Delray Credit Counseling, Corp

DCC DOLLARS &$ENSE

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On Time Payments

Special points of interest:

- Advantages of on time payments.
- Ask DCC
- New article on how on time payments can effect consumers.

Although many consumers acknowledge the importance of paying on time, few actually understand the full impact financially, if payments are made late.

How you make your payments determines 35 % of your overall credit score. How you make your payments also determines the impact your payments have towards your overall balance.

The FTC, issued a report stating the average amount of late fee for a balance under $1000 is $25.00 and for account balances above a $1000, it can reach as much as $39.00 a month.

Let's take a look at an example of how a late payment can effect an account. If we take an account with a balance of $1000 or less, the minimum payment would range between $20 & $40 per month depending on the APR. (maximum APR of 24%) If a consumer intended to send $40 on time each month, they would make progress each month. However, if a payment was late, intentionally or unintentionally; the account would subject to regular finance charges of $20 and a late fee of $25.00 would be applied. The consumer's payment of $40.00 would cover only part of the total charges and nothing would be applied towards principle. In fact this account balance is now $5 more.

The following month; There is $20 left over from the previous month added to the payment amount, now the minimum is $60 that needs to be paid. If this months payment was made on time, there would be $20 applied towards finance charges, $20 for the amount carried over from the previous month and the original $20 that is applied towards the principle. In this instance, the consumer has spent two months and $100 to have their principle balance decreased $20. That is the amount that it should have been decreased the first month.

Earlier we mentioned "intentionally or unintentionally", as we all know accidents happen; late getting to the mail box, thought we sent it out or didn't allow for a delay in the mail such as a holiday. These are fairly common errors that can occur. (the unintentional) When they do, there isn't much that can be done about it other than contacting creditors to explain what happened, and hoping they waive the fee. What we want to look at is the intentional and I'm not referring to intentionally sending out payments late, but rather

Advantages to Paying On Time

⇒ Avoid the costs of late, over-limit and past due fees.

⇒ Pay down your principle this month, instead of next or the month after next.

⇒ Have your extra payments go towards principle instead of catch up.

On Time Payments Cont

knowing that it needs to be done and just not doing it.

An example of this could be the overzealous consumer that wants to send out more than the minimum payment but cannot do it on time. They plan to send in $100 instead of the minimum $40 on their statement, a good intention. However making the payment late results in of the $100 they send; $20 goes towards interest, $25 goes towards a late fee and $35 goes towards their principle. The reality, it cost $25 to pay an extra $15 towards principle.

Another example is the consumer who doesn't have the funds available to make the payment on time. This is quite common for a consumer that has recently made a late payment. Keep in mind that when a late fee is assessed and a consumer only made the minimum payment, there is a balance that is carried over to the next months payment requirement.

If a consumer was late due to a financial struggle, then they will have an even harder time making the minimum payment in the following month. If the next months payment is not made on time; in this instance there will be a past due amount. That in turn leads to a $25—$35 past due fee. Due to one late payment in the first month, the consumer can no longer meet the minimum payment requirement and they are looking at minimum payment of $20 for principle, $20 for finance charges, $35 for a past due fee, and the past due amount they were unable to pay the previous month totaling $90—$110 depending on how much they missed in the second month. This is an especially dangerous situation for consumers close to their credit limits. Any one of these fees could put you over their limit and that would add an over-limit fee as well.

We can see the problem, we need the solution. The best way to avoid the penalties is to prevent it before it starts. Many consumers who face this situation-in retrospect will see- in the first month when they were late , if they analyzed their budget, they see the funds were there, only spent on something else. A consumer could have $60 in total and the $40 payment to their creditor would not leave them a comfortable amount for the week. Consumers need to see that by not sending the $40 minimum on time because they used the funds elsewhere, that in the long run, it costs them more. Keeping that $40 for the week can cost consumers a total of over $100 in three months to be in the same financial position. Delays like these are what will keep consumers in debt indefinitely and ensure many more weeks where money is tight.

Ask DCC

Question:

I am a single mom and I am having financial problems. If I owe over $26,000 in credit cards debit (sold home before foreclosure) and only bring home at this time $2000.00 a month, would it be better to file bankruptcy or try to do debt settlement. Because of my financial situation, I am not able to set up a monthly payment for the next three years.

Answer:

As far as your credit is concerned both of these options will have an impact on you and will reflect for seven years on your credit report. Neither of these options are advisable however it sounds like it cannot be avoided. Bankruptcy will either absolve the debt or make for repayment arrangements over 36 months based on what you are able to pay. A settlement generally requires a large portion of the settlement to be paid up front and/or in three monthly installments. Depending on how many cards the total balance is spread across that requirement may be very difficult to meet. This is presuming that you're trying to settle the debt with your creditors directly. The other forms of Debt Settlement are done through individual companies. These typically take longer and cost more. In the end your accounts are in the same situation, however due to the fact that it takes longer, the recovery process will take longer as well.

The best course of action would be to first talk to your creditors directly. Creditors are generally willing work with consumers in a financial hardship. If you decide to pursue a settlement, you'll make the arrangements with them directly. Keep in mind that there are no companies available that can do anything different in a settlement arrangement than you could.

If you consider Bankruptcy, the only advise I can give is to consult an attorney in your area. The Bankruptcy laws vary from state to state and they would be able to review all of them with you and advise of the most appropriate action

If you have questions you would like answered, please email to questions@delraycc.com.