Debt Reduction services | Money Fit by DRS, Inc.

The Debt Gazette

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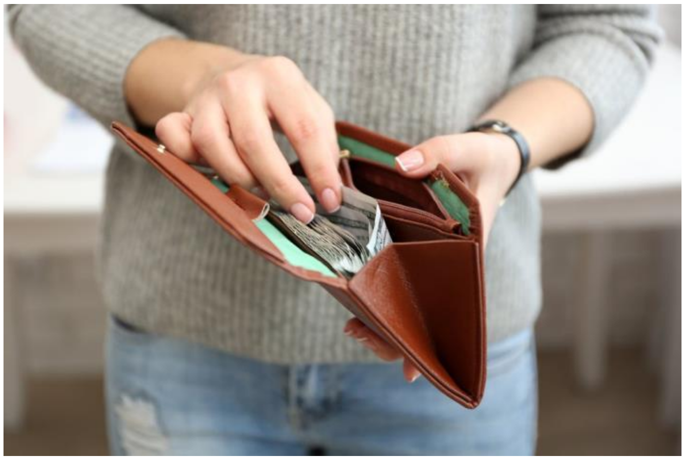
CLIENT NEWSLETTER

Feature Article



From Credit Card Debt to Cash-Only

How To Go from Credit Card Dependency to Using Cash-Only

For most households struggling with living paycheck to paycheck (and that accounts for roughly six out of ten households on every block in America), moving from complete credit card dependence to the cash-only envelope system sounds like a great idea. However, these same households also know that quitting their credit cards cold turkey would mean that their payments to credit card companies (and to other creditors and accounts) would turn to rubber and begin bouncing higher than the New York City skyline.

If you're making only minimum payments on our credit cards while using them to finance groceries, gasoline, utilities, insurance, gifts, and more, you're likely carrying a balance of thousands of dollars from month to month. The average credit card debt per household currently comes in around $6,500. At an average 16.5 percent APR, that means that the average American household is paying around $90 every month just in credit card interest. If that doesn't seem too bad, consider that such a monthly interest payment equates to over $1,000 every year. What does $1,000 mean to your household? How would you spend $1,000 if someone gave it to you?

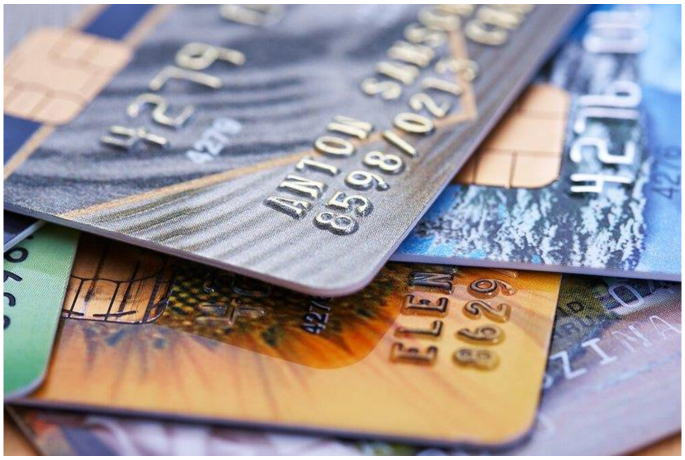
Let's look at some ways we could spend an extra $1,000

- You could purchase for your family double the number of Christmas gifts the average American household gets each year.
- You could invest in a mutual fund that earns the annual market return of 9 percent, and if you contributed that $1,000 annually, you'd be looking at over $61,000 in twenty years, having only contributed around $20,000.
- Get a large, high-performance smart TV for the entertainment room.
- Pay for a top-line premium cable or satellite television channel package for a year.
- Buy a new, state-of-the-art cell phone with a nice case, screen protector, and earbuds.
- Go on a short, but relaxing Caribbean cruise for two.

You should never say something like, "It's just $100 a month. We can afford that." Instead, mentally equate the dollar amount with something you really want to acquire for that amount.

Now that you have a vision of what you're missing by paying so much credit card interest each month, how do you get rid of that interest without wreaking havoc on your bank account? The answer involves taking it one step at a time.

The Impracticality of Quitting Credit Cards Cold Turkey



Most people simply cannot quit cold turkey. Unfortunately, that's what many financial gurus, in their impractical brilliance, fail to mention when they say, "Stop using your credit cards and go cash only."

No duh, Mr. Guru, but how?!

Once you understand what your income and expenses are each month and have put together a spending plan, you can start converting one or two monthly credit card purchases into cash transactions (by cash, I mean debit, bill pay, actual cash, check, or other direct debit methods of payment). I suggest beginning with the non-set-in-stone expenses, such as gasoline, gifts, entertainment, or, if you're feeling particularly brave, groceries. First, determine how much you typically spend on the item or activity during the month, then take that amount out of your checking account right after payday (in cash, by writing the check, or by initiating an online bill payment).

That's it! For month number one, you've transferred one or two expenses from your credit card addiction to the cash-only virtual envelope system.

During month number two, since your credit card bill will ask for a smaller minimum payment because you charged less during the previous month, you may now transfer another monthly purchase from the credit card to cash. Don't forget, though, to pay down the credit card balance by paying more than the minimum payment. Each month, more purchases are transferred from a credit card to the envelope system, and within five or six months, most households will be weaned from using credit cards for regular purchases.

Besides this method, another option is to use unexpected or periodic "windfalls" to switch from the credit card habit to the envelope system. Probably the most common opportunity to do this occurs in mid to late spring when you receive a tax refund (if such a refund comes your way).

Let's say that you get a $1,000 refund this next year and are mentally and emotionally in a place to switch to the cash-only envelope system. If that's the case, take half of your refund and use it immediately to make some of the monthly purchases you habitually pay by credit card.

Step by Step from Credit Card Debt to Cash

To go from credit card-dependent to credit card-free living, follow the steps below in addition to the suggestions mentioned above.

1. From your previous credit card statements, figure out how much money you paid to your credit card companies over the past twelve months.
2. Write down one to three activities you would like to do or items you would like to purchase in the next twelve months and their rough cost (each should equal more or less the amount of Step 1).
3. Commit to self, partner, or best friend to get to a point over the next twelve months where you can begin to save the money from step one rather than sending it to your credit card companies.

It's a Fact

There are really only three factors in paying down our debts, and they all involve getting more money to go toward our debt's principal rather than to its interest:

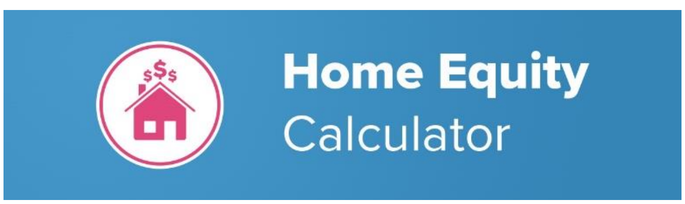
1. Earn more to send a larger payment;
2. Spend less to send a larger payment;
3. Get a lower interest rate to increase the portion of our payment going to the principal.

Typically, only factor #2 involves the self-discipline required for successfully paying down debts. Whether alone or in conjunction with #1 and/or #3, factor #2 almost always needs to be involved in paying off our debts.

What to do, and not to do, when switching from credit card dependency to the cash-only method

- Don't quit credit cards cold turkey and without a plan.
- Don't simply transfer debt from one card to another (regardless of differences in interest rates) without establishing barriers to your spending.
- Don't apply for ANY new credit cards, retail cards, gas cards, or other debts while paying down your current debt.
- Do identify each week or month which purchase or purchases to switch from credit card to cash.
- Do commit to quitting by telling family members or those close to you that you're doing so.
- Do look ahead to potential income windfalls such as tax refunds and plan to send it, or a large portion of it as a credit card payment.

Featured Online Resource



Home Equity Calculator

Enter the estimated market value of your home as well as the balance on your mortgage, and we'll calculate your home's equity.

How this calculator can help

Equity is a tricky term that takes a little effort to understand. An over-simplification would be to say that equity is the amount of your home you own above and beyond what you owe and are financially accountable for. Doing equity-related calculations is not easy for beginners. If you're just entering the market for a house and would like to make the equity equation easier, our calculator is made for you.

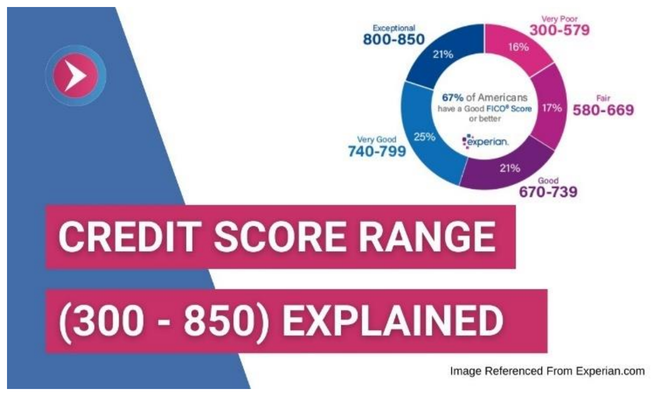
We boiled it down to a two-step process to make it as easy as possible.

Find this tool at this link:

https://moneyfit.org/home-equity-calculator

Trending Financial Tool

Credit Score Range (300-850) Explained



Why do credit scores not start at 1 and go to 100? That would be so much more consumer-friendly, right? Join author and financial educator, Todd Christensen of Money Fit by DRS, for this 15-minute journey about why a credit score range is what it is and what it means.

Watch the video here: https://youtu.be/msmJ-DLXfKc

Learn, above all, how to know if you have an excellent credit score or a bad credit score. The answer may surprise you. Learn more about the FICO model and how to improve your credit report here: https://moneyfit.org/blog/5-tips-to-improve-your-credit-score

Webinar Showcase

Virtual Credit Voyage

4 Steps to Better Credit

Money Fit's live, weekly financial webinar offers all adult consumers the opportunity to learn, engage, and strengthen their skills to build their credit. Based on proven tools of behavioral economics to promote behavior change, the webinar lasts approximately 45 minutes. Our education manager, Todd Christensen (author and Accredited Financial Counselor), facilitates these weekly webinars each Thursday at 1:00 pm Eastern.

Here are the four steps to improve your credit:

1. Register for and attend the webinar through https://moneyfit.org/live.
2. Learn why credit is so important along with some ways to improve it.
3. Make a plan to improve it by filling out the free, downloadable credit-building workbook with the next steps involved in your credit-building journey.
4. Take those steps to continue on the road to your better credit destination.

This interactive presentation guides participants through a personalized action plan to identify goals, review the financial impacts of credit, analyze and choose strategies to maintain, improve, or establish credit, and plan for the next steps to take.

Debt Reduction Services News

Client Experience Reminder

When you're in a position to pay off an entire account, please do so through our Customer Experience department (CX).

We get excited for our clients to pay off their entire balance, whether over a typical 3- to 5-year plan or earlier. Common ways clients can achieve an early payoff include selling a home to downsize or to move to a more affordable area and using some of the home's equity to pay off their debts. Gifts from family members also help some clients pay off their debts early. Still, others use a substantial tax refund to pay off one or more of their creditors.

Regardless of the source of such payments, we ask that you work directly through our Customer Experience department to arrange such a payoff. Doing so will help us avoid any potential of drafting your account if you've already made the payment.

Please call your client experience team with such questions today at (866) 688-3328.