LIFE AFTER DEBT

IRFCU

YOUR COMPLETE GUIDE TO RECOVERING FROM DEBT & REPAIRING YOUR FINANCIAL HEALTH

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INTRO: YOU DON'T HAVE TO LIVE WITH DEBT FOREVER

Did you know the average American household carries $6,358 in credit card debt? If you've recently graduated college, you might be burdened with student loan debt as well. In fact, the average college grad leaves school with $32,731 in student loan debt.

And it doesn't end there. There are auto loans, personal loans, HELOCs and lots of other ways for people to carry thousands of dollars in outstanding (and costly) debt.

Debt can be an enormous burden on any budget, as well as the greatest hindrance to financial wellness.

While there are many ways debt can hold you back, one of the biggest challenges it represents is the defeatist mindset it creates. When you're staring at all of those overwhelming numbers, it's easy to feel like you're getting nowhere. This, in turn, can hold you back from trying to make real progress and leave you making just the minimum payments each month.

Worse, you'll develop a fatalistic attitude toward your finances and then stop making mindful money choices. You'll think less about every purchase you make and swipe your cards more often without considering the consequences. After all, you figure you're already carrying tens of thousands of dollars of debt, so another few hundred here and there won't make that much of a difference, will it?

Unfortunately, this kind of thinking can be the first in a string of misguided choices that can have lifelong effects on your financial health.

Here's the good news: It doesn't have to be this way. Whether you're carrying a credit card balance of $6,000 or you have accumulated debt from multiple sources amounting to $60,000, there is a way out. You can pay off those balances and enjoy the liberty of living a life that is completely debt free.

In this book, you'll learn how to make it happen.

GETTING RID OF DEBT: THE SNOWBALL APPROACH VS. THE DEBT AVALANCHE

You've determined you're getting rid of that debt *right now!* Of course, you know it won't take a mere day, or even a year, to pay off all of your debt. But you're ready to get started on creating an actionable plan that will eventually lead to a completely debt-free life.

Your first step is going to be choosing a way out. There are two primary schools of thought on the best approach toward paying down multiple debts, and both of them work well. We've outlined each process to help you choose the one that best suits your particular needs, lifestyle, and personality.

THE SNOWBALL APPROACH

The snowball approach, popularized by author and radio host Dave Ramsey, involves paying off your debts in order from smallest balance to largest.

Here's how it works:

Sit down with your credit card bills and loan statements, and make a list of all your outstanding debt. List the smallest balance first and continue in ascending order until you've listed the largest balance. Pay no attention to the interest rates on each debt. We're only thinking about the balances at this point.

The first debt on your list, or your smallest balance, is the one you will concentrate on paying off first. Your goal is to get rid of this debt completely, and as quickly as possible. First, call your credit card company or lender and see if you can negotiate a lower APR. Next, maximize your payments toward this debt. Look for ways to trim your budget and/or find a side hustle to earn some extra pocket money, using any cash you save or earn to help pay down this debt.

Be sure to continue making the minimum payments on each of your other debts while working on the smallest one. Anything extra, though, should be first committed to this priority one debt.

As soon as you finish paying it off, move on to the next one on your list. The money that had been committed to your first is now committed to the next in line. Add that to the minimum payment you had been making on it, and you're now paying more toward the debt load.

The snowball approach is especially popular because of the frequent small wins you can celebrate. With time, your pile of paid-off debts will grow larger and larger, like a snowball rolling down a hill. If you like the idea of getting rid of several small debts quickly and you need to feel like you're making headway, this approach will work best for you.

THE DEBT AVALANCHE

In contrast to the snowball approach, the debt avalanche begins with paying off the debt that has the highest interest rate.

To get started, list all of your debts. This time, number them in order, from the one with the highest interest rate to the one

with the smallest. This is the sequence you will use to pay off your debts.

As with the snowball approach, try to negotiate a lower rate before paying down each bill. Then, maximize your payments as much as possible, progressively working your way down the list.

The debt avalanche is the more logical of the two approaches since you'll end up paying off the high-interest rate debt for the least amount of time. That means paying less overall. However, like a slow-moving avalanche, it may take a while for you to see anything happening. The long road to your first goal can make it difficult to keep yourself motivated.

Unlike the snowball approach, though, the debt avalanche gets easier as time goes by and you start paying off the debts with smaller interest rates. At this point, your progress will be a lot quicker than it was in the beginning. In fact, it will likely take you less time overall to pay it all off with the debt avalanche than it will with the snowball approach.

Despite their differences, though, each approach will help you reach the same goal. Ultimately, both methods work, so long as you get started!

SHOULD I MAKE A BALANCE TRANSFER?

As you work toward paying down debt, you may be thinking about a balance transfer. This entails transferring some of your credit card debt to a card that offers an introductory interest-free period.

While a balance transfer may help you reach the goal of being completely debt-free sooner, you may get more than you bargained for if you're not well-attuned to the details.

To make the right decision, reference this list of the pros and cons of balance transfers.

PROS

1. Interest-free debt

Obviously, the biggest push for making a balance transfer is to make payments toward debt without generating new debt from interest. Depending upon the offer, you may be granted up to 21 interest-free months.

If you're stuck with a high-APR credit card and significant balances, you can easily be paying upward of $80+ a month in interest payments alone. Making a balance transfer will allow you to take a real bite out of the balance and make progress toward getting rid of it completely. You'll be saving money and working toward an important goal at the same time.

2. Convenience

The more monthly bills you're responsible for, the bigger the chance of missing a payment. A balance transfer may allow you to consolidate the balance on several different cards onto one credit card account. This way, the number of monthly

payments will diminish, and it will be that much easier for you to make your payments.

3. Motivation

Too often, people get trapped in a cycle of debt. When they feel like they are in over their heads, they continue swiping and spending as they please..

Taking this significant step toward paying down debt will motivate you to be more careful with your spending habits. After all, you aren't trying to get rid of debt just so you can rack up another bill.

CONS

1. High interest fees

Yes, you read that right. While the appeal of an interest-free period on your credit card is what draws you to make a balance transfer, at the end of a predetermined amount of time – which can be anywhere between 6 and 21 months – you'll possibly be hit with an unusually high interest rate. Similarly, if you miss or are late on just one payment, the rate may skyrocket. Read the fine print!

While you may plan on paying off the balance before that interest rate kicks in, circumstances may dictate otherwise, and you'll find that you're unable to even meet the minimum payments. Similarly, if you're only doing a transfer for a year-long reprieve from interest, and therefore making only minimum payments, you're essentially treading water without making any real progress.

Also, many balance transfer cards do not offer the same interest-free deal for new purchases made on the card. If you plan on using this card for day-to-day purchases, you may be biting off more than you can chew.

2. Transfer fees

Most balance transfer offers charge a minimum of 3-5% of the transferred balance in exchange for assuming ownership of the debt. While this fee may be nominal in the face of the interest you can save, it's important to note that balance transfers are not free of charge.

3. You need excellent credit

One of the biggest problems with balance transfer cards is that those who need them most don't qualify. This is understandable, as the new credit company doesn't want to wind up paying for delinquent credit bills. But, if you're considering a transfer, bear in mind that you usually need to have a good to excellent credit score, or a score of at least 700.

4. Increased monthly bills

A company offering to accept interest-free balance transfers will often only accept a minimal amount. Alternately, your original credit card company may not allow your entire balance to be transferred – they don't want to lose out on all the interest that is added to your balance. This means you'll be giving yourself one more monthly bill to handle. This can complicate

your money management and up your chances of missing a payment.

If your entire balance was not transferred, always give priority to your interest-free payment but do not neglect your other bills. Missing your monthly payments can really hurt your score.

5. Negative effect on your credit score

Until the recent changes to the Vantage score system, having lots of available credit was considered a good sign. Now, though, having less credit while still using a small percentage of your available credit is considered the smarter choice. Opening a new card without closing an old one means you will have more credit available and may now render a lower score. Also, having lots of open cards will make lenders view you as a risk, making it harder for you to qualify for auto and other loans.

If you find yourself sinking in credit card debt, but you don't think a balance transfer is the choice for you, we can help! A personal loan may be a favorable alternative. Call, click or stop by your credit union today to learn about our excellent rates and options on personal loans.

6 WAYS TO PAY OFF YOUR STUDENT LOAN

Did you know the average undergraduate student in 2019 will leave college with $32,731 in loans? And that number only increases if you tack on graduate school.

It gets worse: According to the U.S. Department of Education, only 56% of student loan borrowers are actually repaying their loans.

It's difficult to pay down that debt, especially when you're also paying off credit card bills. But it's possible. Even if you're earning just $35,000 a year, you can pay off your loan in three short years. There's no magic formula; it's just a matter of spending less than you earn.

Here are six easy ways to kiss that debt goodbye!

1. Start saving in school

You can't start paying down your loan before you've graduated, but you *can* start saving. Set up automatic monthly transfers from your checking account to your savings account at the credit union. This will force you to put away a little each month. Then, once you've left school, use those savings to make a significant first payment. In the meantime, keeping the money in a savings account will not only allow it to earn more, it will keep you from blowing it on needless things.

2. Motivate yourself

It's easy to let debt pile up when the numbers are so big. It's almost as if they don't exist! To make it real, find a way to motivate yourself by asking what you could be doing with that

money if you weren't bogged down with student loan debt. Maybe you'd spend a summer in Europe, or buy the car of your dreams. Motivating yourself will make paying down the loan a whole lot easier.

3. Max out payments

Your student-loan provider is out to make money. That's why they make it easiest to pay just the minimum payment each month. Beat the system by setting up automatic regular payments for the most you can afford to pay. You'll be able to pay your bill back at your own pace, and save money on interest at the same time!

4. Read the fine print

Don't skip over anything written on mailings sent to you by your loan provider. These documents will be purposefully vague, and sometimes downright confusing. But neglecting to read the fine print can end up costing you big time. For example, if you consolidate your loan, most loan providers will only bother mentioning in the fine print that your interest will increase at a certain point. This could mean the difference between owing $1,000 in interest or $8,000! Read everything and ask the loan

provider to explain all that you don't fully understand.

5. Give yourself a time limit

Set a self-imposed deadline for paying off specific amounts. Time constraints will force you to work extra hard, or to spend less, making sure the deadline is met. Hey, if it works to get you to write your papers on time, why wouldn't it also work with loan payments?

6. Live like you're still in school

Pretend you haven't left college. Live with a roommate – or even with family. Enjoy your ramen noodles. Go easy on your entertainment costs. Sure, you thought you left college life behind when you flung your mortarboard into the air, but the numbers don't lie. Cutting out expenses like cable and frequent dinners out, along with living with a roommate, can save you close to $12,400 a year. Just three quick years of cheap living could shave $37,200 off your loans.

If you're looking for help managing your student loan, don't forget to stop by your credit union! We can help you budget, save and pay off your debt as quickly as possible.

BEWARE OF DEBT RELIEF SCAMS

As you're working your way through your list of debts, and possibly paying close attention to a huge student loan balance, be alert for debt relief scams.

Anyone struggling with debt would love a quick way out. Unfortunately, though, unless you've won the lottery or suddenly inherited millions, there really is no way out other than the slow way. You'll need to make those monthly payments steadily until the day your loans are all fully paid off. But that's not what dozens of scammers would have you believe. In a crackdown on student loan relief scams, the Federal Trade Commission (FTC) revealed that Americans have been collectively conned out of nearly $100 million by scammers.

More than 42 million Americans carry student loan debt, with their outstanding balances totaling more than $1.4 trillion. This makes student loans the second largest segment of U.S. debts, topped only by mortgages. It also makes these borrowers the perfect targets for scams. However, debt-relief scammers don't discriminate, and can go after victims carrying debt of any kind.

In a typical scam, an "organization" will promise to use the victim's money for paying down their debt, reducing their monthly payments or even forgiving their loans entirely. In truth, the scammer has no intention of doing any of that, and is instead enjoying an easy payday using the victim's hard-earned cash.

Most organizations claim to "assist" potential victims, but several scammers have also targeted homeowners, making false promises to consumers that they would provide mortgage relief and prevent foreclosure. As with student loan scams, these payments went toward lining the scammers' pockets and made no dent in the victims' mortgages.

If you are currently paying off a student loan or another large debt, educate yourself so you don't fall prey to these scams. There is legitimate help available for students struggling to repay their debt. You just need to make sure it's the right kind of help.

HERE'S HOW TO PROTECT YOURSELF:

1. Visit the FTC site

The FTC has lots of information on student loan debt relief scams. You can read up on the warnings at ftc.gov/StudentLoans. You can learn about common red flags related to these scams and arm yourself with the protection you need.

2. Know there's no fast way out

When seeking help with a loan, it's important to remember that there will never be a quick and easy way out. Only scammers will promise fast loan forgiveness. If you come across a company offering to get rid of your debt within an unbelievably short window, run the other way and don't look back.

3. Note any upfront fees or shared information

You should never have to pay for a service like this before it's been rendered. If you're asked to pay a fee as soon as you've made contact with a debt relief organization, that's a sure sign you're being scammed. Legitimate organizations will only ask to be paid after they've helped you out.

On a similar note, be careful about sharing sensitive information. Don't share your FSA ID (the username and password used to log in to U.S. Department of Education websites) with anyone.

4. Verify affiliation

To appear legitimate and attract victims, scammers often claim they are affiliated with a governmental body or with a private loan company. It's easy to make these claims, but it's a lot harder to prove. The best way to confirm you're dealing with an authentic entity is to contact these agencies yourself.

You can apply for loan deferments, forbearance, repayment and forgiveness or discharge programs directly through the U.S. Department of Education or its loan servicer. These applications are completely cost-free and you will never need the assistance of a third party to avail yourself of these services. To review your options, visit StudentAid.gov/repay. For private student loans, contact your loan servicer directly to be certain you've reached the right party.

If you feel like you're in over your head, don't hesitate to call, click, or stop by the credit union today. We're always available to help you manage your money in the best way possible.

4 STEPS TO CREDIT REPAIR

Now that you're working on paying down debt, it might be a good idea to spend some time improving your credit score. Keeping your score high is one of the most important things you can do for your financial health.

1. Determine your score

You're entitled to an annual credit report from each of the three major credit reporting agencies. Order yours at annualcreditreport.com.

2. Review your report and dispute errors

If you spot any errors on your credit report, dispute them in writing. You'll also need to dispute the charge the actual creditor listed on the report.

3. Take steps toward fixing your credit

If you're often late on credit card payments, consider setting up an automatic payment so you're never late again. As you pay down loan commitments, you should see your score gradually improving.

4. Ask us for help

As your credit union, we're always happy to help you out of a sticky financial situation!

HOW SELF-REPORTING CAN HELP BOOST YOUR CREDIT SCORE

As your debts start shrinking and your credit score starts improving, you may be looking for other ways to speed up the process. One little-known way to achieve this is by letting your other on-time monthly bill payments work for you.

Your utility bills, phone bills and subscription payments only have the power to affect your score negatively if you consistently make late payments or do not pay them. Otherwise, most of these service providers will not report to the three major credit bureaus: Experian, TransUnion and Equifax. However, there *are* three steps you can take to make your on-time monthly payments give your credit score a boost.

1. Use a Rent-Reporting Service

Monthly rent payments can reflect positively on your credit score, but only if the credit bureaus know that you regularly pay the rent on time. They won't accept this information from you, but you can sign up for a rent-reporting service, which will pass on the information to one or two of the three major credit bureaus. Some of these services are free, though most charge

for the service, with fees up to $100 a year.

Here is a quick overview of some of the more popular rent-reporting services:

- **Rent Reporters:** For a one-time enrollment fee of $94.95, your rent payments will be reported to TransUnion and Equifax for two full years. If you want to continue with the service after the two-year period is up, pricing is $9.95/month.

- **Rental Kharma:** There's a fee of $25 for the initial setup and then $6.95/month. Rent reports are only shared with TransUnion.

- **RentTrack:** Fees vary depending on whether your landlord also uses the service. RentTrack reports to all three credit bureaus.

2. Sign up for Experian Boost

Since early 2019, the Experian credit bureau has offered consumers the opportunity to have some of their utility bills reflected on Experian credit scores. To sign up for the service, give Experian access to your checking account information so the bureau can identify your bill payments. Once it's found the relevant information, Experian will ask you to verify the details

and to confirm that you want this information included in your credit report. After it's received your consent, your credit score boost will happen instantly.

Experian Boost only accepts on-time payments and, therefore, can only improve your score. However, if you neglect to pay any reported bills for three consecutive months, the change in your score will be reversed and your score will fall back to its previous level.

It's also important to note that Experian Boost only increases your Experian score and that it does not affect your Equifax or TransUnion score. For this reason, when applying for loans and/or credit, it's worthwhile to also ask which bureau is used for decision-making. It could make a difference in the rate you receive, resulting in a lower overall cost of the loan.

3. Use SimpleBills

SimpleBills is a service that currently reports utility bills to Equifax, with plans to include TransUnion and Experian in the future. The credit-reporting service charges $2.99/month and can be helpful for those who want to improve their score or build a credit history to qualify for a credit card or loan.

It’s important to note that, while your Equifax number may see an increase, major score algorithms, like FICO and Vantage, might not consider this data when calculating your score.

Off the beaten track

If none of these options sound attractive, you might want to go the unconventional route by considering an alternative score.

Alternative scores, like the *PRBC* or the *FICO XD Model*, will include information like your cable, rent, insurance, phone, utility and student loan payments when calculating your credit score. Some alternative scores will integrate this data on their own, while others will allow you to self-report these payments, sometimes for a nominal fee.

While alternative scores can help individuals appear responsible for prospective employees and landlords, they won’t do much to build your real credit history or to make you eligible for a large loan.

If you’re serious about improving your score, you can take one or all of the above steps so that on-time bill payments help boost your numbers. For the biggest impact on your score,

though, be sure to pay all credit card and loan bills on time, preferably in full. Don't open any new cards while working on improving your score, and be sure to keep credit utilization low (preferably under 30% of the total credit line).

If you need help managing debt and raising your credit score, look no further than your credit union! Give us a call or shoot us an email to see how we can help. Your financial wellness is always our priority.

MOVING FORWARD

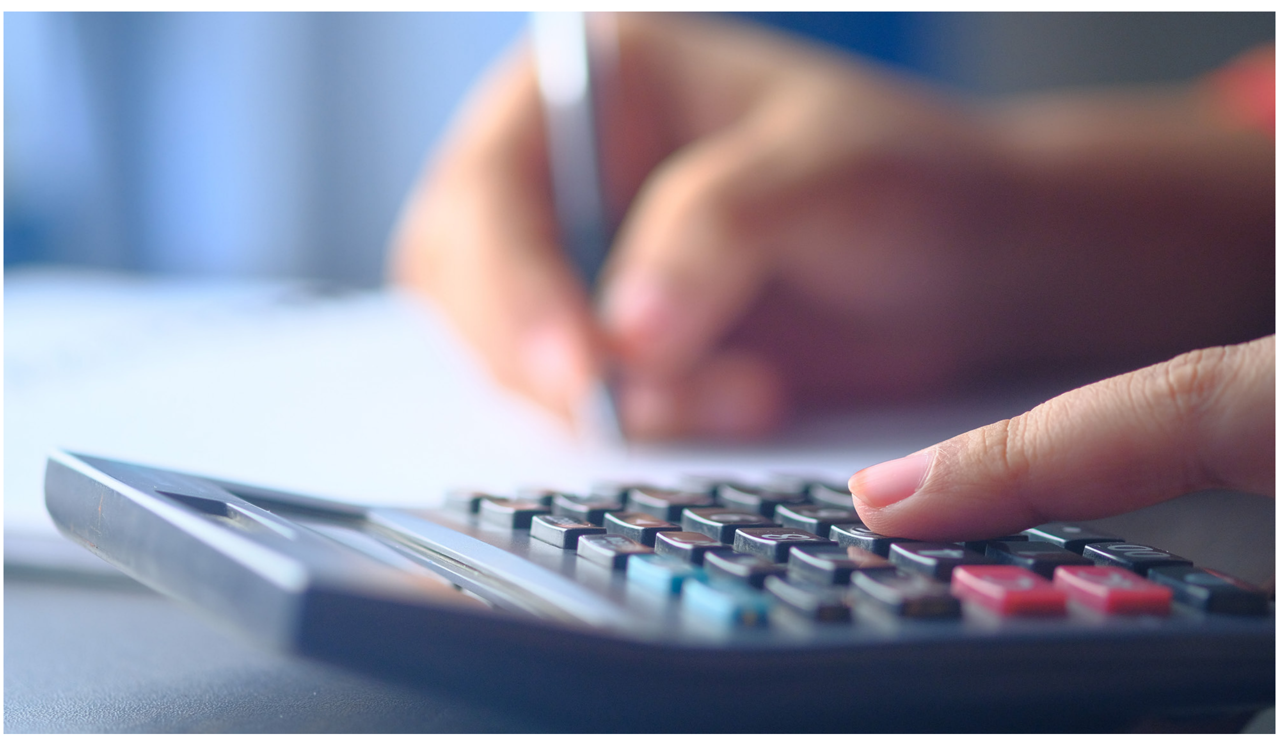
Congratulations! You're well on your way toward living a debt-free life. It's a wonderful feeling to know that your hard-earned money is not going toward interest payments or to fund purchases you've made months or even years ago. Before you break out the champagne, though, read these last few tips to help you stay on track and out of the debt trap.

1. Keep using your credit cards

You may have stopped using one or all of your credit cards as part of your ongoing effort to be debt free; however, to keep

your credit score high, you'll need to use some cards responsibly. The best way to accomplish this is to link some of your credit card accounts to fixed monthly bills and to set up an early and automatic payments. This way, your cards will be used for non-discretionary expenses, preventing you from getting plastic-happy and overspending. Your credit card bills will always be paid in full, and on time, keeping your score strong.

Plus, one of the key factors used in determining a credit score is the length of your oldest credit line. Auto loans and personal loans get paid off in a relatively short time. Even first mortgages eventually are paid off. That first credit card, though, shows you've been a longtime credit-using consumer.



2. Create and stick to a budget

Keep your monthly spending in check by working out a monthly budget — and sticking to it! Review your budget on a frequent basis so you can catch yourself if you find that you're slipping into your old spending habits, and adjust as necessary.

3. Build an emergency fund

A great way to keep yourself from falling back into debt is to make sure you have money set aside for emergencies. Once you've paid off your debts, use the money you were using for these payments to start building an emergency fund. Ideally,

this fund should have enough money to get you through 3-6 months' worth of living expenses. With this tidy nest egg stashed away, you'll never have to pull out the plastic to get through an expensive emergency.

4. Start saving beyond your emergency fund

Once your nest egg is up and running, work on building your savings. Maximize your contributions to retirement accounts (especially if you get "free money" from an employer match), plump up the balance in your credit union's savings account with automatic transfers, and consider opening a fixed-rate savings vehicle, such as a share savings certificate. You only stand to gain!

5. If you dare — start investing

After your savings are all set up, you might want to get serious about building your wealth by investing in the stock market. Start small, with a passively managed index fund, and watch your savings grow.

Here's wishing you much happiness and continued financial success in your debt-free life!

APPENDIX

MY PLAN FOR GETTING OUT OF DEBT

DEBT	INTEREST RATE (APR)	BALANCE

My chosen approach (snowball or avalanche): ______________________

List of debts in the order I will pay them down:

1. __________________
2. __________________
3. __________________
4. __________________
5. __________________
6. __________________

I will pay ___________ each month toward debt #1.

I expect to finish paying off debt #1 by ______________. I will then move on to debt #2.

I expect to be completely debt-free by _______________________.