

DCC DOLLARS & SENSE

Volume II, Issue I

February 1, 2006

Dreading those nasty credit card bills?

Here's how to get your finances back on track after the holidays

Special points of interest:

- Holiday debt repayment planning
- Cost reductions

The holidays are over and as we head into January and February, your head is pounding, your hands are shaking, and you've got a bad case of the chills. No, you don't have the flu. What you've got are the holiday debt blues! Two solid

months of office parties, gift shopping, and entertaining have taken a heavy toll on your cash flow and your credit cards. And all you have to show for it is a stack of bills, a depleted bank account, and the fear that you're not going to see financial solvency anytime soon.

The first step is to face the music according to Judy Lawrence, a budget coach and the author of *The Budget Kit: The Common Cents Money Management Workbook*. "As the post-holiday credit card bills come rolling in, assess when the totals are due, how many credit cards you have, the percentage rates for each card, as well as the minimums due," she says. Before you start

to hyperventilate, remember this is a positive first step to get information, not a reason to beat yourself up. If most of your debt is credit card related, take action now. Late payments can turn into bad credit, which can prevent you from owning a home or even from gaining employment.

Plan to pay off your lowest credit card balances first and make a commitment to not add to your current debt load. If you have to tear up the credit cards and discard them to accomplish this then by all means do so. According to bankrate.com, "It is not recommended that you close the accounts as a remedy to keep you from accruing more debt. Even though you are not using the accounts, they do show up on your credit report, and the length of credit history on open accounts is one consideration in your credit score." Besides bringing down the average age of your open accounts, closing accounts works against your credit by reducing the ratio of outstanding balances to credit available.

Good News and Bad News

According to myFICO.com, your FICO score is based on five variables in the following proportions:

1. Payment history equals 35 percent.
2. Amounts owed equals 30 percent.
3. Length of credit history equals 15 percent.
4. New credit equals 10 percent
5. Types of credit in use equals 10 percent.

The myFICO site also specifically recommends against closing accounts as a short-term strategy for raising your credit score. In addition, it does not recommend acquiring new cards to increase the amount of credit available or to increase the types of credit in use.

It is important to keep in mind that as long as you are not adding to your current debt load, you will be able to pay off your credit cards. For example if you have four credit cards add up the minimum payments due on each account and commit to paying at least the minimum on each debt per month. Line up your debts according to size, putting the one with the shortest pay-off time at the top and the one with the longest term at the bottom. As one debt is paid off, take the money that you were paying toward the "paid-off" debt, and apply it to the regular payment of the next debt, and continue the process with the debt after that until the entire debt is paid in full.

If money is really tight, consider taking a part-time job until the debt is paid down, or consider using some money from savings to apply toward your debt, however it is important not to deplete your emergency financial reserves. You might also consider giving up a luxuries such as a manicure or pedicure or consider canceling your cable TV for a few months while you get your holiday debt in order.

Create a spending plan, keep track of your expenses for the month, be realistic about budgeting and most of all do not get discouraged. As you slowly chip away at it and stick to your plan, you will begin to see results and the holiday debt will soon be behind you.