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STRATEGIES FOR TACKLING PERSONAL DEBT IN 2010

BALTIMORE, MD – Now that holiday bills are coming due, are you in more debt than you expected? If so, you're not alone. According to a recent *Consumer Reports* survey, this past October 13.5 million consumers were still paying off debts they accumulated during the 2008 holiday season. Families with large post-holiday credit card balances also may be faced with unanticipated charges that increase the amount they owe in 2010. That's because many banks have decided to raise interest rates and impose new finance changes, such as annual fees, before Federal credit card reform rules take effect in February. To avoid getting deeper in debt, here are some steps you can take to regain financial control:

- ***Things You Can Do Yourself***

Find out where you stand. Write down every dime you spend and bring in over the next month. Then take a cold, hard look at these lists. How did the amount you spent compare with the amount you earned? How much of what you spent actually paid for necessities? How much went toward luxury items? In the end, did you still have money left over for emergencies and savings? How can you reduce expenses in the future?

Set up and stick to a budget. A *budget* doesn't have to be a *money diet*. It's simply a tool to help you assess your financial needs and habits and to help you attain economic goals. If you've never set up a budget before, start with a pre-made budget worksheet, and tailor it to your needs. Add expense and income categories that fit your lifestyle (mortgage payment vs. rent, etc.) Make these categories specific enough to provide useful information, but simple enough not to be overwhelming. Remember: A budget isn't engraved in stone – review and revise it often so that it fully reflects your changing needs. (Note: A basic budget worksheet is available on CCCS of MD & DE's website – www.cccs-inc.org.)

Prioritize your bills and cut back on costs. Worried you won't make it to your next paycheck? Look at what you owe vs. how much money you have. If there aren't enough dollars to go around, carefully prioritize what bills to pay first and when. For example, the mortgage or rent payment, utility bills, and child support are generally all high priorities. Also search for ways to save: Consider cancelling high-cost cable or satellite packages. Eliminate your cell phone or land line if you carry both services. Avoid eating out at work; pack a nutritional, low-cost lunch instead.

Notify your creditors. If you know that you're going to be late or miss a payment, call your creditor today. Politely explain your situation, and strive to negotiate a realistic repayment schedule. Once an arrangement has been reached, carry out your part of the bargain, and pay as agreed. This approach will help you avoid guilt and unwanted collection calls.

- ***Obtaining Reliable Outside Help***

Take action now. If you are in serious trouble, don't wait to get assistance in the hopes that things will improve. Hesitating often leads to increased anxiety and even more debt from increasing interest and finance charges. Seek immediate help.

Research and understand the options. In the past few years, debt management has become a big business, and the organizations that provide this type of help are not all alike. Companies that claim they can easily solve your debt problems or negotiate large reductions in what you owe may cost you time,

money, and peace of mind in the end. They may even sabotage your chances for getting out of debt. Before you enroll in a program, do enough homework to make sure you are working with a reputable, nonprofit organization that has your best interests at heart.

The organizations that provide this type of service vary widely. For example, debt settlement is not the same as credit counseling.

What is debt settlement? Debt settlement is sometimes called debt negotiation or arbitration. It is a process where creditors agree to accept less than the full amount owed, yet consider the balance paid. Unscrupulous debt settlement companies often advertise that they can negotiate reductions of 50 percent or more of the debt you owe. While this sounds tempting, it may not be true.

Settlement companies often charge fees that represent 13 to 35 percent of the total debt. Some may even require these fees upfront before they begin repaying your creditors. Avoid doing business with any company that charges exorbitant fees. Also avoid those that suggest you stop paying your creditors and instead make deposits into a third-party account. If you do not put money in this account rapidly enough to pay your debts and the settlement company, you could owe extra interest and late fees or even face legal actions such as wage garnishments from creditors.

Be aware that if a debt is paid through settlement, it most likely will show up as "Paid by Settlement" on your credit report. This may affect your ability to get loans or credit cards in the future. You also may owe taxes on the forgiven debt you did not pay.

What is credit counseling? Reputable nonprofit credit counseling agencies emphasize financial education through counseling. Their counselors are trained and certified and offer services through local offices, by phone, or over the Internet.

During a counseling session, the credit counselor helps you evaluate your personal finances and set up a personal budget. The counselor also provides advice on ways to reduce your living expenses and/or increase your income and helps you design a plan for paying off your bills. You may be given the option to enroll in a debt management program or "DMP." As part of this program, the credit counselor negotiates with your creditors and helps you set up a formal plan for paying off your debts. You then pay a specific amount to the credit counseling agency each month, and they distribute these funds to your unsecured creditors. You may be asked to pay set up or maintenance fees as part of the DMP.

Before you enroll in a DMP, ask questions to determine if the agency is trustworthy. Ask: How long has your organization been in business? Is it a certified 501(c)(3) nonprofit agency? Is it affiliated with a national trade association such as the National Foundation for Credit Counseling (NFCC)? Is it independently accredited? How much do you charge for consultation, setup, and monthly maintenance fees? Are your agency's counselors certified? Will all of my unsecured debts be included in the DMP? Does your agency comply with State debt management regulations? Credit counseling agencies that provide debt management services to Delaware residents must be licensed and bonded. Fee limitations: Initial consultation - no more than \$50.00; monthly maintenance fees - no more than \$10.00 per creditor in the debt management program with a \$50.00 cap.

Good news: Getting out of serious debt often feels like an insurmountable challenge. But if you take steps to address personal finance problems now, you will be in a much stronger economic position next January. Along the way, you will gain knowledge and skills that you can use for the rest of your life.

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Consumer Credit Counseling Service of MD & DE, Inc. (CCCS) is an accredited nonprofit agency that has served the local community since 1966. CCCS is dedicated to helping individuals and families resolve their financial problems. We promote the wise use of credit through education and confidential budget and money management and housing counseling. For further information about our values and services, please visit our website at cccs-inc.org. Maryland State License #14-01.