

Money for Life

January 2005

Dear Readers,

A charge here, a charge there, and your holiday shopping has resulted in a stack of credit card bills. So how are you going to pay all those bills? This month's newsletter has effective strategies for reducing your debt and taking control of your finances. Best wishes for the new year.



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How Much Do I Owe?

Begin by listing all of your debts. Include the balanced owed, the monthly payment, and annual percentage rate. Check your credit card statements carefully to make sure all the charges are correct and calculate your total.

Get a Better Rate

Call your current card issuer and ask that they lower your interest rate. Tell the card issuer that you've been a good customer for X years, that you're making a resolution to pay what you owe, and you'd like a better deal.

If that doesn't work, shop around for a lower rate card and transfer existing credit card balances. However, make sure you will get that lower rate on



the balance you just transferred, because some card issuers have restrictions on balances transferred. But even if the lower rate is a teaser or introductory rate for just 6 months, you could save several hundred dollars. For example, on a card with a balance of \$1,000, the interest drops more than \$300 if you switch from an 18% rate to a 12% rate, assuming you're only able to make the minimum payments over a period of time. But you need to pay off that balance before the introductory rate goes up again.

Minimum Payments, Maximum Cost

One of the advantages of using a credit card is being able to buy now and pay later. But some consumers take the pay-later concept to an extreme — they pay only the minimum amount due on their card's outstanding balance and end up paying the maximum costs. The minimum payment, set by the card issuer, is usually about two percent of your outstanding balance. While it might appear to be a good deal to pay only \$20 a month for your holiday purchases, you need to consider how much those items will really cost when you add in the interest charges.

For example, if you charged \$1,800 on a card paying 18% interest and pay only a minimum payment of 2% of the balance, it will cost you \$3,800 in interest with a total cost of \$5,600. And paying only the minimum will take you 22 years to pay off.



Try to add as much as possible to the minimum payment. Depending on the balance owed, the extra amount can make a major difference in reducing the amount of interest you will pay.

If you pay less than the minimum payment, you will be charged fees and could be reported to the credit bureaus as delinquent. The negative information could result in an increase in your interest rate or the cancellation of your card.

If you have a savings account earning a small rate of interest, use it to pay toward higher rate credit accounts. The difference between the interest you earn on your savings account and the interest you would pay on your credit card debt can be significant savings.

Pay your account on time, before the due date if possible, and don't go over your credit limit. If not you could be paying a late fee, an over-the-limit fee, and increased interest.



PowerPay Out of Debt

PowerPay is a free, confidential computer analysis that shows you how to pay debts to save time and interest. Using the “power pay” principle, the program shows you how to eliminate high-cost debts first, thereby saving money in the long term. For example, if you have three debts and your total monthly debt payment is \$400, the program will apply a higher percentage of that \$400 payment to the highest interest rate debts while still making payments on the others. As you pay off each debt,

the program applies the \$400 to the remaining debts, keeping you on track toward paying off the total amount owed.

Contact your county ISU Extension office and ask for Publication PM 1873c, complete the PowerPay worksheet, and send to the ISU financial counseling clinic. You will receive a repayment schedule showing how you will benefit from power payments and a reduction calendar to track your monthly payments to each creditor.

Financial Counseling Services

The ISU Financial Counseling Clinic provides assistance in dealing with creditors and managing debt. For more information on their services, call the toll-free number at 1-866-282-5813, send an e-mail to money@mail.fcs.iastate.edu, or link into the website at www.fcs.iastate.edu/financial. Contact your county ISU Extension office for local financial counseling services which may be available.

Plan Ahead

Following a spending plan can help you find money to pay off debt as well as plan ahead for the next holiday season. Contact your county ISU Extension office for family resource management publications or link into the ISUE publications web site at: <http://www.extension.iastate.edu/pubs/co2.htm>

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