5. Compounding that hurts.

Here's the true cost and impact of compound interest on credit card debt. Say you have a $1,500 balance on your card, which charges 18% interest and requires a minimum payment of 2.5%. Your monthly minimum comes to $37.50.

Here are your choices:

- Pay just the minimum of $37.50, and it will take you 194 months — more than 16 years! — to pay off that debt. Your $1,500 debt will more than double, to a total of $3,375.41.
- Pay $50 a month, and you'll need 41 months to pay it off. That's a big improvement, but you'll still end up paying $507.75 in interest.
- If you can pay $140 a month, you'll be free of this debt within 12 months. You'll pay a total of $147.66 interest, and shorten your payment span by 15 years.

If you fall behind in paying more than the minimum on your debt, don't be hard on yourself. Just get back on track with your payment schedule, and stay focused on your financial goal. Consider what you've already accomplished and give yourself the credit you deserve. Find a supportive friend or mentor who will help you stay on track and encourage your progress.

6. Compounding that helps.

Using the example at left, assume that you have $1,500 in a bank account. You add just $37.50 each month and let it grow for 16 years. The interest — assume it's just 4.5% — is compounded monthly. In 16 years you'll have approximately $13,517.

7. Pay it forward.

Read and learn all you can about smart money management. Recommended resources include *MONEY* and *Fortune* magazines, Morningstar (for mutual funds) and *The Wall Street Journal*.

The decisions you make now will pay off handsomely for you, your family and your future. Teach your children what you've learned through dealing with your situation. Your experience will offer powerful lessons about money, budgeting, debt and being financially responsible.

Share what you've learned about credit card debt with your friends and colleagues so they too can avoid its dangers — that's paying it forward. And set an example for them by never falling into the bad-debt trap again.

For more information about Bottomless Closet programs, call 212-563-2499 or visit www.bottomlessclosetnyc.org.

Sample Worksheet:

Creditor	Interest Rate	Balance	Minimum Due Monthly	Years to Payoff	Total Cost
1.					
2.					
3.					
4.					
5.					

This material is adapted from Bottomless Closet's Financial Management Series, created and led by board member and financial professional Tami Peter. Copyright pending 2009. We thank our sponsor, The High Water Women Foundation.

connecting women and career

connecting women and freedom

BOTTOMLESS CLOSET

connecting women and strength

connecting women and success

connecting women and financial freedom

debt management

a crash course in getting out and staying out

Know Yourself.

What motivates you to spend? Understand the *values* you associate with money—security, financial independence? Often, spending sprees are ignited by our emotions; spur-of-the-moment splurges can be an attempt to fill inner needs. Decide what you value most—owning your home, getting more education, helping your children, retiring comfortably—and be sure that each spending decision supports your true values.

1. Ready, set, goals.

Step #1 in taking charge of your money and your life is to *set financial goals,* with specific action steps for the next year and longer time periods. If you don't already have goals, set them now and write down the specific steps you'll take to reach each one.

If you're carrying *bad debt,* paying it off should be your top priority. Bad debt usually comes from high-interest credit cards you've used to buy consumer goods and items that don't grow in value, versus good debt, which is debt accumulated to acquire assets that appreciate in value like a home or your education (via a mortgage or student loan). Credit card debt not only slows you up, but it creates a public record about you that can destroy your dreams and financial goals for the future.

State your goal specifically: *"I want to get rid of all of my high-interest debt by January 1, 2011."*

To make it happen, take these steps:

1. Total all your debts; list the specific amount of each loan and its interest rate, *putting the highest interest rate debt first, then the next highest (not the highest balance).*
2. Pay the maximum you can afford monthly on the credit card balance with the highest interest rate; pay the minimum monthly amounts on all others.
3. When the highest-interest debt is fully paid off, focus on the next highest-rate card; pay as much as you can toward it, and pay minimums on all others.

2. Finding the money.

Track your expenses to see where you can cut back. Carry a notebook and record everything you spend, no matter how small, for a month. Create a spending log and put all your expenditures, including taxes, into categories. Total them up and subtract that figure from your monthly income. (If you're computer savvy, use an Excel spreadsheet.)

If your result is a negative number, that means you are spending more than you earn and you need to figure out where you can cut back expenses immediately. Stop charging your purchases; each time you use a credit card and don't pay the balance in full, you're just piling on more debt. *Pay only by check or debit card,* and don't accept any new credit offers that come in the mail.

Your spending log will indicate places you can save. For example, if you spend a lot on restaurant food and entertainment, switch to taking breakfast/lunches from home to work, and borrowing CDs and DVDs from your local library for free.

more found money:

- **Are you due a tax refund? Perfect. Dedicate the entire amount toward paying off your highest-interest debt.**
- **If you have non-retirement savings and aren't worried about an imminent job loss, use that money to pay down your high-cost debt. Savings accounts currently earn only about 1% to 3% interest. If you're paying 15% to 29.99% interest on your credit card balances, it's smart to use your savings to retire debt more quickly.**

3. Find, and fix, your FICO score.

Every time you charge and borrow, you create a *credit history,* or *credit report,* which includes your current employer, salary, record of payments (including any unpaid and late-paid bills), collection agency notices, liens, legal judgments against you, and bankruptcy. Additionally, your lines of credit and payment behavior are factored into a *FICO (Fair Isaac Corporation) score,* a key measure of your creditworthiness. FICO scores range from 300-850, with higher scores the most desirable. A FICO score above 725 is considered good; with scores in the 600 range, you may find it hard to get a loan or favorable interest rates. Paying your bills on time accounts for 35% of your FICO score, so even if you can't pay more than the minimum, *pay them on time.* Nothing counts more than having a good credit *report* — reason enough to pay down high-interest debt.

Three credit bureaus compile credit reports: Equifax (equifax.com, 800-685-1111), Experian (experian.com, 888-397-3742) and TransUnion (tuc.com, 800-916-8800). You may obtain a *free* copy of each bureau's credit report every 12 months from www.annualcreditreport.com (877-322-8228). Check the reports carefully for any inaccuracies, and let the credit bureau know about them. Also, purchase your FICO score directly from one of the bureaus, for a modest fee.

Try to renegotiate high interest rates with customer service at your credit card company; if you're an on-time payer with a good FICO score, you'll have better luck negotiating. Let the company know if you have offers for credit cards with lower rates, and ask your issuer to match the best rate. If you've racked up over-limit or late fees, but have since made on-time payments, ask that those fees be credited back to you.

If your current credit card companies won't budge, *try to find a lower-rate card and transfer your balance* (for current card rates, check www.bankrate.com). Apply for a credit card with a long-enough low introductory rate to let you pay off the loan before the rate increases. In the short term, the new line of credit will decrease your FICO score, but it will improve as you become debt-free. Other resources for consolidating debt and credit counseling are available at www.incharge.org (800-565-8953).

reality check

To figure out the date when you'll be debt-free, make a list of what you owe, *starting with your highest-interest debt.* Put these headings along the top: *creditor, interest rate, balance, monthly payment, years to payoff, total cost.* To find "years to payoff" for each debt, use the calculator at *http://cgi.money.cnn.com/tools/debtplanner/debtplanner.jsp,* indicating the largest payment you can manage. This site can also advise how much money you need to put towards debt when you enter the date you want to be debt-free.

If you lack willpower, remove temptation by cutting up your credit cards (keep the one card you have had the longest, since your FICO score improves when you have a long usage history). Send a letter to each issuer, with copies to all three credit bureaus, asking that the issuer close your account and confirm it to you in writing.

4. Compound interest.

With credit card rates currently ranging from 10% to 29.99%, you can tumble fast into the biggest debt trap of all. When you pay only the required monthly minimums, you are paying interest on interest. This is known as compound interest. Your balances compound so quickly that even relatively small sums grow to amounts that can take many years to pay off. That's why you're better off paying debts down as quickly as possible.

Compound interest works both ways. When you emerge from debt and become a saver or investor, it makes your money *grow* steadily. That growth will allow you to realize your most important financial goals.