

# Time to tear up those credit cards?

There seems to be nothing easier than amassing credit cards.

You can't go through a checkout without getting the offer, and a "free 10 percent off today's purchase." Look in your mailbox and you're bound to find two to three solicitations a day.

And why not sign up? Most now are no-fee. This means they don't charge you to own the card. Some offer cash back, some (for a fee) offer frequent flyer miles, some offer discounts on goods and services. Plus, you don't have to pay anything for at least a month, and then you only have to pay a small fraction of what you owe.

## **It's free money, right?! WRONG.**

Nothing in life is free, least of all credit. Those card companies want you to carry a big balance, only pay the minimum due, and then they charge you high interest rates on the borrowed money.

How bad is the impact of credit card interest rates? Take this example, from Lucy Lazarony at Bankrate: Paying just the \$60 minimum payment on a \$3,000 credit card balance would take eight years to pay off the debt, and would cost a person a whopping \$2,780 in interest. In other words, you'll end up paying twice what you borrowed.

How bad is the problem? Last year, 1.3 million credit card holders declared bankruptcy. Total consumer debt was \$1.7 trillion and Americans paid \$50 billion in finance charges. Yes, \$50 BILLION.

So, what can you do to get hold of your finances and free yourself from credit card debt?

- **Assess the damage.** How much do you owe? Most experts recommend that debt payments including car payments and credit cards should eat up no more than 10 to 15 percent of your total income. Do the math and know your situation. Then set some goals to get back on track.
- **Cut up your credit cards.** That's right. Take a scissors to them. You only need one, and if you only have one, you'll be better able to track your charges and balance.
- **Always pay more than the minimum due.** "Once you start paying more than the minimum, the debts start to disappear," Lazarony says. "By paying an additional \$50 a month on that \$3,000 in credit card debt, the debt would

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be paid off in three years and you would be spared \$1,800 in interest charges.”

- **Consolidate debt.** If you can, use one credit card to pay off others, so that you have all of your debt in one place, ideally with the card that has the lowest interest rate.
- **Reduce your spending.** Not only stop charging to your credit card, but start spending less money overall. Eat at home, not at restaurants, cut back on new clothes and entertainment, use public transportation, do whatever it takes to save money that you can then use to pay off or pay down your credit card debt.

Reducing credit card debt is like going on a diet to lose weight. You’ll need to change some deep seated habits, it won’t be fun, but you’ll feel better about yourself and life when you see some progress.

### **Getting a handle on credit card debt.**

**How long will it take to pay it off?** Go to [bankrate.com](http://www.bankrate.com) (<http://www.bankrate.com/brm/calc/creditcardpay.asp>) for a free calculator, which will tell you how long it will take you to pay off the credit card debt based on your monthly payment and the interest rate.

**What is the best way to consolidate debt?** Go to The Motley Fool (<http://www.fool.com/ccc/ccc.htm>) and click on their “debt consolidator calculator” to find out the best way to shift debt—and pay it off.

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