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SUNDAY JOURNAL

In Too Deep for New Year? What to Do About Debts

By RUTH SIMON
Staff Reporter of THE WALL STREET JOURNAL

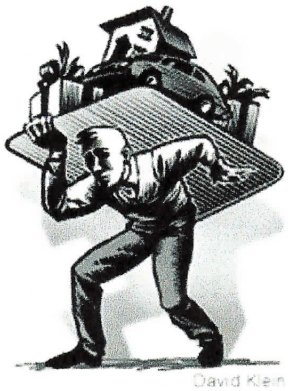
Call it the debt hangover.

After a dizzying year of mortgage refinancings, easy credit-card terms and 0% auto loans -- topped off by a holiday spending spree -- many consumers now find themselves up to their ears in debt.

Credit-counseling services are preparing for an onslaught of phone calls as consumers assess their finances at the start of a new year.

"This year may be the worst we've seen as far as the holiday blues," says Chris Viale, general manger of Cambridge Credit Counseling in Agawam, Mass. Mr. Viale expects calls from debt-stressed consumers to climb 20% in January and February, double the normal start-of-the-year increase.

If you think you may be overextended, bite the bullet and add up your total debt. One sign you've borrowed too much: Payments on credit cards and other unsecured debt exceed 15% of your take-home pay. You could also be in over your head if you can afford to make only the minimum payments, or if you are at -- or approaching -- your credit limits.


David Klein

But even if the situation isn't giving you the shivers, January is a still a good time to create a smart debt-management strategy.

Here are ways to get started:

Create a budget. Begin by gathering the most recent statement for each debt, including credit cards, auto and student loans and home mortgages. Now figure out your total debt and your

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required monthly payments and determine the interest rate, or cost, of each loan.

"Most people don't know how much they really owe," notes Tiff Worley, president of Auriton Solutions Inc., a nonprofit credit-counseling agency based in St. Paul, Minn.

Next, figure out in detail where the money goes. Debra Morrison, a financial planner in Chatham, N.J., advises her clients to attach a Post-it note to their wallet or purse and use it to jot down every purchase. "You want to track those expenses for 30 consecutive days," Ms. Morrison says. Also keep track of what you spend on phone service, electricity and other monthly bills, such as mortgage or rent.

Once this is done, determine how much of your income must be spent on essentials each month. Then, take another look at casual spending on things such as clothes, entertainment and dining out.

"You want to figure out what you can pull out of monthly expenses and funnel into paying down what you overspent," says Chris Bender, a spokesman for the National Foundation for Credit Counseling Inc., an umbrella organization for local credit-counseling agencies.

Simple steps can provide a big payoff. If you spend $5 a day eating lunch out, packing a sandwich could save roughly $80 a month that could go to pay down your credit-card bills, Mr. Bender says.

Pay more than the minimum. If you have a big credit-card balance, you may be glad that your credit-card company requires you to make a monthly payment of just $100.

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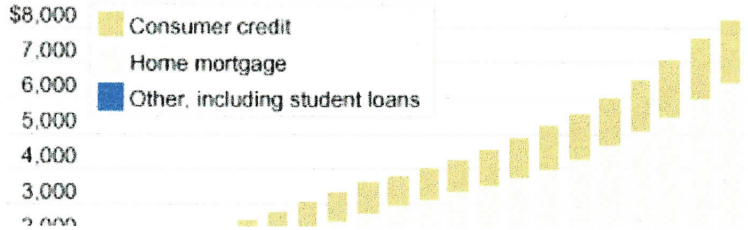
But sending in the minimum your credit-card company asks for is far more costly than most consumers imagine. The reason: The less you pay, the take to pay off the debt and the higher your total interest charges.

HEAVY LOAD

A weak economy hasn't stopped consumers from piling on more debt. The chart shows how the total amount of consumer debt owed has climbed in the past two decades. (in billions)



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off the debt, acc

Bankrate.com, a
finance Web site. If you pay twice that amount, or $200 a month, you'll be free of
much less time and pay thousands of dollars less in interest.

The wisest move, of course, is to pay off your balance in full each month. But if y
afford to do that, try paying double the monthly minimum or paying an extra $100

Pay off your highest-cost debt first. If you owe money on more than one credit c
the card with the highest rate first. You can also lower your borrowing costs by sw
lower-cost card. Many credit-card issuers offer borrowers with good credit 0% or
balance transfers. You can also cut your borrowing costs by shifting outstanding b
retail-store credit cards, which generally carry higher rates, to a general-purpose c

With mortgage rates near record lows, many borrowers have used cash-out refinar
home equity lines of credit to pay off their credit-card debt. Replacing a 21% loan
loan can save money, but it can be risky, too. Credit-card bills are generally unsec
which can be discharged in bankruptcy. If you can't make payments on a mortgag
equity loan, on the other hand, you could lose your house. Some people who use h
consolidate credit-card debts end up digging themselves into an even deeper hole l
big charge-card balances within a year.

Don't be late. A late or missed payment is costlier than you think. Many credit-ca
have upped late fees to $35 from $29. Worse yet, if you pay late or go over the lin
interest rate could jump to as much as 20% or more.

The impact may not be limited to the credit card you didn't pay. Because lenders n
reports, "if you are late with another credit card, that could mean that your credit-c
will raise your rate even if you aren't late with them," says Greg McBride, an anal
Bankrate.com. Missed or late payments can also lower your credit score. That, in t
mean it would cost you more to get a home or auto loan.

Don't be fooled by 0% financing offers. Now offered on everything from new c
surgery, 0% financing is tough to resist. But a 0% rate is a bad deal if it leads you
something you don't need.

If you do accept a 0% offer, be sure to read the fine print. While terms vary, many
offers provide interest-free financing only if you pay off the entire balance within
predetermined period. If you can't, you could be hit with interest charges going ba
you made the purchase.

Negotiate with your credit-card company. Don't be afraid to call your lender if
struggling to pay your bills. Credit-card companies will often erase penalties and l
the rate or reduce the required monthly payment for borrowers who have a good p
history but are now having trouble making ends meet. Sometimes they will even f
portion of the debt. Credit-card issuers aren't being altruistic. They know that cred
charges are unsecured debts, which are typically wiped out when a consumer files
case.

Consider credit counseling. If you've dug a hole that's so deep you can't get out c
own, contacting a credit-counseling service could be a smart move. Credit counsel