

Managing Debt

Here are some tips for managing debt:



1. **Know who and how much you owe.** Make a list of how much you owe, and to whom. Keep track of your monthly payments and when those payments are due. Update the list periodically as your debts change.
2. **Pay your bills on time each month.** Missed and late payments have consequences including late fees, increased interest rates, and higher finance charges. These additional charges add to your debt making it harder to pay off.
3. **Use technology to help you pay your bills.** Use the calendar on your computer or smartphone to track when you need to pay your bills. Set an alert to remind you several days before your payment is due. Some people use an "auto pay" feature for bills they pay every month. If you miss a payment, don't wait until the next due date to make a payment, send it as soon as you can.
4. **Make at least the minimum payment.** If you can't afford to pay anything more, at least make the minimum payment. The minimum payment doesn't help you make progress in paying off your debt, but it saves you from late fees and keeps your account in good standing. When you miss payments, it gets harder to catch up and your accounts could go into default, meaning that a collection agency will get involved. That negatively impacts your credit score and adds even more fees to the debt you already owe.
5. **Decide which debts to pay off first.** Prioritize your debt payments to save money over time. Let's say you have a car loan with a 6% interest rate, and credit card debt with a 19% interest rate. You should pay off the credit card debt first because it has a higher interest rate. If you have several credit cards, pay off the one with the highest interest rate first because it is costing you the most money.
6. **Use an emergency fund to fall back on.** Keep a savings account and regularly put money in it. Only use it when you need it. This helps if you ever need some extra cash. Even a small emergency fund can help cover unexpected expenses like a flat tire, a broken leg, or a shattered phone screen. Experts advise to save up six months of living expenses in case there is ever an emergency.

Now, let's put these tips to use. Here is a list of Jerome's current debts. He needs help figuring out how to manage and reduce his debt.

I owe money to:	Amount	Due Date	Interest Rate
Dad	\$200.00	3 months	0%
Julie (sister)	\$75.00	2 months	0%
Best Buy Credit Card	\$115.00	10 th of the month	15%
VISA Credit Card	\$350.00	20 th of the month	19%
Gym Membership	\$35.00	15 th of the month	0%
Master Card	\$200.00	5 th of the month	0%
Rent	\$300.00	1 st of the month	0%
Phone/Cable/Internet	\$210.00	19 th of the month	0%

1. Two of his credit cards, the VISA and Master Card, require a 10% minimum monthly payment. How much is the minimum payment for each card this month?
2. Jerome has decided to only have one credit card. Which one should he keep, VISA or MasterCard? Explain why.
3. Jerome has a savings account with a balance of \$4,200. He usually spends about \$200 each month for gas, utilities, clothes, and entertainment. His bank suggested he keep enough cash in his account to pay for at least three months' worth of expenses. Does he have enough saved? Explain your answer.
4. If Jerome has some extra cash in his savings, which debts should he pay off first? Explain.
5. What are some ways that he can prevent making late payments on his six-monthly debts?