to be credited for that day, and in some cases the requirement that the preprinted envelope must be used for sending payments. Credit card issuers are required to credit payments the day they are received. However, each card issuer can set specific payment guidelines. Failure to comply with the guidelines may result in the creditor, who is permitted to do so, taking as many as 5 days to credit the payment. Thus, an on time payment can become late.

To follow the most frequently listed guidelines the consumer should:

a. Use the preprinted envelope and affix proper postage.

b. Include the billing statement and write the amount being paid in the section where it is required.

c. Write checks legibly and double-check that the amount is correct. Sign the check. Write the credit card account number in the memo section of the check.

d. Mail the payment at least 7 days before the due date. 10 to 14 days is better and may be necessary during the winter holidays.

2. Timely Pay At Least the Minimum

Pay the minimum payment and try to mail it out as soon as possible after you receive your monthly billing statement. Send more than the minimum when possible.

3. Move Credit Card Due Dates that Conflict with Other Bills

For many consumers credit card bills are due at the same time of the month as other bills. At that time of the month consumers usually do not have much cash on hand because of the number of bills due. Moving the due date to another time of the month can solve this cash crunch, preferably a few days after your payday.

4. Online Payments

Paying your bills online will help you to avoid late fees. Most major credit card issuers accept online payments. You can sign up for this service at the card issuers' websites. You can make the payments one time or set up the payments for an automatic monthly date and for the minimum amount due each month. This process also works well for consumers when they go on vacation.

5. Phone Payments

A phone payment, commonly referred to as a "pay by phone", is a fast and easy way to make your payments. This method works for last minute payments when the consumer does not have sufficient time to get the payment to the creditor by mail. The consumer is required to provide a checking account number and a bank routing number. This information is located on the bottom of every check. You should void the check after you complete the transaction over the phone. Some credit card issuers charge fees ranging from $5 to $15 for the transaction. Ask your credit card issuer about any fees for this transaction.

6. Other Options

Other options available when a due date is dangerously close include express mail, courier or Western Union. The U.S. Postal Service charges about $14.00 for an overnight package, which usually guarantees next day delivery. However, if you send the package later in the day, the chances increase that your package will arrive later the next day or, for some destinations not until the day after. It is important to ensure that the package is sent to the proper address. Payments sent to the wrong address likely will not arrive at the credit card payment center, thus causing the payment to be late or missed. The U.S. Postal Service permits you to track the package to ensure that it arrived on time. Western Union charges high wiring fees. However, these fees should pale in comparison to late fees and other negative effects of late payments.

7. Fee Waivers

Some credit grantors will waive late fees if the consumer is late for the first time. These requests are granted usually if the payment arrives only a day or two late. Consumers with good payment records are often granted the courtesy of a one-time late fee waiver. Many community banks or credit unions charge smaller fees and also, in some cases, do not impose penalties if payments arrive late.

Due Date Choices

Many consumers have to deal with a large number bills due at the same time of the month. Often bill due dates are weighted toward the beginning or the end of the month. This problem causes frustration and desperation depending on when payday is. The answer to this problem is quite simple. Balance your payments throughout the month. A good idea is to move your cycle date on your credit cards so that they become due the middle of the month or in the last third of the month. Your creditors should agree to this request. This strategy permits you to spread your bill payments throughout the month and helps you to avoid making late payments. It definitely will help your cash flow.

Please note that the due date change may take one or two billing cycles to take effect. Thus, during this time frame it is important to pay extra attention to your statements and due dates listed in your statements. Failure to pay according to your statements will result in overdue bills and late fees.

Each credit card issuer has different rules. Some creditors permit due date changes with no questions asked. Other creditors are more inflexible. American Express, for example, does not permit due date changes. However, American Express essentially provides a long grace period and does not report payments late if they arrive during the billing cycle just following the due date on the statement. This provides the consumer with enough time to pay.

Please also note that, if you have an outstanding balance on your credit card, moving your due date to later in the month may cost you more during the next cycle because finance charges will continue to accrue. Thus, if you push your due date back by 10 days you will be paying finance charges for 40 days during the next cycle rather than 30 days.

Managing Your Checkbook

Almost half of Americans with checkbooks do not manage them properly. Many consumers open up checking accounts when they are in their early 20's. However, most have not been provided a proper education as to how to manage their checkbooks properly. This lack of education hurts consumers. Sloppy record keeping, low account balances and insufficient funds charges cause consumers to pay enormous and unnecessary fees each year. Keeping a balanced and accurate checkbook is easy and saves money. The following strategies will help you to keep your checkbook accurate and will help with your budget planning:

1. Keep Good Records

The more you are aware of your checking account and informed of the deposits, checks paid and charges, the more you will be able to analyze your account and manage your finances. Pay attention to account activity. Use your check register or a register on your computer.

There also are software programs such as Quicken or Microsoft Money that help you to record your transactions. You should have a record of every check, deposit and electronic fund transfer involved with your account.

2. Scan Your Account

You may be busy and do not have the time to review every transaction. Examine your account summary. If you see an alleged error you can further examine the statement and then, if it still appears incorrect, report the error to your bank so that it can be promptly investigated and corrected.

3. Carefully Review Your Account

After scanning your account, if you have time, review all account transactions. Examine the deposits and the checks paid out. Match the statement with your check register. Review your check numbers and verify that the checks posted properly and in the correct amounts. They should match.

4. Open Your Mail

Open your bank statement when it arrives. Review the account information. Make sure that the statement is your statement and is not one that was sent to you in error. It is important to review your statements promptly after receipt because banks often refuse to correct errors that are reported more than 60 days after your receive your statement. The sooner the error is corrected the more likely it is that any errors caused to other transactions as a result of the error will be fixed. Also, the sooner the error is reported the more in synch your records will be with the bank's records.

5. Check Balance Summaries

Most consumers do not need to check their balances on a daily basis. However, consumers with interest bearing accounts or consumers who maintain low balances and also have minimum balance requirements should pay much closer attention to their accounts and their daily balances. They should want to ensure that, if they have interest bearing accounts, they are paid the correct interest, or if they have low balances, that the balance is above the minimum requirements.

6. Detecting Problems and Acting

Closely examining and reviewing your checking account is a smart strategy. You can quickly detect errors and discrepancies and notify your bank to make corrections. You should perform a check-reconciliation promptly after you receive your monthly statement. If you mistakenly bounce a check your bank may provide forgiveness the first time. However, repeated problems likely result in no waiver of fees. It is also a good idea to check your account online when you expect an "out-of-the-ordinary" transaction, such as a tax payment or the payment of a large bill or credit card balance.

D. SLASH EVERYDAY EXPENSES

Financial mishaps occasionally take place. For most of us it is the little ones that often cause the biggest cash drain. Consumers should not let these mishaps tap their income and savings.

1. Seek Lower Interest Rates

Credit card issuers want to keep your business. They want the existing, charging customer to remain with them and to continue to charge on their cards. You, as an educated consumer, should not accept living with high rates on your credit cards, even if your credit is not the best. Contact your credit card issuer and ask for a lower interest rate. If the card issuer refuses, shop for another card. Let the card issuer know that you are shopping for a better rate. This threat just might change their minds about denying you a lower rate.

2. Decrease Commuting Expenses

Review the costs of your daily commute to work. Consider the costs for parking, gas, tolls, insurance, maintenance or, if applicable, public transportation. Changing how you get to work can decrease commuting expenses from gas savings to insurance reductions to reduced wear on your vehicle. Consider car-pooling to work. Ask around if co-workers are interested in car-pooling with you. If you do not take public transportation and it is available compare its costs to the costs of using your own vehicle.

3. Reduce Energy Costs

Make your house energy efficient to reduce utility bills. Seek inexpensive solutions that can yield immediate benefits. Good ideas include new insulation, programmable thermostats, caulking and energy efficient bulbs. A change in your landscaping can result in lower energy bills by blocking winds and sun.

4. Review Cell Phone Calling Plan

Shop around to different cellular phone service providers. Choose a plan that suits your lifestyle. Often consumers make the mistake of signing up for a low rate plan that only provides a set number of minutes. They then exceed their airtime each month and are hit with large per minute charges. Consumers should learn about the cellular carriers and find out about their terms, rates and reliability. It also is a good strategy, when shopping, to tell each carrier about the other carriers' rate plans. This may get you a better rate plan. It is also a good idea to request a free phone if needed.

5. Review Shopping Habits

Read weekly circulars and clip coupons. It is a good ides to comparison shop, purchase sale items, use shopping lists and redeem rebates. Avoid the urge to splurge on impulse items. Set a schedule for your weekly meals to limit dining out. This also prevents the need to stop and make last minute purchases at the take-out counter or at the pre-made section of the supermarket. These last minute purchases are always more costly than self-prepared food.

6. ATM'S

ATM's serve as convenient ways to quickly get cash. However, these cash machines can be very costly. Bank ATM fees often add up. Avoid extra fees by using only your bank's ATM machines. This will help avoid charges from both your bank and the other bank. When opening a bank account it is a good idea to find a bank that does not charge a fee for ATM transactions from your bank's machines. Grocery store point-of-sale terminals are free. You might also consider switching to a bank with a larger ATM network and withdrawing larger amounts so that you can reduce the number of times fees are charged to your account.

7. Lower Credit Card Rates

Your creditors may be willing to lower your interest rate if you simply call and ask for a lower rate. This call can save you hundreds or even thousands of dollars in interest charges. The creditors have no incentive to lower your rates if you do not request a change or if you do not threaten to take your business elsewhere. Surveys have shown that more than half of those consumers who ask for a reduction in their interest rates obtained lower rates. Many consumers who are granted interest rate reductions receive substantial reductions. Reducing your interest rates by as much as one-third will create a huge interest savings. Some credit card issuers may even temporarily reduce the interest rates to as low as 0%. Some credit card issuers grant the interest rate reductions for temporary periods. Others provide the savings forever as long as the debtor remains current with the account. Beware when seeking an interest rate reduction if it is temporary. The rate may go back up after a set time.

Credit card issuers will reduce interest rates because of competition from other card issuers. The reasoning is simple. Reducing interest rates and keeping a paying customer is more beneficial than losing the paying customer's business completely. Lower interest rates set by the Federal Reserve have made it easier for credit card issuers to offer lower rates to their customers. The current low rates have created an opportunity for consumers to ask for rate reductions.

A simple approach to requesting a lower rate is the best approach. You should state your name and tell the creditor that you are a good customer. Make it a point to inform the creditor that you have received several offers in the mail offering lower interest rates. State that you want a lower rate or you will cancel your card and switch creditors. If your creditor denies the rate reduction, it is a good idea to try again. You likely will get another representative on the phone or you could ask to speak with a supervisor. You could be transferred to an agent who specializes in keeping customers who are threatening to cancel. Newer customers who have higher balances will have amore difficult time in getting the rate reduced. The creditors like to see a history before granting an interest rate reduction.

E. BUILD AN EMERGENCY FUND

Building an emergency fund is an immediate and top priority. Many consumers do have an emergency fund and find it difficult to find the way to save extra money. However, a cash reserve is vital to financial health. A cash reserve helps prevent the consumer from accumulating a greater debt level during a crisis. A cash crisis can be caused due to loss of employment or other unexpected events such as car or home repairs. The consumer should not want to use a credit card in an emergency unless the bill can be paid off in the next billing period. Otherwise, by the time the consumer pays the interest, which grows daily, he or she can easily end up spending more than double the original cost. An emergency fund should equal three to six months living expenses and should be kept in cash or a in a savings account. The consumer should try to treat the emergency fund just like a bill. Pay into the emergency fund account every month or every two weeks. Stashing money in an easy access money market account takes discipline. Once you deposit your paycheck into your account there are often so many demands placed on you that it is hard not to spend it. You need to make a disciplined effort to pay your emergency fund first and not touch it for anything less than an emergency. An emergency is not those new shoes or new DVD that you want. The best examples of emergencies are necessary car repairs or bare bones living expenses when you lose a job.

Many Americans live paycheck to paycheck. Many Americans likely believe that it is very important to keep at least three months of living expenses on hand. However, far less people actually do keep an emergency fund equaling three months of living expenses on hand. It is easy to have serious financial problems caused by one catastrophe or mistake. Everyone wants to maximize the earnings on their savings. However, this desire must be balanced with the need for easy access to your money. For your emergency fund a good strategy is to keep a low yield-low risk savings account. This allows easy access to the money when it is needed. Some experts recommend building an additional contingency fund to support your self and family in case of job loss. This fund should also be kept in a low risk account with easy access.

Building any fund is a process that should take time and discipline. Discipline becomes easier over time and after the repetition of placing the money away each week. After building a fund that consists of at least two months of living expenses, it is a good idea to place some of the funds into a slightly longer-term savings or CD account. A three-month account is usually safe to set aside. This is a better strategy than to borrow from a 401 (k) or other retirement account. Roth IRA's are also a good option to for the emergency funds. You are permitted to withdraw funds from a Roth IRA without any penalty.

Short-term investments such as savings accounts yield lower interest payments but provide the key factor for emergency funds, easy access with no penalties. Some investors prefer to invest in savings or other bonds. Although the interest rates are higher penalties for early withdrawal can be steep. There are ultra short-term bond funds that permit some flexibility. There is also less price risk in short-term bonds than in longer-term bonds because if interest rates increase a longer-term bond locks you into the lower rate for a longer period of time. Also, bond prices will fall when interest rates rise.

Tax-exempt investments are also good to consider. Individuals in higher income brackets often look to tax-exempt investments.

It is always advisable to find a level of risk that you are comfortable with. Experts recommend that the consumer should consider all options before making a decision on investing the emergency fund.

Early Withdrawal Problems

Although it is a good idea to keep your emergency fund in short term investments, there may come a time, due to the unexpected emergency, that you may need the cash. If your funds are held in a bond fund or a CD, cashing out early will likely cause you to pay early-withdrawal penalties. The bank should remind you of early-withdrawal penalties when you purchase a CD. Although many individuals focus on the interest rate and term of the investment, they do not consider the penalty, and loss of cash, if they need to access the cash earlier than anticipated. Federal law requires a minimum penalty of seven days interest for early withdrawal from time deposit accounts. There is no maximum penalty. Thus, banks will likely charge a larger penalty for early withdrawal. You can lose as much as six months of interest, or more, if you withdraw funds early from a long-term (2 years or more) CD. Both small and large banking institutions charge these stiff penalties because they are relying on you keeping the money in the account for the minimum required period.

Some banks will not clearly state to you the penalty until it is imposed. The penalty is usually determined by a formula based upon the maturity point of the CD. Thus, the earlier the withdrawal occurs, the higher the penalty to be imposed. Also included in the penalty determination is the market rate at the time the withdrawal occurs. In some cases the penalty exceeds the interest earned. Thus, for extremely early withdrawals the consumer may get back less than he or she initially deposited.

There are some exceptions to early withdrawal penalties. Penalties may be waived in cases where the accountholder dies or is declared mentally incompetent. Another option to investigate involves investing in high interest rate CD's and setting them up for monthly interest withdrawal. Early withdrawal penalties may be deductible on tax returns.

Brokered CD's are another option that can help the consumer avoid early withdrawal penalties. A brokered CD is through a deposit broker. This type of CD sometimes has no early withdrawal penalties. However, there is some risk. The deposit broker sells the CD on a secondary market. You must accept what the broker is able to sell it for. You risk getting less than what you initially paid for it. On the bright side, if you sell a brokered CD at a time when interest rates are lower than at the time you bought it you can receive a higher price for it. For example if you buy a brokered CD at 5% interest and sell it at a time when the highest rate for the same brokered CD is 4%, you will get a premium for the CD. The reverse is also true. If you buy a brokered CD when the rate is 5% and want to sell it at a time when the highest rate is 6%, then, with less demand for the CD, you may have to sell it at a discounted price. Thus, brokered CD's can be a risky investment unless you intend to hold onto them.

F. GETTING HELP FROM A PROFESSIONAL

There comes a time when a consumer should realize that it is time to seek help from a credit professional. This occurs when there is difficulty in meeting expenses. Consumers in debt usually take the first step by attempting to help themselves. They try to cut back on expenses and monitor their accounts more closely. However, many fail at this first step. They find it difficult to control their finances because such action requires discipline. These consumers need a financial "trainer" to guide them in controlling their finances. There are signs to look for to determine if your finances have become unmanageable. These indications include the following:

1. Decrease in income with increase in credit card balances.
2. You are near or over the limit on your credit card balances.
3. You pay the minimum, or less, on your credit card balances.
4. You have too many credit cards with too much available credit.
5. You apply for more cards and take cash advances to pay for existing cards.
6. You charge more on your cards than you make in payments each month.
7. You cannot make all your payments.
8. You do not know how much you owe and do not seek to find out.
9. You hide your statements from your significant other.
10. Creditors call you and send letters about delinquent payments.
11. You use your cards because you do not have cash to pay for necessities.
12. You use your savings or borrow from retirement funds to pay your bills.
13. You sign up for every credit card offer sent to you in the mail.
14. You have lost your job and have no reserve fund to pay your bills.

Look For A Pattern

There is no set number of signs listed above that will show that you have credit problems. You may still be able to deal with your problems if several of these signs describe your situation. However, if these signs exist for several months, you likely are having credit problems that must be addressed. You should not panic if you spot a trend. Anyone can experience a temporary financial problem. You must act to address it in a responsible manner. Do not look to immediately declare bankruptcy or to take out a loan to pay your debts. You should examine your money management and speak with a credit counselor to see if your situation qualifies you for help. You may not need assistance. You may just need to change your habits or address a temporary cash flow problem.

The most important thing to remember when a pattern occurs is to avoid procrastinating. Do not wait to address your problem. The sooner that you examine your money management skills and seek help, then the sooner you can obtain relief. The best time to seek credit counseling is when a few signs exist. Before seeking a credit counselor the consumer should make a list to include his or her income, savings, debts owed, monthly payments, and other expenses. This list can be used to analyze the financial situation. The credit counselor will use this information, as well as look for the root causes of the situation. At that point the counselor will determine the best approach to address the problem and will help you to develop a budget plan.

Delinquency

Consumers who fail to timely pay their credit card payments are often assessed late fees. Late fees are often $29 or higher. These fees only will be removed after the first instance. These fees added to your balance make it more difficult to pay down debts.

Financial damage gets more serious when consumers completely miss payments and fall more than 30 days behind on their bills. The creditors expect the consumer to pay the missed payment, the late fees and the next payment when the next payment comes due. This results in the consumer owing more than double the original payment for the next month. At this point creditors express concern that the consumer will not pay the account and that there is a risk of not receiving the money owed. Additionally, creditors will often raise your interest rate if you miss payments or are late with payments. The terms you agree to when you apply for the credit card permit the creditors to take this action.

Also, when a consumer is more than 30 days late on a payment, creditors will report accounts as 30 days delinquent when reporting to the credit reporting agencies, also known as the credit bureaus. If a consumer fails to make the next payment in full the creditor will likely report the account as 60 days delinquent and 90 days delinquent after the next failure to pay the full minimum amount owed. These negative reports remain on a consumers credit report for seven years. The negative reports will remain even if you close out the card. These negative reports lower a credit score and result in a higher cost through higher interest rates when a consumer seeks to borrow in the future. Thus, the cost of owning a car or home will skyrocket if you have a late payment history.

It is a good idea to reach out to the credit card issuer if you expect to be late with a payment. You should inform the credit card issuer of the circumstances and request some type of relief. The credit card issuer may, at this point, be willing to temporarily lower your payment or change your due date. However, you should not make a commitment that you cannot keep. Your creditors will have noted the conversation and will be less willing to assist you in the future if you do not keep your word.

Although a long history of on-time payments does factor in when seeking relief from a creditor, you must contact the creditor before your problem gets too severe. For example, a long on-time payment history likely will not matter if you contact the creditor after you have fallen behind two payments on your account. One late payment of 30 days will hurt your credit history, but more than one late payment will cause more severe damage. Developing a pattern of paying late will definitely destroy your credit history. Thus, the sooner you get your situation under control, the more likely you can salvage your credit history. In fact, credit counselors often are able to have creditors re-age accounts back to current without the need to make extra payments.

Choosing A Credit Counselor

There are over 1000 credit counseling agencies nationwide. It is important to choose the credit-counseling agency that is right for you. The consumer should research a credit counselor before making a decision on joining a program. It is a good idea to look for a company that meets following criteria:

1. The company should be a non-profit company recognized by the Internal Revenue Service (IRS) as a non-profit organization.
2. The company should have a satisfactory record with the Better Business Bureau (BBB). (The BBB only inform you if the company has a satisfactory or unsatisfactory record.) Avoid companies with an unsatisfactory BBB record. The company should provide you with the BBB office that they are registered with.
3. The company should be ISO 9001:2000 registered. The two main accreditation agencies that register credit counselors are BSI and COA. Several major creditors require that the credit counselors they work with are ISO 9001:2000 registered. ISO 9001:2000 registration confirms that the credit counselor has important document and payment controls.
4. The company should provide you with a written contractual agreement and should let you review the contract before signing and beginning the program.
5. A credit counselor should never automatically enroll you in the program without first speaking to you.

6. A credit counselor should spend a significant amount of time with the consumer, and not just set up the debt management plan without explaining the situation.
7. A credit counselor should never require a voluntary contribution in order to help you, or for a credit counseling session.
8. Credit counselors do charge fees. It is important that the company disclose the fees it charges. Look out for additional add-on fees such as a monthly per creditor fee added to the monthly service charge.
9. A credit counselor should make on-time payments to your creditors when your payments to the company are made on time. However, you should not blame the company if your payments to it are late.
10. The credit counseling agency should offer direct payment plans such as automatic withdrawal from your checking account. This makes payments easier for the consumer to make on-time payments each month. It is important to ensure that there are funds in your account for your monthly payments.
11. The credit counseling agency should submit creditor payments electronically whenever possible. This permits faster posting of accounts and reduces the risk of human error by both the credit counseling agency and the creditor. Many credit counseling agencies have set up computer systems that permit quick processing of payments. Avoid companies that only disburse funds to creditors on a monthly or bi-monthly basis. This slow disbursement pace can lead to errors and potential late payments. Remember, some creditors will take away credit-counseling benefits due to late payments. Once these benefits are taken away some creditors will not give the benefits back for many years.
12. The credit counselor should keep you advised of your accounts and send a monthly statement. You should also review your actual creditor statements each month to ensure that your payments are being properly disbursed and posted. If you find any errors or discrepancies contact your credit-counseling agency immediately to correct the problem.

Credit counseling services are not free. Almost all agencies charge a monthly fee for servicing accounts. The consumer should beware of agencies that charge additional fees for educational services. Although companies are non-profit they must still pay their employees and pay for services associated with managing the debt management plan for its clients. Credit counselors do receive funding from creditors. However, during the past several years this funding has decreased substantially. Thus credit counselors have had to increase their fees charged to consumers. It is important that the credit-counseling agency disclose the fees it charges.

Consumers with delinquent accounts who can only afford to pay the minimum monthly payment are ideal candidates for credit counseling. These consumers will benefit for several reasons.

1. The creditor accounts will be paid in full in approximately 5 years, depending on the creditor. Some creditor accounts will be paid sooner and some will take a little longer. These results are achieved from several benefits provided by a credit-counseling program.
2. Interest rates are often substantially reduced. This permits more money each month to go toward paying down the balance than toward the formerly high interest rate.
3. Creditors re-age accounts back to a current status after several on-time payments through the credit-counseling agency. This permits the consumer to make on-time payments for the minimum amount without the need to pay extra to catch the account back up.
4. Late fees and over-the-limit fees are often eliminated. These fees add to the high balances. By removing these fees the balances can come down faster.

Thus, accounts that often take more than 20 years to pay off if a consumer continues to make only the minimum payment are often paid off in 5 years or less. This is a 75% faster pay off time. However, make sure that the plan designed for you actually benefits you and does reduce your debt burden faster. Ask questions and make sure that you are comfortable with the credit-counseling agency. Ask about the agency's track record and find out if the agency has a customer service department that addresses clients concerns. Some agencies outsource their customer service and accounting operations to third parties. These agencies do not maintain control over their client needs after enrollment. Look for agencies that control their customer service and accounting departments.

G. IMPROVE YOUR CREDIT SCORE

On an everyday basis consumers seek to purchase a home, rent an apartment, buy or lease a car, apply for a credit card, or purchase a cellular telephone plan. Many consumers are turned down for credit when they seek these items because their credit scores are too low or they have poor payment histories.

A credit score, much like an SAT score that will help determine your college future, often determines if you receive the best interest rate on a loan or if you can even receive a loan at all. The creditor uses the score to determine the likelihood that you will repay the debt you seek to incur. The credit score is based solely on information contained in your credit report.

Credit reports are compiled by three major credit bureaus. They are Equifax, Experian and TransUnion. These credit bureaus provide the most frequently used score, called the FICO Score. Fair, Isaac & Co. designed the FICO Score. The FICO Score is calculated based upon outstanding available credit, payment history, outstanding balances, balance transfer activity, balance to limit ratio and other factors. You can obtain your score from any of the major credit bureaus or from online sources such as www.myfico.com. The costs of these reports are less than $13.00 each and the combined report should cost less than $40.00. You are entitled to a free credit report if you are denied credit. However, the free credit report may not contain your FICO Score. TransUnion should automatically include the Score in your report.

Several suggestions that should help improve your credit score are:

1. Make on-time payments for all your bills. Late or missed payments will lower your score. You cannot control previous missed payments. However, the older a missed payment is the less impact it will have on your score. It is always a good policy to pay bills on time. It is important to mail your payments far enough in advance that it will post on time. Online bill payment also helps.

2. Do not open new accounts unless you absolutely need to. Every time you open a new account it raises your available credit. Avoid the urge to open a new account every time an offer comes in the mail or every time a store representative offers you a one-time saving for opening a new account.

3. Correct mistakes on your credit report. Your score is based upon the information contained in your credit report. You should review your credit reports from all three bureaus at least once a year. Correcting a mistaken notation can take some time. So address it upon discovery and contact the credit bureaus to correct the error.

4. Avoid transferring balances.

5. Pay down your credit card balances. The FICO Score includes how much money you owe on your credit card versus the total credit limit. It is a good idea to keep the balances low.

Considering the credit crisis many consumers face, it is important for all consumers to monitor their finances. An educated and alert consumer will realize a potential problem by looking for the signs of financial stress. The same educated consumer will work to address the potential problem prior to financial disaster. Hopefully, the reader will become that educated and alert consumer. If you have any questions, or if you believe that credit counseling may be the right solution for you, please contact Community Credit Counseling Corp. at 1(800) 540-6814, or visit us on the web at www.DebtFreeFast.org

Good luck with your financial future!