

Manage Your Debt Obligations

If you find yourself with more bills than your monthly income can cover, one alternative is to develop a debt-management plan. Completing this plan takes patience, but it works if you really want to get out of debt.

Much of the next several pages are adapted from Getting Out of Debt, How Others Can Help You Get Out of Debt and the Mississippi and Virginia Cooperative Extension. To set up a debt-management plan, follow these steps:

- Find out how much you owe and to whom
- Decide how much you can pay back and when
- Set up a plan for paying back your debts
- Discuss your plan with your creditors
- Control spending by sticking with your debt-payment plan until debts are repaid

Occasionally look over your plan to see if you are keeping up with your debts and your daily living expenses. If there is a change in your income, you may need to raise or lower your monthly payments accordingly.

Find out to whom you owe.

The first step in getting out of debt is to find out to whom you owe and how much you owe. Using your credit statements as a reference, list the following information about each debt.

- Name of creditor
- Creditor's address
- Creditor's telephone number
- Your account number
- Collateral (property or any other asset that secures a debt)
- Balance owed
- Remaining number of payments
- Monthly payment
- Payment due date
- Amount last paid
- Date last paid
- Type of legal action taken (e.g., garnishment or repossession)

- Collection agency or attorney

Organize a payment schedule.

Writing down your plan will help you to achieve it. Use notebook paper and allow enough space to include the number of months to fulfill your plan. With each creditor, list the payment which is planned, the amount paid and the new balance due after the payment is made.

Do this with each creditor for each month a payment is due, until the debt with that particular creditor is erased. Recording your payments will give you a sense of achievement and satisfaction. Watching the balances diminish will give you an excitement that will help you stick to your goal.

Decide how much you can pay.

Once you have listed everyone you owe, determine how much you can pay each creditor and how long it will take to pay back each debt.

Generally, it is good to limit the amount of credit you owe (excluding your home mortgage) to no more than 10 percent of your monthly take-home pay.

If your family has \$2,200 a month after taxes and tithe, try to keep your credit payments under \$220 per month ($\$2,200 \times 0.10 = \220). But if you already have numerous debts, figure out a way to use 25 percent of your monthly take-home pay for paying back your monthly debts. You usually need 75 percent of your income to maintain your necessary daily living expenses.

A family earning \$2,200 a month probably needs to keep \$1,650 ($\$2,200 \times 0.75 = \$1,650$) for basic living expenses. That leaves \$ (\$2,200 \times 0.25 = \$550) for debt repayment.

If the minimum monthly payments add up to \$696, for example, you must find ways to increase the money available for debt repayment.