



*U.S. Army Sgt. Timmy Dawson, legal assistance Non-Commissioned Officer, for Joint Task Force (JTF) Guantanamo Staff Judge Advocate, paid off more than \$6,500 in credit card debt during his deployment to JTF Guantanamo Bay, Cuba, in 2009. Dawson paid off a total of \$27,200 in debt during his 12-month deployment to JTF Guantanamo.*

U.S. Army photo by Sgt. 1st Class VeShannah J. Lovelace/Released

# In Debt? Know Your Options

Courtesy of USAA

**F**eeling overwhelmed by credit-card debt following the holidays? The disciplined among us might buckle down and develop a pay-off plan that they stick to month-by-month. Others might need a little help.

If you're thinking of turning to the pros, know what you're getting into. These three strategies work for some and have their advantages. But understand who they help, how they work and whether there are any downsides before you make a move.

## 1. Debt counseling

**Who it helps:** Millions of consumers who find themselves in a bind turn to debt counseling services each year, according to the National Foundation for Credit Counseling. These companies assist people who need help developing a personalized plan to solve money problems now and avoid others in the future.

**How it works:** Folks at these organizations help you make sense of your financial situation by discussing your entire financial situation with you in depth. Next, they should help design a custom plan to solve your money troubles today and to show you ways to avoid others tomorrow. An initial counseling session typically lasts an hour, with an offer of follow-up sessions. Make sure the company you choose offers a range of services, including help with bill payment, budget counseling and savings and debt management classes.

Steer clear of highly hyped get-out-of-debt-quick offers. "Getting out of debt takes time and consistency," says USAA Certified Financial Planner J.J. Montanaro. "There are no magic bullets." Instead, consider seeking free or low-cost help at a legitimate debt counseling organizations, such as the [www.nfcc.org/](http://www.nfcc.org/).

National Foundation for Credit Counseling. The NFCC has branches throughout the country and is a non-profit, community organization that provides free and confidential debt management advice in person or by phone. You can also contact the [www.aiccca.org/](http://www.aiccca.org/) Association of Independent Consumer Credit Counseling Agencies.

**Potential downsides:** Do your research. In recent years, the government has cracked down on unscrupulous operators who call themselves debt counselors. Check out the agency in advance before signing anything or handing over any account numbers. Many states require that an organization register, or obtain a license before offering credit counseling, debt management plans and similar services.

## 2. Debt management plans

**Who it helps:** People who want a program to help simplify bill payment and to have the option of arranging lower payments.

**How it works:** Typically, you make one monthly payment to the credit-counseling agency, and it makes the agreed-upon payments to your creditors. A counselor acts as a go-between with creditors to negotiate for a payment plan that lowers both payments and, ideally, interest rates and waives certain fees. You'll have to agree to stop using your credit cards and not open any new credit accounts. The agencies are paid in part by the lenders, but generally charge you a fee to set up a plan and bill you a monthly fee. Avoid plans that require more than \$50 initially, or monthly fees over \$25.

**Potential downsides:** This is definitely not for everyone. Turning to this kind of plan could have a negative effect on a

creditworthiness decision by a potential creditor, landlord or employer because it's an indicator that you've had financial problems. In addition, creditors may notify credit-reporting agencies that you're on a DMP and are not making originally agreed-upon payments, even though they have accepted the reduced payment.

### 3. Debt consolidation

**Who it helps:** People who want to have fewer bills each month and save on interest by bundling all your debts into one big loan.

**How it works:** There are several ways to bundle debt and receive one payment with a lower interest rate:

**Personal loan.** Check with your credit union or bank to see what rate you might qualify for on a personal loan.


**Tap home equity.** If you're a homeowner, a home equity loan or refinancing might be an option for switching double-digit credit card bills to a lower-rate loan. These options may have some associated costs, including closing costs.

**Credit card balance transfer.** This move allows you to roll other debts onto one low-interest card, although such offers are

tougher to come by in today's economy than they once were. If you decide to pay off one card with another, avoid running up new charges on that old card once the balance has been paid in full. It can be tempting. Best to cut up the old card. Read the fine print of the offers so you will not be surprised by transfer fees or other related fees.

To take full advantage of this scenario,

says Montanaro, work to pay your loan off ahead of schedule. If it's a five-year loan, for instance, try to up the payments to wipe it out in three years time.

**Potential downsides:** Some such consolidation moves include additional fees, such as loan application fees or credit card balance transfer fees. And, as always, if the offers sounds too good to be true, ignore them. 

## ▶ DEBT MANAGEMENT PLANS: USE CAUTION

The Federal Trade Commission has discovered some organizations that offer debt management plans have deceived and defrauded customers. They're not all bad, but the FTC offers these must-dos if you use such a service:

- Check bills to make sure that the organization fulfills its promises.
- Contact creditors and confirm that they have accepted the proposed plan before you send any payments to the organization handling your DMP.
- Make regular, timely payments.
- Read monthly statements promptly to ensure creditors are getting paid according to your plan.
- Contact the organization responsible for your DMP if you will be unable to make a scheduled payment, or if you discover that creditors are not being paid.

For more, visit the <http://www.ftc.gov/>