

Plastic Surgery for your plastic money

The rate at which we use our credit cards just grows and grows, and in fact has doubled over the last five years. Collectively, we are not paying down our credit card debt; instead, we are using it more frequently to top up our cash shortfalls.

Now, if you are the type that pays off your credit card bill faithfully each month, then this article is not for you. However, if you are the bank's favourite type of credit card user - the type that pays just enough to keep the card active while racking up late fees, over the limit fees, and all the other types of fees, then read on.

The fact is that carrying credit card debt is an expensive habit that must be broken. If you are ready to get serious and manage your debt (instead of the other way around), here are some practical solutions.

All journeys begin with a first step and that is usually the hardest. In order for the plastic surgery to work you have to find a way to **TAKE ON NO NEW DEBT**. Put the card down and step away. You have to find a way to live on cash or do without. Painful, yes, but necessary.

Once you get a tight hold of your credit card spending, it is time to operate on the debt.

Transfer balances

For those who have several cards from different commercial banks, consider transferring your balances from the highest interest rate cards to the lowest.

Use your savings to clear of credit card debt

Now this strategy is only for the disciplined. Because taking your savings can be risky if you (a) don't have a lot of savings and (b) will be racking up the credit card debt again without paying it off each month. That said, even at the very attractive rates that many of the brokerage houses pay on repurchase agreements, the benefits of paying off your credit card with savings are clear.

Pay off the cards with the smallest balances first.

For those of us who carry several credit cards, there will always be one that has the smallest amount of debt. In this strategy you go after that one first and pay the minimum balances on the rest.

Benefits:

- o Pay the minimum amount due for all your balances except for the creditor that has the smallest remaining balance.
- o Once that balance is paid, you focus on the next smallest balance.

The pay off:

- o Your monthly payment amount on the target card gets larger and larger each month.
- o You are motivated to clear of your debt one creditor at a time.

Pay highest interest rates first.

In this strategy, you are more focused on the interest rates rather than the amount.

How this works:

- o Organise your creditors from the highest interest rate down to the lowest, no matter the balance.
- o Make the minimum payment on all debts, EXCEPT for the one with the highest interest rate.
- o On the highest-rate debt, you pay more than the minimum due.
- o Once you pay off the highest-interest creditor, you tack on the payment you were making on that debt to the next highest interest rate debt.
- o This process continues to build with the third most highest, then the fourth, and so on until all credit cards are paid.

Advantage

- o The interest over the life of the credit card debt will be less.

Disadvantage

- o Because you are not focused on the balance outstanding, your highest-interest debt could take the longest to pay off.

Consolidate debts into one payment

Although banks are tightening their lending practices, if you have been a solid customer of a commercial bank, it is possible to get an unsecured loan to clear off your debt at a lower rate than your credit card interest rates. Again, this strategy will only benefit the disciplined. If you borrow from your bank and go right back and charge up your credit cards, you will have two loans to pay which will wipe out all the benefits of this strategy.

Talk to your banker

The examples above assumed that you have discipline and that you will not take on any new debt. Trouble is, saying it is much easier than actually doing it. This is where your banker can help out. The current economic malaise means that bankers are now more receptive to negotiation. So, make an appointment to talk to them about what you are going through and seek their advice.

How not to pay off your credit card debt

In life there is a right way and a wrong way to do most things. Here are strategies that we suggest you avoid.

1. Taking a cash advance from one card to pay on another credit card.

In case you don't know, cash advances are the MOST expensive form of money. Not only do you pay a fee up front for the cash advance, but you then are charged interest immediately. There is no grace period.

2. Use retirement savings to pay off credit card debt.

While we advocate taking money from a low paying commercial bank savings account to clear off debt, your old age money is off limits. Call you bank and work out a payment plan before you jeopardise your future.

3. Take an advance against your next pay cheque to pay off credit card.

This is a classic case of a slippery slope. If you have don't have the cash coming in from your salary, you will more than likely turn to your credit card to pay for your living expenses throughout the month. And once again, you will be right back in debt.

4. Borrow against your house to pay off credit card debt.

You can't live under your credit card if the bank foreclosures on your house. Again, make an appointment to speak to your banker and work out terms that don't involve risking your most important asset.

Source: Jamaica Gleaner