

Financial Literacy 101

Fact Sheet: Getting Out of Debt

A Common Problem

As debt has increasingly become a way of life for Americans, college students have also found their debt levels at record levels. Over the past few years, the average credit card debt of new college graduates has doubled to nearly \$4,000 - and that's in addition to an average \$18,000 in student loan debt.

How could this happen? Debt can happen for a variety of reasons – from the loss of a job to medical bills. But the most common reason students get into debt is simply lack of planning. The problem with debt is that it rarely happens at once – little by little, credit card balances grow until you realize it will take months or even years to repay the debt.

The effects of excessive debt can also be devastating – from feelings of low self esteem and anxiety to a damaged credit report.

This fact sheet outlines several strategies you can use to help yourself out of debt. Your school's financial aid office is often a good first stop when coming to terms with serious financial problems, and they may be able to put you in touch with a qualified debt counselor.

Warning Signs

Here's a list of common feelings and situations that may alert you to take control of your debt.

- You have unpaid balances on your credit card.
- Your debts get bigger, not smaller, every month.
- The interest rates on loans and credit cards are raised because of missed payments.
- You bounce checks.
- You don't have money to pay for food, laundry, and other necessities.
- You don't pay your bills on time.
- Over one-fourth of your income goes towards paying your debts.
- You spend more money than you make.
- You live in fear of the telephone - it may be another debt collector.
- You use cash advances for items you used to purchase with cash.
- You're at or near your credit limit and apply for new cards.
- You need to transfer debt from one card to another to reduce interest payments.
- You don't know the total amount you owe.
- You experience feelings of anxiety and stress whenever you use your charge cards.
- You drain your savings to pay debts.
- You can't sleep because of worry about debt.



Getting Out of Debt

Curing chronic debt is never painless, but we've come up with suggestions to make the process as easy as possible. First, visit your my Student Aid page and use our interactive budget calculator to determine your cash flow. If you have positive cash flow, apply the extra to the debt, paying off high interest loans first. If your expenses exceed your income, consider working more or getting a low-interest educational loan.

While **consolidating debt** is not the solution to your credit problems, it can save money. If you owe money on several credit cards, you can simplify the repayment process by transferring your different account balances to one lower-rate card. Many credit card solicitations offer what's called a "teaser rate" - a really low interest rate that's typically offered for 3-6 months before it goes up. The accounts are thus "consolidated" under the new card's account – ideally saving you money with a lower interest rate.

Consolidating credit cards is usually a good idea if you absolutely have to carry debt for a while, because it makes repayment both cheaper (at least for a few months - which could save you hundreds of dollars) and easier, since there's just one bill to pay.

But there are some risks to playing the consolidation game. By acquiring new cards, it's a lot easier to get into more debt since you then have another card. It's important to cancel your old cards by calling the company, telling them to cancel your account, and by throwing away your old card.

You can also simply call your credit card and ask for a lower rate – studies suggest that's effective about 50% of the time.

If your debt has gotten out of control, get help from your financial aid office or find a debt counselor.

Visit the Resources area of FinancialLiteracy101.org for more information.