TIME TO TAKE **ACTION**

The Ultimate Guide To Tackle Credit Card Debt

Learn 6 strategies (plus a bonus chapter) on how to conquer credit card debt and regain freedom. Your life will be yours again.

HelpMeBuildCredit.com

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CHAPTER
1 - Introduction

Welcome!

Thank you for picking up this guide.

I've been involved in the credit world for many years. During that time, I've watched thousands of people fall into the trap of using their credit cards irresponsibly. It's terrible to see and it's even harder to live through. And the worst part? They don't know what to do next.

I can't sit by and do nothing.

So, I wrote this guide.

Who This Is For

I wrote this guide primarily for people with credit card debt. That being said, there's information in here that can help those with other types of debt. I've consolidated six complex solutions into a simple, clear format. By the time you finish reading, you'll know enough to make a good decision.

Keep in mind - the main purpose of this guide is to provide information. I won't tell you what to do but I'll give you the tools to make the right choice.

So, here's what this guide is.

What This Guide Is

This guide is helpful. This guide is informative. This guide has solid information. This guide can help you. The whole goal of this guide is to share knowledge so you can make informed decisions. Getting out of debt starts with taking that first step. But how do you know which step to take?

That's the point of this guide.

What This Guide Is Not

This guide is not a get-rich-quick scheme. There's no easy way to resolve debt. Yes, there are solutions and techniques to use, but no - you'll never be able to wish debt away. But that's okay. This isn't a guide of wishes. This is a guide that makes you smarter so you can tackle your debt.

Beat it. And move out from under it.

Second, this guide is NOT a substitute for debt/credit counseling. It will not help you avoid getting back into debt. I purposely did not tackle that subject here.

A Quick Thank You

This guide would not be possible without the help of **Chavy Klein** (*chief editor & research, HelpMeBuildCredit.com*), **Eli Hochberg** (*founder, Elivated*), **Shimon Klagsburn** (*broker, Funding Source*), **Joseph Harrison ESQ**, (*founder, Debt Champ*) and **Mendy Nueman** (*owner, The Card Master*).

Message From Author

Finally, read this before you read the guide.

You're about to learn how to get out from a crushing pile of credit card debt and make your situation drastically better. I've included six helpful options plus a bonus chapter on how to repair credit once your debt is paid off. The techniques are ranked in order of preference - with 1 being most ideal, 2 being less ideal, etc. There are real-life examples and full breakdowns. Plus, the format is clean and easy to read.

But you need to understand something.

Getting out of debt is only step one.

You need to commit to not falling back into a situation like this again. I know it's hard to hear this. But it's a difficult truth. Many people go through a vicious cycle of getting in and out of debt. That needs to stop. I don't need to tell you how crushing it feels. Take a minute and think about that feeling - how awful it feels. Then, commit to turning your situation around.

Otherwise, you'll need this guide again.

Please, please, PLEASE be financially smart.

Okay, let's get started.

- Chaim Geller (*founder, HelpMeBuildCredit.com*)

P.S. If you need any help, references or have questions, please email me: sam@helpmebuildcredit.com - I am always here to help!

CHAPTER

2 - Pros vs. Cons

Intro

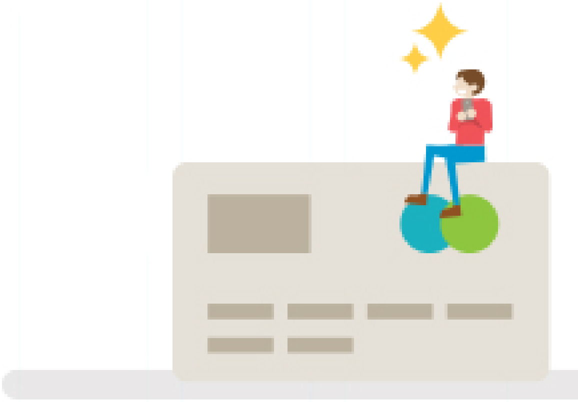
Let’s talk about the plastic elephant in the room - credit cards. These little rectangles are found in practically every wallet in the world. In this chapter, I’m going to talk about the benefits of using credit cards vs. the massive danger of being used BY credit cards.

Ready? Let’s get to it.

Credit Cards Are Good

If you’re like many working families, a paycheck doesn’t come every day. It might be two weeks, or up to a month, before that money comes in. That’s if you’re lucky. Some companies are slow to pay and slower to pay on time. In times like these, credit cards are useful tools.

How are they useful?



Well, a credit card is only due once per month. If you're short on funds for a grocery bill, you can put it on the credit card and then pay the credit card off once you get paid by your work. In other words, you can use the credit cards to carry you over from paycheck to paycheck.

Or, you might have a business that spends a lot of money every month. Instead of paying with cash, using a credit card can be a great way to rack up rewards, points and miles. As long as you're able to pay that credit card balance every month, this is a great way to get some bonus money.

If you travel a lot, and use the right credit cards to do so, you can unlock access to travel insurance, purchase protection and much more. There are many great reasons to use a credit card over the standard debit card or cash. In many situations, credit cards are your friend.

But they can also be your enemy.

Credit Cards Are Bad

Like any tool, credit cards need to be used responsibly. This cannot be stressed enough, so I'll say it again:

USE RESPONSIBLY.

There are millions of people drowning in debt because they got carried away. There's an easy way to know if credit cards are the right tool for you.

Keep reading and I'll tell you.

Should I Use Credit Cards?

It all boils down to one question:

Are you paying off your balance each month?

That's it. There's no complicated formula or math involved. Either:

A. You're making enough money to use a credit card.

B. You're not making enough money to use a credit card.

Simple and easy.

If you can't pay off the FULL balance each month, you need to stop spending that much money. More importantly, you need to stop spending money on credit cards because it comes with interest. Interest is how credit card companies make money and how you can quickly sink into debt.

Here's a quick example of how interest rates matter.

Lose (the) Interest

Practically every credit card comes with an interest rate. This is a percentage that the credit card company charges you for carrying a balance on the card. Typically, the range will be somewhere between 10% to 30%.

So, if you owe $1,000 on a credit card with a 25% interest rate, and you don't pay the balance at the end of the month, you'll owe $1,250 - $1,000 for the balance and $250 for the interest.
(*NOTE: Interest is accumulated annually so that's $250 for the year, but if you do this every week, the numbers keep climbing!*)

Still following along? I know - this is math - but it's important to know.

Okay, so now, let's say your grocery bill is $1000.

Can you afford to pay that much for groceries in the first place? If you can't, and put the purchase on a credit card, now you owe that PLUS the interest. And, if you can't afford $1000/week on groceries in the first place, you DEFINITELY can't afford to pay the 25% interest as well. That's an additional $250 you owe, plus the $1000 for the food.

If you can't afford $1000, how are you going to pay $1250?

You can't.

So, what should you do instead?

For now, cut back. As hard as this might be to admit, you have a cash flow problem. It's time to get a second job, ask for a raise or do something to get more money in the bank. Using a credit card is only a band-aid and it won't stop the cash from bleeding.

You need a budget and a plan.

But I Need To Build Credit

This is a valid concern. Credit cards are one of the only real ways to raise a credit score and show lenders you know how to spend responsibly. But remember - the key thing lenders look at is how responsible you are.

If you are carrying a high balance, that's not a good sign.

Here's a better idea.

Set up a small monthly bill on your credit card.

This can be a phone bill or a membership that auto-bills each month. Then, set up your credit card on autopay. Finally, take that credit card out of your wallet and stick it deep in a drawer. This trick will keep your credit card account active and help improve your credit score.

Plus, you won't be tempted to pull out the plastic and swipe away.

Example

John opens a credit card because he saw an ad for one. Currently, John makes $5,000/month and can afford to spend $500/month on clothing for himself. He gets approved for a credit limit of $7,500 and decides to buy an extra $3,000 worth of clothing this month.

The next month, his bill comes and he doesn't have an extra $3,000 to pay off the card. Not only does he owe the $3,000 but he now also has to pay interest on that balance. The months go by and John ends up spending hundreds of dollars on interest fees alone.

That's a classic situation of how credit cards can be dangerous.

Recap

Using a credit card is like driving a car.
Don't be drunk. Be responsible.

Cards are great tools. At the same time, cards are dangerous when used irresponsibly. If you can't pay your balances in full each month, you can't afford to pay that PLUS the interest. Cut back on your spending. And if you're worried about credit history, use the trick I taught you.

This guide is full of tips.

Keep reading.

CHAPTER

3 - Paying Credit Card Balances

Intro

Good news! You got a bonus from work or a gift from someone and have some free cash to pay off credit cards. But here's the problem - it's not nearly enough to pay off all the debt. How can you use this cash most efficiently? There are two techniques I'll teach you in this chapter - boosting your score and saving on interest.

Are you ready? Here we go.

Method #1 - Boosting Your Score

Okay, so let's start with why this matters. High credit utilization can affect your credit score by 100 points or more. The best option is to pay off all your balances. However, you're probably not able to or you wouldn't be reading this guide.

But what if you just got some free cash?

What's the best way to use it to boost your credit score?

To figure that out, we need to break down the concept of credit utilization and how it affects your credit score. Then, we'll go though how to calculate the lowest possible amount to pay to make the biggest impact.

There's a bunch of numbers involved, so pay close attention.

The Credit Utilization Brackets

FICO, one of the national standards for credit score models, is rumored to use these brackets. Keep in mind - these are just rumors but these numbers are educated guesses.

Bracket #1 [0% - 9%]
Bracket #2 [9.1% - 29%]
Bracket #3 [29.1% - 49%]
Bracket #4 [49.1% - 79%]
Bracket #5 [79.1%-100%]
Bracket #6 [100% plus]

For reference, 0% means the balance is $0 and 100% means the card is maxed out at the credit limit. 100% plus means the balance is HIGHER than the credit card limit.

Make sure you understand the brackets before we proceed.

It's important to keep up.

Step #1 - Calculate Your Credit Utilization

First, you need to calculate the current utilization for each card. To recap, the utilization is what percent of your credit limit you are using. Each credit card has a credit limit - the maximum amount of money you are allowed to spend. Then, there is the balance - the amount of money you actually spent on your card.

See the sample chart below with credit card names, credit limits and balances listed.

Credit Card	Credit Limit	Balance	Utilization
Amex Everyday	$9,000	$3,500	38.89%
Citi Premier	$500	$435	87.00%
Chase Sapphire Reserve	$15,000	$4,600	30.67%
Venture Rewards	$4,700	$3,500	74.47%
Amex Gold Delta	$20,000	$17,189	85.95%
Capital One Journey	$5,300	$1,960	36.98%
Wells Fargo Propel	$1,200	$200	16.67%
Amazon Card	$4,000	$1,300	32.50%
Costco Anywhere	$2,250	$776	34.49%
Available Money	$3,500		

To start, make your own chart by filling in your credit cards, credit limits, and balances, along with how much money you have available to pay off balances. Then, to calculate credit utilization, divide the balance by the credit limit then multiply the result by 100. You now end up with a percentage which is your credit utilization.

Pro Tip: Credit utilization only effects personal credit cards - most business credit cards do not get reported on your personal credit report. So, don't worry about them affecting your credit. (Exceptions would be Capital One business cards, Discover business cards, and some other smaller credit card issuers, which report business cards on personal credit reports).

The Smart Way To Pay Off Balances

On most credit scoring models, a utilization below 29% is considered normal. In other words, having a utilization of 29% and lower won't affect your score too much. That means, if you want to increase your score quickly, you should focus on paying down each card JUST enough that it gets below 29% of your limit.

That's all you need.

Here’s how it works for our example.

Example 1:

Amex Gold Delta has a high balance of $17,189.

Credit Card	Credit Limit	Balance	Utilization
Amex Gold Delta	$20,000	$17,189	85.95%

Since this is the highest balance, your instinct might be to pay all $3,500 of your cash towards it. But that won’t help. Why? Because it will only drop the utilization by a little bit - nowhere near the 29% you want to have.

That won’t help you reach your goal.

Example 2:

The Wells Fargo Propel has a relatively low balance of $200.

Credit Card	Credit Limit	Balance	Utilization
Wells Fargo Propel	$1,200	$200	16.67%

Should you pay off that whole balance?

No! You are already below 29% and that's plenty.

Example 3:

The Chase Sapphire Reserve has a balance of $4,600.

Credit Card	Credit Limit	Balance	Utilization
Chase Sapphire Reserve	$15,000	$4,600	30.67%

This is a great example. You are so close to 29% - all you need to pay is 1.67% of the balance - a total of $76.82. Just that little amount will boost your score significantly. This is a great card to put some of that $3,500 towards.

Calculate How Much Of The Credit Card Balance To Pay

Okay, now that you understand the importance of getting a card down to 29%, how do you figure out how much to pay?

Well, use that chart you made before.

Figure out the amount in dollars your balance should be to have a credit utilization below 29%. Take the credit limit and divide it by 100. Multiply the result by 29. The result in dollars is what your balance should be after paying. To figure out how much of your balance to pay to get to that amount, subtract the amount from your balance. That is how much you should pay so that your balance results in a credit utilization of 29%

Get that done first, then we can move on to the next step.

Tackle the Balances

First, start with the cards which are closest to 29%. You will pay off the difference needed to get the balance to 29%. Do so until you use up the available money you have to pay up the balances.

Distribute The Extra Money Over Larger Balances

If you can't get all cards below 29% with the cash you have, or if you find yourself with EXTRA money, try to work on getting them to the next bracket of 29.1%-49%. If you can't reach that, aim for the next bracket of 49.1%-79%.

In other words, work to get cards to the lowest bracket you can - up until 29%.

Let's go back to our chart and I'll show you what I would do.

Credit Card	Credit Limit	Balance	Utilization	Difference (%) Needed To Pay To Get To 29%	Difference ($) Needed To Pay To Get To 29%
Amex Everyday	$9,000	$3,500	38.89%	9.89%	$890
Citi Premier	$500	$435	87.00%	58%	$290
Chase Sapphire Reserve	$15,000	$4,600	30.67%	1.67%	$250
Venture Rewards	$4,700	$3,500	74.47%	45.47%	$2,137
Amex Gold Delta	$20,000	$17,189	85.95%	56.95%	$11,389
Capital One Journey	$5,300	$1,960	36.98%	7.98%	$423
Wells Fargo Propel	$1,200	$200	16.67%	–	–
Amazon Card	$4,000	$1,300	32.50%	3.50%	$140
Costco Anywhere	$2,250	$776	34.49%	5.49%	$123.50
Available Money	$3,500				

Okay, pay close attention - there's math involved.

I would start with the following cards: Amex Everyday, Citi Premier, Chase Sapphire Reserve, Capital One Journey, Amazon Card, Costco Anywhere. Those all have the smallest amount to pay (according to the $ difference) to get to a credit utilization of 29%.

That totals $2,116.50 out of $3,500 available. I have 2 credit card balances left after that - Venture Rewards and Amex Gold Delta. I want to get those into the 49% bracket at least and I have $1,383.50 to work with.

The Venture Rewards card needs $1,197 paid to get to 49%. I will pay that much up.

And there you have it!

You used $3,500 in the smartest way possible.

Up next, we'll talk about how to save the most in interest.

Example

John owes $25,000 across four different credit cards. He gets a bonus from work and has $5,000 to spend. Instead of tackling the highest balance first, he makes a chart of what he owes and the utilization for each card. Then, he pays off the balances smartly to drop the utilization rate for each card to the lowest bracket he can reach.

The next month, he checks his score and it's up 104 points!

Method #2 - Saving On Interest

Let's say you don't care about your score so much. Instead, you want to save the most money on interest by using this free cash you have on hand. Here's how to find your interest rate, lower it and save some money.

Every Credit Card Is Different

There are many different credit cards out there, each with its own interest rate. Interest rates vary from 12.99% APR all the way up to 29.99% APR. To figure out which account is highest, you need to track down that specific interest rate. Download/open a copy of your monthly statement to see it.

INTEREST CHARGES

Your **Annual Percentage Rate (APR)** is the annual interest rate on your account.

Balance Type	Annual Percentage Rate (APR)	Balance Subject To Interest Rate	Interest Charges
PURCHASES			
Purchases	15.99%(v)(d)	- 0 -	- 0 -
CASH ADVANCES			
Cash Advances	24.99%(v)(d)	- 0 -	- 0 -
BALANCE TRANSFERS			
Balance Transfer	15.99%(v)(d)	- 0 -	- 0 -

30 Days in Billing Period

(v) = Variable Rate
(d) = Daily Balance Method (including new transactions)
(a) = Average Daily Balance Method (including new transactions)

Please see Information About Your Account section for the Calculation of Balance Subject to Interest Rate, Annual Renewal Notice, How to Avoid Interest on Purchases, and other important information, as applicable.

Once you have the rate for each card, make a list of all your credit cards and what the rate is. You'll need this for the future steps.

Got your list ready? Let's continue.

Negotiate A Lower Rate

Some banks offer the option to negotiate down the rate. All you have to do is ask! Some banks, like Citi and Discover, are easy to work with. Others will require you to do a little homework on how to ask for it. There's plenty of helpful information available online.

There are also organizations out there that can do this for you. You sign up with them and they have relationships with the bank already. However, be careful - there are plenty of scammers out there.

Contact me if you need help or reassurance at sam@helpmebuildcredit.com.

Review Your List Again

Once you've lowered your rates, edit your list to reflect the updated interest rates for each card. Then, rank the cards in order from top to bottom - with top having the highest rate. Then, add in the balance for each card. You should have a list similar to this:

- Chase Sapphire - 17.99% APR - $7,000 balance
- Amex Marriott - 16.99% APR - $9,500 balance
- Bank Of America Cash Rewards - 14.99% APR - $12,000

Pay The Highest First

Remember - it's not about the balance. It's about the highest rate. You'll see the BOA card has the highest balance but the lowest rate, so it's on the bottom of the list. The goal is to save money on interest - not knock off the highest balance.

That's it! It's a simple concept.

Recap

There are two strategies for paying off debt when you get some extra cash. The first one tackles lowering the overall utilization and the second covers paying the lowest interest. Depending on your goals, you can pick either one. All it takes is a little math and you'll be in a better place.

CHAPTER

4 - Refinancing Credit Card Debt

Intro

Here's an idea that might seem strange. What if you took out ANOTHER loan to get out of debt? Seems counterintuitive but bear with me. I'm talking about using a personal loan to pay off credit card debt. These loans have several benefits - a (sometimes) lower interest rate, consolidated monthly payments and most importantly, a higher credit score.

So, here's how it works.

What Is A Personal Loan?

There are many companies out there that offer loans designed to pay off credit card debt. (I listed the main ones in the section titled 'Popular Lenders' later on). These loans are typically called 'Personal Loans' and are different from a bank loan. Whereas bank loans are complicated to apply for, personal loans are quick and can be done online easily.

NOTE: Don't confuse personal loans for debt settlement offers.

These are the junk mailings you get every day offering to get rid of your loans for you. Those companies are liars and should be avoided. For example, they'll promise that if you pay them a lump sum, they'll get rid of your balances by negotiating for you. Then, they promise you over the phone that this won't affect your credit score. But if you check the agreement they send you, they hide in there that it WILL affect your credit score.

And next thing you know, your score is affected. Stay away from them.

You can read more about this in Chapter 7.

How Can It Help?

There are three main ways a personal loan is helpful - lower interest rate, consolidated monthly payments and most importantly, a higher credit score. Let's dig into the three a bit more.

Lower Interest Rate

If you have a great credit score and income level, you can get loans for as low as 7.99% APR. That's far lower than the average interest rate on a credit card. However, keep in mind, it's rare to get such a low rate. Because you have high credit card debt, your credit score is likely low.

Since it's low, it's unlikely you'll receive a low interest rate. In fact, the average rate is typically around 20.00% APR - not that much lower than a credit card, and in some cases, higher. So, just keep in mind that the APR might not be a benefit.

Consolidated Monthly Payments

Another benefit is having to only make one payment. This is more of a psychological boost, as it's easier to tackle one payment than having to figure out the math each month for your seven different credit cards. Some people prefer it this way. That's up to you.

Higher Credit Score

Finally, and this is the big one, you can significantly boost your credit score. Here’s how it works. Your credit score is heavily impacted by having a high utilization. In other words, if you’re using up a high percentage of your available credit, your score will drop.

However, the utilization is only calculated for revolving loans (such as credit cards) - not installment loans. A personal loan is considered an installment loan. So, if you get approved for a personal loan, and use it to pay off your credit card debt, your utilization will drop by a ton.

Why? Because you’re ‘converting’ your revolving loan into an installment loan.

This will make your credit score shoot up!

Keep in mind that having a personal loan on your report will still affect your credit, but it will be a minor change, nowhere near as big as having a high utilization.

But it gets better.

Now that your score shoots up, you can now apply for 0% APR cards that you weren't able to access earlier. I'll teach you how to use those cards to save even more money in Chapter 5.

And finally, you can now apply for ANOTHER personal loan at a better rate because your score is lower. Then, you pay off the first loan early and you're just left with the second one and it's lower interest rate.

See? That's pretty great.

What Do You Need To Get Approved?

These lenders know you have a lot of credit card debt, so they're looking for other factors such as payment history and income. Keep in mind, almost no lenders will approve you if you have a recent delinquent payment, so make sure all accounts are current.

Also, most lenders want to see a debt-to-income (DTI) ratio of 50% or lower. Your debt-to-income ratio is all your monthly debt payments divided by your gross monthly income. It helps lenders figure out if you can make the monthly payments.

Other than that, as long as you have good income (and can prove it) plus a credit score above 600, you have a shot.

Popular Lenders

Here are some popular lenders out here. Use this list to do your homework. Keep in mind there are more out there. Again, always do your homework.

Payoff

Payoff offers loans ranging from $5,000 to $40,000 with rates ranging from 5.99% – 22.59% APR. The origination fees range between 0% and 5%. You can check if you are approved without hurting your credit score. They require a minimum 640 credit score. Payoff will require proof of income.

Lending Club

Lending Club offers loans ranging from $1,000 to $40,000 with rates ranging from 10.68% – 35.89% APR. The origination fees range between 1% and 6%. You can check if you are approved without hurting your credit score. Some report Lending Club not requiring proof of income. They require a minimum credit score of 600.

Upstart

Upstart offers loans ranging from $1,000 to $50,000 with rates ranging from 7% – 35.99% APR. The origination fees range between 0% and 8%. You can check if you are approved without hurting your credit score. They require a minimum credit score of 600.

BestEgg

BestEgg offers loans ranging from $2,000 to $35,000 with rates ranging from 5.99% – 29.99% APR. The origination fees range between 0.99% and 5.99%. You can check if you are approved without hurting your credit score. They require a minimum credit score of 640.

SoFi

SoFi offers loans ranging from $5,000 to $100,000 with rates ranging from 5.99% – 16.19% APR (with AutoPay). There are no origination fees. You can check if you are approved without hurting your credit score. They require a minimum credit score of 680.

You can also check out Credit Karma or NerdWallet. They will check your credit profile and match you with pre-approved offers so you can compare them to each other.

What To Do After Approved

First, make sure you pay off your credit cards! Don't use the money for anything else. All of the benefits listed only work if you use the cash for credit card debt. Otherwise, you'll just have even more debt.

Second, once you're done paying off the cards, you should see your credit score shoot up by many points. At that point, you can go ahead and apply for credit cards that offer 0% APR on balance transfers. Flip to Chapter 5 to read more about this strategy.

Example

John has four different credit cards that are maxed out, with a combined balance of $25,000. Due to the cards being maxed out (high utilization), John's score is 625. He applies for a loan from Upstart at 18% APR over 3 years and pays off his balance. His score jumps up to 760 and he can now apply for 0% APR credit cards that will save him a ton in interest. Read the next chapter to see how.

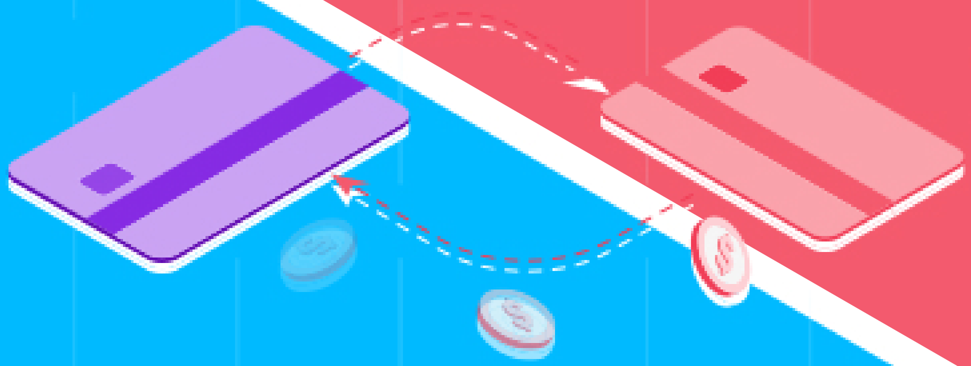
Recap

Having a high utilization is damaging to your credit score. Fortunately, there's an opportunity to get a personal loan to recover that utilization and boost your score! Then, you can either get out a better loan to pay off the first one or open new cards to do balance transfers.

Either way, it's a great technique!

CHAPTER

5 - Balance Transfers



Intro

What is a balance transfer?

Many credit card companies have a special promotion - called an Intro 0% APR period. For those who don't know, the APR is the interest rate that credit card companies charge for keeping a balance. Typically that number is between 15% - 25% and can cost thousands of dollars a year in interest fees.

But a 0% APR card is different.

A 0% APR card has no interest fees - hence the term 0% APR. Clever, right? So, what these banks do is offer a promotion. All you have to do is transfer your balance from a different bank and they'll wave the interest fees for a whole bunch of months. That means you can carry a balance without paying any interest fees.

Sounds amazing!

Almost too amazing - why do banks offer it?

Why Do Banks Offer It?

It's a smart business decision for them. Banks make money from the interest fees. They're hoping you still don't pay off your balance even after the promotion period is over. Then, at the end of the promotional period, you'll have to start paying interest to them. And that's how they make money.

It's good business for the banks.

But, it can also be good for you. Here's how.

Who Should Do A Balance Transfer?

If you have a large balance on a credit card with high interest rates, you can do a balance transfer to a new card that doesn't have one. This can save you thousands of dollars a year in fees.

But there's a catch.

You almost always need to have good credit to be approved. If you have more than three credit cards already maxed out, most credit card companies won't approve you for a new card. And even if they do, the limit will be super low - which isn't helpful.

Don't worry. There's a workaround.

You can transfer balances to/from your spouse. If your spouse has good credit, you can have them apply for a new 0% APR card. Then, you can transfer that balance over and enjoy the interest free period.

If you have less than three credit cards that are maxed out, you can try to get approved. Good banks to try are Citi, Capital One and Bank Of America. They're usually easier to get approved for a card even if you already have a card or two maxed out.

Next, let's cover some important things to know.

What You Need To Know

Penalty APR

This is a fancy term. What it means is, if you pay late, how much interest the bank will start to charge you. Most 0% APR cards require you to pay on time. If you pay late, a special APR can kick in called a Penalty APR.

When, or even if, this kicks in depends on the card. However, many cards have it. This is usually a much higher percentage and you can be stuck paying EVEN MORE than before.

Be careful and make sure you ask about the Penalty APR.

Grace Period

Typically, when you use a credit card, as long as you pay your balance in full each month, you don't have to pay interest. That time period is called a Grace Period.

However, if at the end of the billing cycle there's still a balance left over, you will have to pay interest on that. Plus, if you make a NEW purchase while there's still a balance, you end up paying interest on that new purchase from the date of the purchase.

Now, let's get honest for a minute.

If you have a large balance in the first place, the chances are you can't afford to pay off that whole balance right away. I get it - money is tight. But here's the problem. If you decide to use that new card for new purchases, you'll lose the grace period. That means you'll owe interest from the date of purchase - not from the end of the grace period.

That can cost you a bunch of extra money.

The best option?
Once you transfer a balance to a new card, put that new card in a drawer until it's paid off.

(NOTE: *Some cards also offer 0% APR for new purchases. Those cards are the best for this situation.*)

Minimum Payment

Remember that you need to be able to pay the minimum payments on your new card. You don't want to get stuck without being able to afford the monthly payments. Before opening any new card, make sure you can pay for it.

Each bank has a different amount for what the minimum payment is. Make sure you do the research before doing a balance transfer. You can find all this information on the bank's website or online.

You Can't Transfer A Balance From the Same Bank

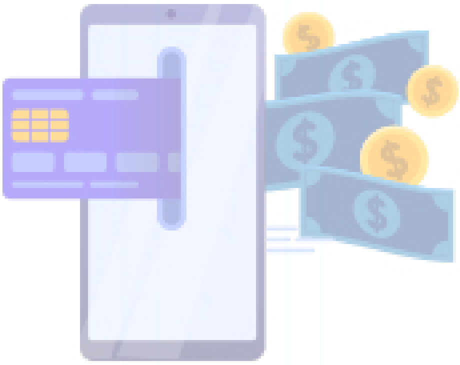
Ever put cash from your right pocket into your left pocket? That's weird, right? Banks don't do that either. If you have a card from one bank (i.e. Chase), you can't go ahead and transfer the balance to another Chase card.

Balance Transfer Fee

Most banks charge a fee (usually a percentage of the total debt) to transfer a balance. Before you get started, make sure you do the research on what that fee will be and if transferring makes sense.

For example, the Chase Slate card has no fee to transfer a balance and you get an introductory 0% APR period for 15 months (Editor's Note: at the time of publishing, this card is not available). On the other hand, the Citi Simplicity card has a 5% fee to transfer a balance BUT you get an introductory 0% APR period for 21 months.

For some people, the longer 0% APR period is better.



For others, the $0 upfront fee is better.

Make sure you know which one to choose.

How Do I Make A Balance Transfer?

It's a super simple process.

First, you have to apply for a new card. Remember what I said earlier - make sure you get one with a 0% APR intro period. Then, once you're approved, call the bank and tell them you want to do a balance transfer. They'll ask you for some information about your other card.

Then, they'll read you some terms and conditions and submit the request. After 7 - 10 days, your old balance will be paid up by the new bank and the new bank will 'charge' your new card for the full balance plus any fees.

And that's it!

Smooth and easy.

Bonus Tip

You don't just have to do this once. Once the first card's introductory APR runs out, you can open up a NEW card and do this again! In theory, you can do this again and again and never pay interest again.

Example

John made a wedding for his daughter. He put $15,000 worth of purchases on his regular credit card. However, he needs a few months to pay it off. Instead of paying the typical interest rate of 18.99% for those months, he does a balance transfer.

After applying, and getting approved, for a 0% introductory APR card, John is now able to move that $15,000 balance over and pay the card off over the next 15 months without paying interest. He saves thousands of dollars in fees by taking advantage of this technique.

Recap

Balance transfers are a great choice for people that have a high balance on a card with high interest rates. There are many cards out there that offer a 0% APR introductory rate for many months. All you have to do is apply for the card and answer a few questions. Then, you can transfer the balance and get back to what you were doing!

Simple and easy.

CHAPTER

6 - Home Refinancing

Intro

With mortgage rates at an all-time low (as of the time of this writing), there's a unique opportunity. You can refinance your home and roll that debt into the mortgage payment. So, instead of paying interest rates between 10% to 30% to the credit card company, you pay way less - only 4% to 6% to your mortgage lender.

That's an attractive offer!

So, how does it work?

The Concept

Let's review the numbers on credit card debt vs. a mortgage payment. When you accumulate credit card debt, the interest rate can range from 10% to 30%. On the other hand, a mortgage rate will usually fall between 4% to 6%. So, as you can clearly see, the potential for savings is quite high when you roll your credit card debt into the mortgage.

In theory, this can lower your monthly payments due to the lower interest rates.

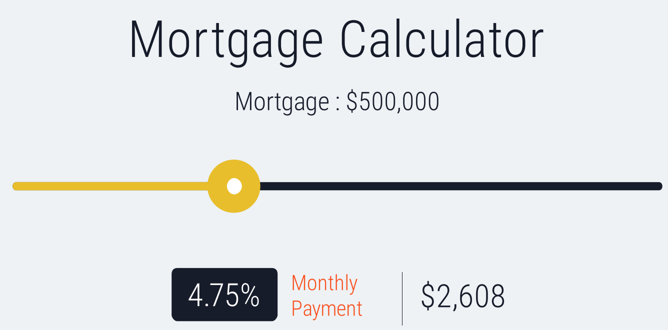
Simple concept.

Why Is It Worth It?

Let's do some basic math.

I'll try to make this as simple as I can. Bear with me.

Okay, let's say you already have a $500,000 mortgage, with an interest rate of 4.75%. On that mortgage, your monthly payment is $2,608.



Now, let's look at the credit card math.

If you owe $100,000 on your credit cards, with an interest rate of 25%, and you pay that card off over the next 30 years, your monthly payment would be $2,084. Over the next 30 years, you would pay $750,448 total - $100,000 for the loan and $650,448 for the interest.

(NOTE: *Keep in mind monthly payments are different for each card but let's just use this number as an example. Also, this is a friendly reminder that the longer it takes to pay off a card, the more you'll pay in interest. Always pay off cards quickly!*)

Now, here's where refinancing comes in.

If you are able to - and we'll discuss below what you need - to refinance your home and include that $100,000 debt in the total mortgage, you'll save a ton of money.

Let's break it down.

Using the example above, if you refinance and add in the credit card debt, your mortgage will go from $500,000 to $600,000. Let's assume your interest rate stays the same at 4.75%. So, your monthly payment will jump up to $3,130. That's an increase of $855/month.

That seems high, right?

But here's the thing.

Because you added in your credit card balance to the mortgage, you now can pay off that $100,000 debt. Since that's paid off, you no longer need to make payments on it. Assuming you planned to pay that off over 30 years, like we said above, you're now saving $2,084/month!

Once you realize that, an extra $855/month doesn't seem so bad.

Even better, you can choose to put those monthly savings towards making extra payments on your mortgage. You'll end up paying off that extra $100,000 faster and save even more money on the interest.

Don't forget - it's always smart to speak with a mortgage broker first.

What Is Your Home Worth?

To you, it means the world.

But to a bank, there's a dollar amount assigned to your home.

When you refinance, the bank will look at your existing mortgage to see what your home is worth and what the Loan To Value is. For those who don't know - and I didn't either until I looked it up - the LTV is what percentage of the home value the mortgage is on.

Most banks will only allow you to refinance up to 80% of the home value - in other words, an LTV of 80%. So, if your home is worth $500,000, you can only take out a loan for $400,000.

(NOTE: *There are exceptions but this is the general rule.*)

Here’s an example.

If you bought your home for $500,000, and have a mortgage of $400,000, your LTV is 80%. If you went to refinance, you can only get the same $400,000 loan. That doesn’t leave you with any extra room to pay off debt.

However, if your home went UP in value, your LTV will change. Now, let’s say your home is worth $700,000. You can now get a loan for up to $560,000. That’s an extra $160,000 you can use for debt.

So, you need to make sure the LTV works out.

Again, make sure you speak to a broker.

When Refinancing Won’t Work

All the math we did above only makes sense if you can refinance at an interest rate that’s equal to, or lower than, what your current mortgage rate is. However, if you refinance at a higher rate, you can lose out on those savings because the overall payments go up.

Here's what I mean.

Let's say your current mortgage is $500,000 with an interest rate of 4.75%. The monthly payments will be $2,608. Now, if you refinance at a HIGHER rate, you'll pay more over the course of the loan. For example, if you refinance that $500,000 loan at 5.75% - 1% higher than before - you'll pay $2,918. That's $310 more each month.

But it gets worse.

Remember - your goal is to refinance your home to take out cash to pay off debt. So really, your mortgage loan amount will jump from $500,000 to $600,000. If you refinance at the newer, higher rate of 5.75% on a $600,000 loan, the monthly payment will be $3,501.

That's $893 more each month.

Over the course of the loan, you'll pay an extra:

$893 x 12 months x 30 years = $321,480.

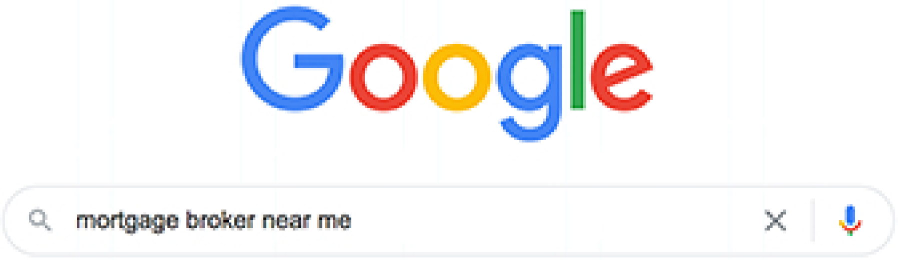
Does refinancing make sense in this case?

Well, it depends.

If you would pay more than $321,480 in credit card fees, then of course it’s worth it. But if you won’t, then maybe it’s smarter to pay off your credit card and leave the mortgage alone for now. You’ll have to do the math to see if it works with the higher rate. Like I explained, it’s not always worth it.

Do some number crunching and see what the rates are.

A mortgage broker can help - and so can Google.



Quick Review

Let's recap.

If the math adds up, rates are down, and your LTV is below 80%, you're in a good spot to refinance. Even with that criteria, if you don't check all the boxes, it might still make sense.

ALWAYS talk to a mortgage broker.

Okay, let's go over some other costs you'll face when refinancing. These costs can make it not worth doing a refinance for a smaller credit card debt. However, the larger your debt, the more refinancing makes sense.

Various Closing Costs

Every time you take out a mortgage, or refinance, there are fees. Nothing in life is free - but you already knew that. These fees are called 'Closing Costs' and typically fall into four categories:

- Origination/Lender Fees
- Title Fees/Recording Fees
- Mortgage Tax (state-specific)
- Prepaids & Escrow

Let's go over them so you know what you're talking about. Again, the reason I'm bringing up the fees is to make sure you understand if the math works out. If your closing fees are $15,000, you need to be saving at least that much on your debt.

Typically, the fees will be between 2% to 5% percent of the loan amount. So, on a $500,000 refinance, the fees can be between $10,000 to $25,000. You'll notice I frequently mention talking to your broker. Do it. They will have all of these answers.

Origination/Lender Fees

First up, the bank charges a fee to process the loan. Those are usually in the $900 - $1,000 range. That fee fluctuates depending on the current loan rates.

Title Fee/Recording Fees

Second, for each mortgage transaction, the lender requires title insurance to protect their first lien position. There are also various searches that the title company performs and they charge a fee for it. Also, there is a recording fee for the title company to take your new mortgage and record it in the county's land records register.

Typically, these fees are in the $500 - $1,000 range. You can calculate title fees on almost every title company's website. Plus, there's also title insurance which can be about $1,500 - which can bring the Title Fees to around $2,500 total.

Mortgage Tax (state-specific)

Third up is a fee that's state-specific. This is the most brutal fee; it is mostly applicable in New York and some other states - but not New Jersey. Mortgage tax is a fee that you have to pay to the county when you record your mortgage.

The rate varies by county and it also depends on the property type, loan amount, and number of units. For example; in New York City the tax rate is 1.8% for mortgages of $500,000 and below; 1.95% for above $500,000. It can go up to 3% for commercial properties.

Make sure to talk to your broker about this.

Prepaids and Escrow:

Finally, some lenders require you to pay your tax bill and insurance policy upfront if it’s due within 60 days from closing. Plus, if you set up an escrow account with your lender, they’ll require you to put in a few months worth of payments.

These technically aren’t fees but it's money that you need to have available.

Other Things To Know

- Your home value is determined by an appraiser and depends on the location you live in.

- When you max out a lot of credit cards, it brings down your credit score - which means you pay a higher mortgage rate.

- When you pay off your credit cards with a mortgage, you have converted your credit card debt from an unsecured loan to a secured loan. That means the creditor now has a lien on your home. This is a big deal if they decide to take you to court. It's worth speaking with an attorney.

Example

John bought his home in 2016 for $650,000. He had a mortgage for $520,000 with an interest rate of 4.6%, for a monthly payment of $2,666. He also had $100,000 in credit card debt with a monthly payment of $1,502.

His total monthly payment was $4,168.

Since his house is located in Brooklyn, it had gone up in value since he bought it - and was worth $850,000. He refinanced and took out a $630,000 loan to pay off his original mortgage and credit card debt.

He was able to refinance at 3.9%, so his monthly payment went from $4,068 to $2,972 - a savings of $1096/month!

Originally, John had no extra cash to pay off his debt but because he refinanced, he came out on top. More importantly, he worked closely with a mortgage broker to make sure he did this the right way.

Recap

When debt gets too high, and you already own a home, there's a unique opportunity. When mortgage rates are low, you can potentially refinance your home and roll the credit card debt into the mortgage. Above all, make sure you speak with a mortgage broker.

CHAPTER

7 - Debt Settlement

DEBT SETTLEMENT

Intro

If you find yourself unable to make the monthly payments on your cards, it might be time to work on a debt settlement. Instead of paying off your credit card balance in full, you can come to an agreement with the credit card company on settling for a percentage of the debt. There are different guidelines for each company.

Plus, it can be quite difficult to do without an attorney.

Let's dive into the idea.

What Is A Debt Settlement?

A debt settlement is an agreement between you and the credit card company to settle the amount you owe. This is helpful for when you can no longer afford the minimum payments. The credit card company is happy they don't have to chase you to court and you're happy that you can get a discount on the debt.

Before we talk about the settlement process, I will explain what typically happens when you stop making payments.

How It Works

When you build up an account balance, as long as you continue making the minimum monthly payments, the account will stay open. However, once you stop making payments, your account is in default. Federal law requires the credit card company to ‘charge-off’ your account and re-characterize it as bad debt after the account is 180 days in default.

At that point, the account is closed out.

Now, closed doesn’t mean your debt is forgiven. That would be nice! Instead, it means they cut off your credit line and send your account to collections. These departments are in charge of chasing you down to make payments.

They are usually quite ruthless - after all, they want that money back. However, it takes some time before they’re willing to take you to court. It depends on the credit card company but it can be anywhere from several months to several years before the lawsuit is filed.

As you can imagine, lawsuits are costly and a pain to litigate. The credit card company would much rather you pay them at least SOME of the debt. That's where the power of negotiating a debt settlement comes into play.

How Much Will You Save?

Like with everything, it depends. However, I asked a debt settlement attorney to tell us what he's seen in his practice. I chatted with Joseph Harrison, ESQ. and here's what he had to say:

I can give you the general list of what I am getting on my settlements. First, I do not settle accounts pre-suit. I wait until they file a lawsuit against you. If the bank forgets to file your lawsuit or just doesn't have a smooth and streamlined process to get all of its collection accounts in suit, then you can get a big break due to the creditor's inability to bring you to court.

Once it goes to court, I generally do not settle debt buyer lawsuits. If my client asks me to try to settle it, I will see whether I can get a mutual dismissal (as I do sue debt buyers back for collection violations and they see me as somewhat of a threat). If a mutual dismissal is not agreeable then I typically can settle it anywhere between 10% - 33% on payments.

But that is only if the debtor is pushing for a settlement; I typically let the case sit and wait to see if they make a mistake to sue them back in federal court.

On original creditor lawsuits, I typically get 50% of the balance paid out up to 5 years. Based on my experience, creditors will typically reserve the 50% settlements for lump-sum settlements. They have been giving me the discount with the long term payout, probably because they know I can fight them and be a thorn on their side. The creditors will try to push for more than 50%, or for quicker payouts, but I am getting those numbers on most original creditors.

The only exception is American Express, where it's a fight to get down to 50%, and it is the main creditor that doesn't believe a 50% payment plan is acceptable on any account (except for the occasional lump sum settlements). If it is a lump sum settlement, the banks still tend to stay at the 50% mark.

However, there is an important distinction in that if the account is a larger account, such as 40k or 80k, the numbers do go down. This is because as the amount of debt goes up, it makes a lot more sense just to file for bankruptcy rather than settle for such large numbers. Accordingly, banks will get more flexible as the numbers go up.

However, remember, the creditors do not like to negotiate against themselves. If I ask them what they will settle for, they will always say they want the full balance. You have to offer lower, and it can often be a struggle to get them to 50% on a payment plan.

Here's a breakdown:

- *American Express - 50% over five years is a great deal*
- *Capital One, Barclays, Discover, Citibank - 50% over five years*
- *Citibank (prior to selling its debt) - We have seen these go for 20% lump sum. However, if they don't sell the debt, they are typically back up to 50% like the other original creditors.*
- *Bank of America - They ask for 50% over two years, will do 50% over three years, and you have to work on stretching it to 5 years.*

For other debt buyers (Portfolio, Midland, LVNV, Cavalry, JHPDE, JH Portfolio, Crown Asset, etc.), I like to wait to see if they mess up and sue them for FDCPA violations. If the client pushes settlement, no more than 33% at most, and have frequently received 10% – 20% as well on payment plans.

Note that I have not mentioned Chase Bank. Chase had a problem around seven years ago, where they dismissed every single one of their lawsuits nationwide on their credit card portfolio. They did not sell the debt, nor did they sue. They just put it in collections and let it stay there.

Apparently, they had internal issues with their documentation to the point where they were uncomfortable going to court and saying their information is accurate. This appears to be in the midst of changing. Last summer 2019, they issued a notice on all account holders regarding updated mandatory arbitration procedures.

Recently, in January 2020, I had a client reach out to me where he received a Chase collection letter from a law firm that typically files suit on every account. It appears that Chase is changing its process again and starting to file lawsuits again, which they haven't done in years.

As they have not yet filed the first one, their settlement guidelines are still unknown, and we are not sure if they will be suing on all of its debt, like the big five above, suing on some, or going straight to arbitration. Accordingly, Chase is somewhat of an unknown at the present.

Well, there you have it.

Straight from the mouth of a professional.

As you can see, it depends on which part of the process you try to settle. And, different companies have unique policies and amounts they'd be willing to accept. However, you can clearly see, it's possible to save anywhere from 50% to 90% by negotiating a debt settlement.

So, what's the downside?

What's The Downside?

There are a few important ones.

First and foremost - can you afford the settlement? If you cannot, the whole settlement falls apart and you'll be back to paying the full balance. That's not helpful and will have only cost you MORE money on court fees and lawyers.

Second, if you settle an account for less than owed, the credit card company can send you a 1099-MISC for the forgiven amount. That means you'll have to pay taxes on that amount, which can cut into the savings you'd be getting on the settlement.

Third, it can damage your credit. You cannot settle credit card debit until you stop making payments. And, being late, lowers your credit score.

Keep in mind, this only matters if your account is less than 180 days past due. If you've been keeping up your minimum payments, settling can damage your credit. However, if you're already overdue, you shouldn't worry about settling just because of your credit.

FInally, there's a ton of paperwork and shuffling of accounts that goes on. Remember how we talked about the debt being moved to the collections department? Well, unless you get a settlement in writing - which doesn't always happen - you might end up in court. And if you do, since you don't have anything in writing, you'll be on the hook to provide proof that you settled.

Can I Do It Myself?

Sure, you can try.

But you'll probably give up. The credit card companies are notorious for fighting to get their money. You'll be called, hung up on, harassed and overall discouraged. However, if you do plan to work on this yourself, here are some tips.

- Mention your hardships. Explain why you cannot make payments. Some credit card companies have hardship programs and can work with you.

- Explain the situation. You can't just call them up and claim you don't have money. They've heard that before. Talk through why you cannot pay.

- They'll want to see proof. Be prepared to show them financials, such as tax returns, bank records or other supporting documents.

That being said, the best way to get a settlement is to hire an expert. They do this all day and know all the ins-and-outs to make sure you get the best deal.

Tips For Hiring An Expert

Even though I just told you to hire one, you still need to be careful which one you choose. There are many people who are dishonest in the credit game. Stay away from them. Here are some tips to make sure you find a good company.

- Ask for referrals. Tell them you would like to speak with someone they've worked with in the past.

- Make sure they send you all the fees in a clear breakdown. Remember - the goal is to pay less money than you owe. If they charge crazy fees, you won't be saving as much.

- Read the contract. This is a must. They can hide all kinds of things in there. If you don't know how to read legal jargon, show it to a friend.

Finally, I want to end off with why you should stay away from the big debt settlement companies. If you have a mailing address, you've gotten spam mailers from big debt settlement companies. You might even be getting multiple offers a day. But I don't recommend them. Their programs are terrible and you'll end up paying more than if you hired a lawyer on your own.

Use the tips in this chapter to hire an attorney. Don't fall for their promises.

It's best to hire an expert to get it done for you.

Final Thoughts

You know how you shop around when looking for a new car? You can do the same with debt settlements. Typically, you'll get a whole bunch of letters from the credit card companies with different offers. Save those letters and see if they're giving you a good deal.

A bonus reason to keep the letters is sometimes, the credit card companies make mistakes. If they violate federal law, you can sometimes sue them back. Many lawyers will take that case for free, as their fees will be paid by the credit card company if they win the case.

Finally, don't get intimidated. Many collection departments will get aggressive with you. So just hang up the phone. You will deal with it on your own time. Don't feel bad - they deal with this all day and it's just part of the job. This is already a stressful time for you and you don't need any more.

Example

John owed $100,000 to American Express. He was unable to continue his monthly payments and his account was sent to collections. John tried to talk to the collection department himself but was unable to make any progress.

John decided to hire an attorney to help him out. His attorney was experienced with dealing with American Express and knew who to call and what to say. Because of this, he was able to negotiate a settlement for $50,000 to be paid over 5 years.

Recap

When an account is charged-off, it gets sent to collections. Credit card companies don't feel like taking you to court, so you can negotiate a debt settlement. This can save you anywhere from 50% to 90% of the total debt. It's smartest to hire an attorney so you can get the best deal.

CHAPTER

8 - Bankruptcy

Intro

Bankruptcy is a word people shudder to hear. It's also a terrible thing to have to do. But sometimes, that's the only option. This chapter will focus on what bankruptcy is, what it helps with, what it doesn't, and how to file.

Here they are.

What Is Bankruptcy?

Bankruptcy is a tool. If someone can't pay their debts, they can file for bankruptcy in court. The bankruptcy court will review all your assets and debts to decide if you can file for bankruptcy. There are many different factors that go into this calculation.

I won't go into detail but here's a quick overview.

There are two main types of bankruptcy filings - Chapter 7 & Chapter 13. Chapter 7 means all your debts are wiped out and you start from scratch. Chapter 13 means you get put on a repayment plan so you pay far less than you owed before.

You don't have to be homeless to file. At the same time, there are many requirements to file. You'll have to attend credit counseling and complete a financial management course to make sure you don't have this happen again.

So, let's talk about who this is helpful for.

What Are The Benefits Of Filing Bankruptcy?

There's a big one - no more debt. You can walk out of court and not owe a penny. Or, in the case of a Chapter 13, you will owe way less. This is the main reason people file.

What Is The Downside Of Filing Bankruptcy?

This list is more important than the upside. It's also longer.

First, your credit score will tank. You'll have to wait years (and keep a good credit history going forward) before your credit score bounces back up. Obviously, you have proven that you can't pay your debts and lenders don't want that risk.

That means no new credit cards, mortgage, car purchase or anything lenders would need to see your credit report for.

Second, you have to be 100% honest. That means you can't just 'hide' your money and say you have none. The court will appoint a trustee to hunt down any assets you might have. If he finds something you didn't disclose upfront, you can be prosecuted federally. That's a big deal.

If you have ANY questions, make sure you talk to an attorney.

When Should You File Bankruptcy?

Talk to an attorney.

That's what I did for this chapter. Here's what he said:

"As it relates to my suggestions to my clients, I typically don't even discuss bankruptcy with my clients unless they are at least $60,000 in hard debt. I define hard debt as the amount of money you will actually have to pay back to be debt-free.

For example, in New York City, where I currently practice, if Capital One sues you for $20,000 I can usually negotiate a settlement for $10,000 payable over 5 years, which would only count as $10,000 of hard debt. Some smaller banks may not even sue you.

For example, Chase Bank has not filed any lawsuits on its consumer credit cards in at least the last 5 years (to my knowledge). Therefore, I wouldn't count any Chase credit card debt as hard debt. (EDITOR'S NOTE: This might have changed by the time this guide goes to print.)

Debt that is past the statute of limitations is unenforceable and thus not hard debt as well. If you live in a jurisdiction where debt buyers have a hard time entering testimony because of hearsay issues (i.e. New York and Florida where we can typically win debt buyer lawsuits at trial vs. New Jersey, which is creditor friendly and courts will accept their hearsay testimony), any debt that was sold to a debt buyer would also not count as hard debt.

However, note that if your credit cards are current, you are way too early in the game to consider bankruptcy. You cannot accurately gauge how much it will take you to pay off your debt, as the interest and finance charges are constantly accruing. If you are really that tight for money to consider bankruptcy you should stop paying, let them charge off the account, and have the balance set when the bank charges off the account.

However, do note that this is an attempt to make a bright-line rule for all debtors. Obviously, there isn't a formula that will fit every situation, but it will depend on many factors, as outlined above.

Some individuals who earn large amounts of money and are just having a tough stretch should not file bankruptcy for $60,000 in hard debt. When they recover, they can easily catch up. Other individuals, such as one on disability or one who earns a minimal wage and never has any extra money at the end of the month, could benefit greatly if they had $40,000 or less in hard debt and they are being pursued by aggressive creditors or collection companies.

Furthermore, if you are a homeowner with equity in your house, bankruptcy can get more complicated. It's considered an asset in your name which could pay off your creditors. (Although if you only have a little bit of equity, you might still be able to qualify under a bankruptcy exemption for a certain sum of equity in your house.)

If your house or other assets were transferred into a trust, the bankruptcy trustee may be able to look back into that transfer as a fraudulent conveyance of a bankruptcy asset, and there are many other potential issues that might arise."

How Do You Find A Good Attorney?

First, do your research. That's the most important one. Ask around and see who has good reviews. Then, make sure they have a good reputation. You need to trust them completely. This is your life they're dealing with.

A good tip is to find an attorney that recently left a big firm to start his own business. They usually have great experiences and are cheaper, as they are trying to build their client base up. Make sure they have many cases under their belt and know the laws in your area.

You can also email me to request a reference at sam@helpmebuildcredit.com.

I hope you never need this tool but now you know how to use it.

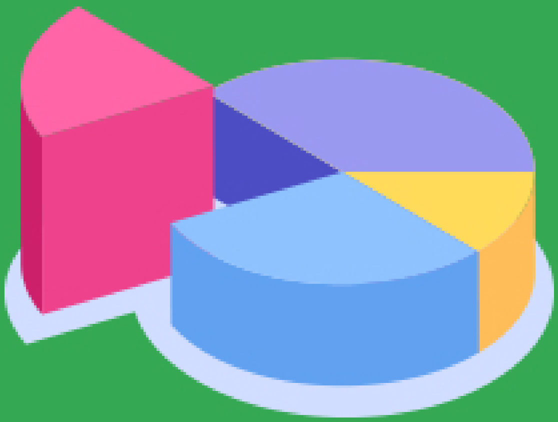
Example

John's business closes down. He loses all his income and can't pay his bills. Due to a medical condition, he owes $80,000 to several creditors. However, because he's lost his income, there's no way he can pay the bills.

After consulting with an attorney, John declares bankruptcy and walks out of court without a single bill to his name. However, his credit history is now destroyed and it will take years to recover and build it back up.

Recap

Bankruptcy sounds scary. But it can help immensely. There are two main types of bankruptcy and an attorney should always be consulted before making a decision. There are many trustworthy ones out there and you can find them by doing some research.



CHAPTER

9 - Credit Repair

Intro

Congratulations! You finally cleared your debt. That's a major milestone and I'm proud of you. It's time to work on repairing your credit history. Unless your credit history is in good condition, you won't have a shot at getting approved for a mortgage or large purchase.

The next step is to hire a credit repair company.

What Is A Credit Repair Company?

Any time a person's credit score is hit with a derogatory mark, there is a process to dispute the issue. There are many laws and procedures that dictate how to go about it. Yes, you could spend many hours on Google trying to figure it out yourself.

Or, you can hire a credit repair company.

A credit repair company does all the work for you. They are experts in the industry and know all the ins-and-outs to make sure your appeal is heard. It's like hiring a mechanic to change your oil. He knows what he's doing and can do it better and faster than you.

Credit repair companies do this all day long. It's their business and they know it well. So, it makes sense to hire one to make sure that derogatory mark is bumped off and you can purchase that dream home.

That's just one reason. There are more.

Why You Should Use One

The FCRA has set many laws in place to protect consumers. However, credit bureaus don't like to play by the rules. Why? Because they receive thousands of disputes each day and they don't want to spend time and money resolving them.

A common trick credit bureaus use is to ‘feel out’ if a person knows what they’re talking about when they file a dispute. If the person sounds clueless, the bureaus will just process the claim quickly and might not rule correctly.

However, if they suspect the person knows his stuff, they’re much more likely to give the dispute the proper attention. So, when you hire a credit repair company, they know exactly what to say to the credit bureaus to get your dispute heard correctly.

Another important reason?

Time.

Who has the time to negotiate with the credit bureaus? Hopefully you’re too busy. Instead, just hire a credit repair company to take care of this for you. Remember I compared credit repair companies to hiring a mechanic for an oil change?

(If not, pay closer attention!)

That's what this is like. Yes, you can technically do this yourself but why would you? You hire professionals to do the job. This makes sure you don't have oil leaking out of your car when you do carpool. And, it means your dispute is resolved correctly.

Yet another benefit to hiring a credit repair company is peace of mind. The credit bureaus know how to wear you down with paperwork and forms. If you already tear your hair out doing homework with your kids, this is only going to make it worse.

Finally, there's a legal reason too.

The FCRA (one of the laws about this) states that if a dispute is believed to be frivolous, the credit bureaus don't have to investigate. In other words, if you file the first dispute, and it's overruled, you lose your chance to file it again.

Like they say, get it done right the first time.

Hire a credit repair company.

Beware Of These Scams

Okay, I convinced you.

You hop on to Google and search “credit repair companies” to see what’s out there. Let me stop you right there. Before you pick one, you need to beware of these scams. The credit repair world is full of people waiting to take your money and give you zero results.

The first one to watch out for is the setup fees. Many credit repair companies charge high fees or take a deposit “to be returned if they’re not successful.” What they don’t tell you, is they will never give you that money back. When you ask them for the deposit back, they’ll just claim, “they’re still working on it.”

When setting up your account with them, make sure they provide you with a timeframe by when the marks will be removed or you get your money back.

Another common scam is the “fast results” promise. Many companies will promise instant results. While it’s possible to get quick results, the average repair time is 4 - 8 months. If they tell you it’s going to be quick, be careful.

Yet another scam is when they tell you they’ll remove negative marks but don’t tell you which ones. They will work to remove some old ones that are easier to remove, but don’t really affect your credit anymore, instead of focusing on the new ones that actually matter.

So, not only does your score not go up, but you paid them for nothing. Make sure you hire a trustworthy company that will tell you EXACTLY what they will do for you. Plus, ask them if they are confident that they can remove enough marks to raise your score by a lot.

Finally, make sure everything they do is legal. There are some pretty sketchy ways to fix up credit and you don’t want to end up in jail. That would definitely be a downgrade from that new house you wanted to buy in the first place.

Ask them to explain what they plan to do. Don't fall for the classic "it's a secret" answer. Get the details from them. An honest company will gladly share this information with you. A dishonest one? They'll give you the runaround. And you should run from them.

Example

John has a big medical bill he missed several payments on. He finally pays off the bill and wants to get the late payment marks removed from his account. He hires a credit repair company to take charge and negotiate with his creditor.

He doesn't do the right research and hires a sketchy company. They tell him they will remove his marks for $2,500. He pays them and they remove some old marks that are not relevant to his current score. Now, he's down another $2,500 and his score remains the same.

Recap

To recap, sometimes, your credit can be hit hard by derogatory marks. There is an appeals process that must be followed to attempt to fix your credit. However, the best option is to hire a credit repair company that can take care of this for you.

Plus, make sure they're not a scam.

You don't need that in your life.

CHAPTER
10 - Summary

Available Options

Here's the list of options we discussed in this guide. I've ranked them in order of what works best. Each option has requirements that need to be met. Take a look below at what you can do to get out of the difficult situation you're in.

If you forget what an option is, you can flip back to that chapter to review.

1 - Paying Credit Card Balances

Recap

You have some free cash to pay off credit cards. But here's the problem - it's not nearly enough to pay off all the debt. How can you use this cash most efficiently? There are two techniques - lowering utilization and lowering the interest rate.

Requirements

You need to have some extra cash available to pay off balances.

Verdict

This option is best for people who come into some money that can go straight to paying off balances. By using two different techniques, they can either boost their credit score or pay the least amount in interest.

2 - Refinancing Credit Card Debt

Recap

Here's an idea that might seem strange. What if you took out ANOTHER loan to get out of debt? Seems counterintuitive but bear with me. I'm talking about using a personal loan to pay off credit card debt. These loans have several benefits - a (sometimes) lower interest rate, consolidated monthly payments and most importantly, a higher credit score.

Requirements

You will likely need a debt-to-income ratio of 50% or less and a credit score above 600. Plus, you need to have proof of income.

Verdict

This option is best for someone who has a low credit score due to a high utilization. If approved, you can use a personal loan to refinance the credit card debt and boost your score. Then, use your new score to unlock better opportunities such as a better loan or getting approved for 0% APR balance transfer cards.

3 - Balance Transfer

Recap

Many credit card companies have a special promotion - called an Intro 0% APR period. All you have to do is transfer your balance from a different bank and they'll wave the interest fees for a whole lot of months. That means you can carry a balance without paying any interest fees.

Requirements

You (or your spouse) must have good enough credit to be approved for a new card.

Verdict

This option is best for someone who has a lot of debt that they know they can pay off over the next few months. Switching to a card with 0% interest will save them a ton of money in interest fees and they can slowly pay the debt off.

4 - Home Refinancing

Recap

With mortgage rates at an all-time low, there's a unique opportunity. You can refinance your home and roll extra debt into the mortgage payment. So, instead of paying interest rates between 10% to 30%, you pay way less - only 4% to 6%.

Requirements

You must own a home and have a source of income to be approved for a refinance.

Verdict

This option is best for someone that owns a home and wants to roll their debt into the mortgage. By refinancing, they can go from paying high interest via the credit cards to a lower interest on their mortgage payment. If you don't have good enough credit to do a balance transfer, this is second best.

5 - Debt Settlement

Recap

Instead of paying off your credit card balance in full, you can come to an agreement with the credit card company on settling for a percentage of the debt. There are different guidelines for each company. Plus, it can be quite difficult to do without an attorney.

Requirements

You must have enough money to continue making monthly payments on the settlement.

Verdict

This option is best for someone that has a limited amount of income and wants to renegotiate how much debt they have. When done correctly, and with the help of a lawyer, they can lower their debt amounts to a manageable amount. If you can't do a balance transfer or refinance, this is the next best thing. Just remember that your credit can be affected!

6 - Bankruptcy

Recap

If someone can't pay their debts, they can file for bankruptcy in court. The bankruptcy court will review all your assets and debts to decide if you can file for bankruptcy. You don't have to be homeless to file. At the same time, there are many requirements to file.

Requirements

You must consult with an attorney - DO NOT TRY THIS YOURSELF!

Verdict

This option is a final resort for when the other five won't work. Declaring bankruptcy will destroy your credit history for years to come. That means no new mortgage, car loan, credit cards and more. Plus, you'll have to meet many requirements. However, this option is the only way to walk away owing nothing.

Final Thoughts

I will end with one final thought.

You're not alone.

There are millions of other people in debt too. But knowing that doesn't make it easier for you to navigate your situation. The only thing that does help is knowledge. If you know what to do, and what your options are, you can make a plan.

And that's the goal of this guide.

To give you the knowledge you need to turn your finances around.

It might feel like you'll be in debt forever but that's not true. You CAN and WILL get out from this. Use your newfound knowledge to consult with others who can help (attorneys, credit repair experts, etc.) and make a plan.

You got this. I believe in you.

Thank You!

helpmebuildcredit