

SOME IDEAS THAT MAY HELP WITH

Credit Problems and How to Get Help



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DO YOU HAVE A CREDIT PROBLEM?

- Are you at or near the limit of your lines of credit?
- Can you make only minimum payments on your credit cards?
- Is the amount of your new purchases a surprise each month?
- Are you frequently taking cash advances on your credit cards?
- Are you chronically late in paying your bills?
- Are you borrowing to pay for items you used to pay for with cash?
- Are you tapping into your savings to pay current bills?
- Do you put off medical or dental visits because of lack of money?
- Do you have savings equal to less than three months of income?
- Is an increasing percentage of your income going to pay debt?
- Are you unsure of how much you owe?

If you answer yes to any one of these questions, it may be time to cut back on your use of credit. If you answer yes to two or more questions, it's time to take more drastic measures.

Where to turn

Credit problems can be caused by any number of things: over-spending, failure to budget, loss of a job, bad investments, divorce, death or unexpected emergency. Fortunately, there are a number of things you can do to improve your situation and there are many sources for outside help.

MINOR CREDIT PROBLEMS

Minor credit problems should be dealt with before they become major debt. The easiest way to deal with minor credit problems is to reduce spending. There are a number of ways to do this.

Stop impulse buying

Go to the store when you need something specific. Try not to go shopping when you're feeling down or depressed and are looking for a "pick me up." You'll tend to buy things you don't really need. And throw away all those flyers and ads for things you don't really need.

Pay with cash or checks only

When people use cash to pay for everyday expenses, they generally spend less than they would with credit cards. If you are having a minor credit problem, put away your credit cards.

Call a halt to new charges

The first rule of dealing with credit problems is also the simplest—don't take on new debt. Once your credit card debt is paid off, try to pay off all new credit card charges in full when the bill comes.



Frequent cash advances can harm your credit record. Lenders may consider frequent cash advances a sign that you have trouble living within your budget.

GET A HANDLE ON YOUR SPENDING**Write down what you spend**

To get a handle on your spending habits, and identify areas where you can cut back, start by tracking your spending to see where your money is going. For at least a month, keep a daily diary of everything you spend. You can then put together some spending reduction goals, which are important in dealing with any debt problem.

Make a game of it and see how much you can save. For example, you might rent videos instead of going to the movies, or cook at home instead of going out. Below is a simple worksheet you can use to start identifying areas where you can cut back. A more detailed spending worksheet is available in our booklet, "Managing Your Spending."

SPENDING GOALS	Current Spending	Desired Spending
Home payment	\$1,100	\$1,100
Home maintenance	50	50
Utilities	160	130
Auto payments	300	300
Auto expenses	120	90
Insurance payments	250	250
Child care	300	300
Education	150	150
Groceries/household supplies	400	350
Clothing	140	100
Gifts and charity	60	60
Entertainment	200	120
Transportation	60	50
Credit card interest	60	0
Miscellaneous	0	0
Total	\$3,350	\$3,050
Monthly reduction in spending		\$ 300

Prepare a reasonable budget, and stick to it

In your budget, try to identify what is non-essential, and then leave it out.

PRIORITIZE YOUR DEBT PAYMENTS

To begin, you'll first need to identify how much you owe. This is the first step in getting out of debt problems. Then, make up a spending plan that includes payments to cover at least the minimum amounts due on all your loans and credit cards. (Hopefully you'll be able to pay more than the minimum amount due.)

CREDIT PROFILE				
Type of debt	Interest Rate (APR)	Last Finance Charge	Minimum Payment	Balance Outstanding
Credit Cards				
Installment purchases				
Loans				
Total owed				

Here are two different strategies you can try in your spending plan:

Pay off debts with the smallest balances first

Putting a little extra money toward the smaller-balance bills gives you a psychological boost, as those debts are more quickly eliminated.

Pay off your higher interest-rate cards first

This method saves you the most in the long run. That's because your high-interest credit cards eat up most of your monthly payments in finance charges, instead of going toward paying off your bills. Once you've paid off your most expensive bills, more money is freed up to pay your other bills.

TALK WITH YOUR CREDITORS

Let your creditors know you're having problems but fully intend to pay. Most creditors will work with you to come up with a plan that helps you repay. They may even agree to take back some merchandise. If you cannot make payments, or if you're going to be substantially late, talk to your creditors. The worst thing you can do is avoid them.



MAJOR DEBT PROBLEMS

Overspending, a sudden illness, loss of a job, or other unexpected events could leave you in a crisis where you are unable to pay your bills. Try all of the measures listed under *Minor Credit Problems*. If you are still in trouble, you may need outside help.

CREDIT COUNSELING

You can get free credit counseling from an experienced financial advisor who will help you figure out where to cut costs, how to deal with your debts, and how to plan a reasonable budget. Sometimes counselors will even help you negotiate with creditors to delay or extend payments. Two sources of credit counseling are:

The National Foundation for Consumer Credit
1-800-388-2227
www.nfcc.org

The Association of Independent Consumer Credit Counseling
1-703-934-6118
www.aiccca.org

Your creditors may be willing to accept reduced payments if you enter into a debt repayment plan with a reputable consumer credit organization. In these plans, you deposit money each month with the credit counseling service. Your deposits are used to pay your creditors according to a payment schedule developed by the counselor. As part of the repayment plan, you may have to agree to not apply for, or use, any additional credit while you're participating in the program.

A successful repayment plan requires you to make regular, timely payments, and could take months or even years to complete. The credit counseling service should give you an estimate of the time it will take to complete the plan. Some credit counseling services charge little to nothing to manage the plan, while others charge monthly fees that could add up to a significant charge over time. Some credit counseling services are funded, in part, by contributions from creditors.



CREDIT COUNSELING VS. CREDIT SCAMS

Every day, so-called “credit repair” companies advertise their services to consumers who need help with managing their credit. Many promise to clean up your credit report so you can get a car loan, a home mortgage, insurance, or even a job. The truth is, most of the time they cannot deliver. Only after you pay them hundreds, or even thousands of dollars, do you find that out.

Warning Signs

If you decide to respond to a credit repair offer, beware of companies that:

- Want you to pay for credit repair services before they are provided.
- Do not tell you your legal rights and what you can do for yourself first, for free.
- Recommend that you not contact a credit bureau directly.
- Suggest that you try to invent a “new” credit report by applying for an employer identification number to use instead of your Social Security number.
- Advise you to dispute all information in your credit report or take any action that seems illegal, such as creating a new credit identity. If you follow illegal advice and commit fraud, you may be subject to prosecution.

DEBT CONSOLIDATION

After consulting with a credit counselor or other experienced financial advisor, you may want to take out a debt consolidation loan through your financial institution. A debt consolidation loan doesn't reduce your debt. It combines your debts into a single monthly payment, often at a lower rate of interest. Debt consolidation will only work if you also reduce spending and avoid further credit purchases. Unless you are committed to creating no new debt while paying off your old debts, you could end up even deeper in debt than you were before.

Other methods of debt consolidation, such as taking out a home equity loan, are more complicated and involve pledging your home as collateral for the loan. Whichever method you choose, remember that debt consolidation, by itself, is not your goal. Repaying your debt is.

BANKRUPTCY—A LAST RESORT

Bankruptcy will stay on your credit record for up to 10 years, so think long and hard before choosing this option. You may need a lawyer and will have to file a petition in court for either Chapter 7, or straight bankruptcy, or for protection under Chapter 13 bankruptcy. Under straight bankruptcy, the court will appoint a trustee to sell most of your possessions to pay off your debts. If you have a steady source of income, Chapter 13 bankruptcy can protect you from creditors while you work to pay off your debts under a court-approved repayment plan. For more information, see a good credit counselor or lawyer.

Most people who file for bankruptcy find it hard to get credit afterward. When they do, they usually have to put up larger down payments and pay higher interest rates or fees than other consumers. Bankruptcy doesn't just "wipe the slate clean." Here's why:

First, each of the accounts that you filed in your bankruptcy (credit card accounts and all other loans), will be listed on your credit report for seven years as "charged-off" or "filed in bankruptcy," both of which are strong negative marks on your credit report. Second, the fact that you filed for bankruptcy can stay on your credit report for up to 10 years, depending on the type of bankruptcy you filed.

While it's not impossible to get credit after bankruptcy, it takes much more work to rebuild your credit and prove to lenders that you have control over your finances.

CREDIT AND MONEY MANAGEMENT INFORMATION

Published by HSBC's Center for Consumer Advocacy to help consumers with their financial decisions.

For other booklets write to:
HSBC - North America
Center for Consumer Advocacy
2700 Sanders Road
Prospect Heights, IL 60070-2799

Or visit YourCreditCounts.com, HSBC's online guide to financial and credit information.

