



Assess Your Debt Do You Pass the Debt Test?

American households are carrying an average of more than \$9,000 of credit card debt, which translates into nearly \$2,000 in finance charges and fees each year, according to the Rochester Institute of Technology.

Even with statistics like these, freedom from debt is an achievable goal for every family. The first step in regaining control is to take an honest look at your overall financial picture. How much debt is too much? Check out the [debt-to-income analyzer](#).

The experts at [Union Plus Credit Counseling](#), provided by Money Management International, have developed a "debt test" to help consumers assess their financial standing.

The Debt Test:

1. Is an increasing percentage of your income going towards paying down debts?
2. Is your savings cushion inadequate or nonexistent?
3. Are you near or at the limit of your lines of credit?
4. Can you only make the minimum payments on your revolving charge accounts?
5. Are you often late with bill payments?
6. Are you paying bills with money earmarked for something else?
7. Are you using credit to pay for items you used to buy with cash?
8. If you lost your job, would you be under immediate financial strain?
9. Are you unsure about how much you owe?
10. Are you being threatened by collectors with possible legal action?
11. Are you unsure what your credit score is?

A "yes" to any of these questions is a sign that you need to take a good look at your total debt levels, spending habits, and plans for payoff. While a single red flag is not a sign of impending doom, it is an indication that you should take action to avoid future trouble. The following tips should help you regain control and overcome the burden of debt:

Control your credit usage. You cannot borrow your way out of financial problems.

Create a budget. After allocating funds for "needs", such as rent, food, and bills, set aside an amount to go into savings each month. Then, set aside an amount that you can spend on "wants", such as clothing and entertainment.

Assess your debt. Gather all of your statements and find out whom you owe, how much you owe, and what interest rates you are paying. Being informed will help you make a good plan for payoff.

Adjust your spending. Write down each purchase you make for two weeks. Then, take a good look at your list. There is a good chance that a lot of little purchases are taking a big bite from your budget.

Use snowball debt payments. Set aside an amount of money to pay all your minimum monthly payments plus whatever extra you can afford. On all but your debt with the highest interest rate, pay the monthly minimum on time. Add the extra money you set aside to the minimum for that last debt. Continue this until that debt is paid. Then, apply what you were paying on that now-paid debt to the

next one in line while you continue to pay the minimum amount on your other debts. The amount you pay on each successive debt "snowballs" as you pay off more and more allowing you to pay off each debt faster and faster. It's a proven method of getting of excess debt.

Communicate with your family. It is important that all members of your family understand your financial goals, and the changes that are going to be made, so they can fully support those changes.

Get in touch with your lenders. If you find you can't make your payments, don't avoid your lenders! Call them! You'll be surprised to know that most will work with you. Some will offer reduced interest rates and/or payment plans that you can handle.

Check your credit score annually. Why should you know your credit score? Because lenders do. Banks and other lenders check your credit score when you apply for, and use credit. Knowing your score puts you one step ahead when you apply for a mortgage, loan, insurance, employment or other credit. You also want to make sure the information it contains is accurate. FICO scores are the most widely used credit scores, and the most similar to what lenders, insurance companies and other businesses are likely to use. However, Experian is no longer allowing consumers to purchase FICO scores based on the information in the Experian report. [You can purchase FICO scores based on the information in your TransUnion and Equifax scores.](#)

Finally, learn from your mistakes. An emergency savings account can protect you from future setbacks. Practice your new habits each day to ensure that you are improving your financial standing rather than harming it.



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