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Deseret Morning News, Sunday, January 23, 2005



More suggestions to help you dig out of debt

By [Greg Kratz](#)

Deseret Morning News

'Tis the season to worry about debt.

The post-holiday letdown has given way to the January jolt many of us feel when credit-card bills show us how much we spent on Christmas.

But lucky for us, local financial experts stand ready to help.

Paul N. Winter, principal of Five Seasons Financial Planning in Holladay, sent me an e-mail recently to follow up on advice I passed along to a reader named Don in a previous column.

Don was hoping to consolidate his considerable debt from several credit cards with interest rates of about 9 percent to a single card at a rate below 4 percent. The experts I called at the time said he might be able to find such a low-rate card, but he should be careful, because the low rate might be a temporary teaser that would convert to a much higher rate later.

Paul agrees and says Don also could hurt his credit score by opening new accounts and closing down old ones.

As an alternative, Paul says, people in situations like Don's can consider other sources of funds to pay down higher-rate credit cards. For example, Paul said in his e-mail:

- "Many 401(k) plans have loan provisions. It could be preferable to pay yourself interest on a periodic basis rather than 9 percent to credit card companies. Employees must be disciplined in paying back these loans; if not, borrowers can be subject to tax penalties and simultaneously jeopardize their retirement savings."
- "Use the equity in your home. Ideally, you'd want to be in a position to refinance your first mortgage at lower rates and to simultaneously increase the balance outstanding. However, it also could make sense to take out a home equity loan (preferably) or home equity line of credit."

- "It also may make sense to sell investments in taxable accounts to repay credit-card debt at 9 percent. It may be difficult in this environment for an investment portfolio to generate 9 percent returns after tax going forward, so repaying credit-card debt might be a good use of those funds."

Paul stressed that people need to do their homework before trying such solutions, but these are good suggestions. And even if they don't fit for Don, they might work for some of us.

Along the same lines, I recently received an e-mail from Mike Peterson, vice president of the American Credit Foundation in Midvale. He also is urging people to act now to get out of the "debt trap."

This is urgent. And if you're wondering why, Mike says that "if you owe \$2,000 on a credit card with a 21 percent interest rate, and you only make the minimum payment each month, . . . you will owe on this account for approximately 19 years and pay a total of \$6,725.64 in principal and interest."

That should get your attention.

In order to avoid such a situation, Mike recommends the following:

- "No more charging. Commit now to discontinue the use of credit cards. . . . If you have to have a credit card for work, try a debit card (they are widely accepted, and the funds are pulled directly from your checking account)."
- "Figure your monthly minimums for each of your debts and (if possible) add 5 percent or 10 percent to this number. The addition is not mandatory but will dramatically improve the success of the program."
- "Promise to make the above-mentioned payment from now until the debts are completely paid off. This means that even though the minimum payment requirements will go down over time you will still make the same payment. This also means that when one card is paid off you will still make the same payment. Just apply the extra funds to one of the other debts."

Mike says these "three easy steps" require emotional commitment. But think back to his example of that \$2,000 in debt.

"Using this program (without the additional 5 percent or 10 percent) we will pay this debt off in about 8.5 years and save approximately \$2,387 in interest," Mike wrote.

"Interest is a magical tool. Your creditors use it to their advantage all of the time. It can also work in your favor if you properly implement the right program to harness it. If you take the steps mentioned above, it won't be long before interest is working for you instead of against you."

That sounds like a plan we can all commit to, emotionally and otherwise.

If you have a financial question, please send it by e-mail to gkratz@desnews.com or by regular mail to the Deseret Morning News, P.O. Box 1257, Salt Lake City, UT 84110.

E-mail: gkratz@desnews.com

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