

# 15 secrets debt counselors wish you knew

By Dana Dratch • Bankrate.com

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When it comes to money management mistakes, debt counselors have seen it all. And if you knew what they already know, you could save a lot of money and more than a little grief.

Unfortunately, by the time consumers sign on for credit counseling, they already have an average of \$30,000 in bills and seven or eight credit cards, says Susan Keating, president and CEO of the National Foundation for Credit Counseling.

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## So here's what counselors think you should know:

1. Freebies are lethal.
2. If you co-sign, that debt is yours.
3. Bouncing a couple of checks can cost you your bank account.
4. You need a plan.
5. Auto leases can be hazardous to your financial health.
6. Your old emergency fund might not cut it.
7. Don't always reach for that debit card.
8. If your name is on the bill, it doesn't matter what the divorce decree says.
9. Balance transfers aren't a panacea for credit problems.
10. If you're late on one card, another could raise your rates.
11. Challenge your credit card bill.
12. Take your time if you're using auto dealer financing.
13. Pay the rent or mortgage first.
14. Don't dig the hole deeper.
15. If you're struggling, steer clear of second mortgages or home equity offers.

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### 1. Freebies are lethal.

Those low introductory offers sound great, but they are designed to get you hooked on the service. The ploy works way too often, says **Elaine Rutter, a certified consumer credit counselor with the Consumer Credit Counseling Services of Central Pennsylvania.**

"I see people with cable, Internet and cell phones paying several hundred dollars a month," she says. The consumers tried the service at the initial low price and kept it on even after the bill went back up to the normal rate.

Be sure you can afford the extra bill with your current income and budget.

### 2. If you co-sign, that debt is yours.

If your son or daughter wants you to co-sign for a car, apartment or loan, just say no, says Trent Graham, manager at GreenPath Debt Solutions. Debt counselors see this one a lot. Often, the other person defaults, leaving the co-signer to pick up the payments. Having to suddenly shell out an extra \$350 per month can really squeeze a family budget.

### **3. Bouncing a couple of checks can cost you your bank account.**

Not only can your own bank kick you to the curb, but it can put you in a financial database that acts as a kind of black list, says **Rutter**. Result: For up to five years, other banks could be leery of giving you an account.

A host of technological advances have exacerbated the problem. Among them: widespread use of debit cards, which don't necessarily stop working when the account is empty and new financial regulations and processing methods that have cut the "float time" (the period it takes to process a check) that many people build into their bill-paying schedule.

Use online banking or toll-free numbers to keep tabs on your accounts, especially if you're a debit card addict.

### **4. You need a plan.**

If you just spend money until it's gone, you never get ahead.

Look at what you make, what you need to spend, what you want to save. Keep track of your spending for a month or two to see where the money is going. One area to watch: entertainment. "You'd be surprised what you spend," says **Rutter**. Designate a monthly amount for shows, dinners, etc., and put the money in an envelope or your wallet. When it's gone, you stay home.

### **5. Auto leases can be hazardous to your financial health.**

Leasing (and some zero-down payment deals) can put you at risk financially because you may be driving a car that's actually worth less than you owe, says **Rutter**. In an accident, your insurance will only cover the car's worth. The remainder, which can run into four or five digits, is suddenly added to your debt load.

### **6. Your old emergency fund might not cut it.**

The old rule was to sock away three to six months' salary. But that's just not enough anymore, says Keating. "I don't think it's necessarily true that people get re-employed within three to six months. Instead, aim for having a year's wages in the bank.

### **7. Don't always reach for that debit card.**

Some gas stations and restaurants will put a hold on your card for more than you actually spend, says **Rutter**. And it can be several days before you get it back. Result: You think you have a healthy bank balance, but you're bouncing checks.

Gas stations and restaurants are dicey places to use debit cards anyway, because they're popular venues for identity thieves. Instead, use your credit card or cash and save the debit card for your bank's ATM.

### **8. If your name is on the bill, it doesn't matter what the divorce decree says.**

It's important whose name is on the bill, says Graham. So if your ex is taking over the mortgage, car loan or credit card payments and can't make the bills, "they're coming after you," he says. And any late payments could show up on your credit report.

Have joint obligations transferred out of your name or take over the payments yourself.

### **9. Balance transfers aren't the panacea for credit problems.**

Debtors often transfer a balance from a card with a higher interest rate to one with a lower APR. While it sounds great in theory, the move can actually hurt your credit score, says Michelle

Jones, vice president of counseling for the Consumer Credit Counseling Service of Greater Atlanta.

Here's why: You're opening additional lines of credit, increasing the possibility of racking up higher bills. Simultaneously, you're moving your existing debt, but "you're not really paying it off," says Jones. Creditors see someone who can't handle the current balances but can run up more charges.

So while you're making the minimums, throw all available money at the card with the highest interest rate. Once you get it paid off, start on the one with the next-highest rate. That demonstrates that you're actually paying down debt, not just moving it around.

#### **10. If you're late on one card, another could raise your rates.**

Known as "universal default," this is one of the dirty little secrets of the credit industry.

"This is something that catches people by surprise," says Keating. "You can be talking about a 20 percent to 30 percent interest rate" for a card you've always paid on time.

Creditors figure that late payments could signal money problems, which make you a bigger credit risk. If the due date's looming, pay online through the creditor's own Web site. "They almost always post the next day," says Jones.

If money's tight, make all the minimum payments on time, rather than playing favorites with one card. Then draft a money budget that will allow you to quickly pay off the balances.

#### **11. Challenge your credit card bill.**

See a fee that doesn't look right? Don't believe you should have been hit with a late penalty when you mailed the bill on time? Don't just accept it, call the company. And don't be afraid to vote with your feet. "If you're not happy with your card company," says Keating, "there are a lot of others out there ready to step in."

#### **12. Take your time if you're using auto dealer financing.**

"Don't take the car off the lot before you are sure financing has been approved," says Gay Watson, spokeswoman with Atlanta's CCCS. With dealer financing, sellers often allow customers to take cars home after they've filled out the credit applications and signed on the dotted line. That's great if the loan has been approved and the terms are final. But sometimes the dealer's bank needs a few days to run a credit check.

What can happen: The lender agrees to the loan, but only at a higher rate. The new car, now used, has "already been devalued," says Watson. And the buyer, who took the car in good faith, is saddled with higher payments.

Instead, either use your own financing or take the car home only after you've locked in the loan rate.

#### **13. Pay the rent or mortgage first.**

It's an all-too-common problem, says Jones. When money is short, consumers tend to hand any cash to the debtor screaming the loudest, instead of asking "what assets do we need most?"

"The mortgage company is not necessarily going to be the squeaky wheel," says Jones.

During a particularly rough period, one Atlanta family stayed current with the credit cards but scrimped on the mortgage payments. Past experience taught them that the credit card reps would get really ugly while the mortgage holder would only send a letter or two. By the time they went in for counseling, they were so behind on the mortgage that they lost the house. And while they kept their charge cards, their credit rating sank because of the foreclosure.

**14. Don't dig the hole deeper.**

If you're in debt, it's past time to cut spending and set up a budget. Borrowing more money just makes it worse. "At some point, you have to ask yourself how you're going to get out of the situation, rather than creating more debt," says Wanda Jackson-Cohns, director of North Little Rock's Consumer Credit Counseling Service program in Arkansas.

**15: If you're struggling, steer clear of those second mortgage or home equity offers.**

"What happens is that if you have any more financial difficulties, your home's going to be in jeopardy," says Jones. "You've basically put your home at risk for your credit cards."

Too often a couple will take out a home equity loan and try to pay off as much debt as they can. They're left with a bigger mortgage and the remaining credit card debt. They're still overextended, so they start charging again just for food, gas and necessities.

Instead, Jones says, this is the time to bring in a financial professional and draft a workable budget.