

Debt Management Mistakes to Avoid

By *Martin R. Glickstein, CPA*

Most people carry some debt, whether it is a credit card balance or the money they owe on a car loan or home mortgage. Debt is not necessarily a bad thing, but it can become a problem quickly if you allow it to get out of control. Our suggestions below give you some insight into ways you can manage your debt and avoid it altogether.

If you have enough cash to pay for a purchase, try not to charge the purchase to your credit card. That's an easy way to spend more than you intended — and in many cases spend more than you can really afford. Before you reach for that plastic, think about whether you've got the cash you need for the purchase. If you do, set the credit card aside for the bigger-ticket items.

Credit agencies maintain information on your credit history and give you a credit score based on whether you make your payments on time, accumulate heavy balances and other factors. Lenders use your credit score to decide whether you qualify for a new loan and what interest rate you should pay. If the information in your credit report is incorrect, you could end up being denied a loan or paying unnecessarily high interest rates. You are eligible to receive a free credit report annually from each credit agency, so take advantage of this option and review the information carefully. If there are errors, inform the agency and ask how they can be corrected. Be aware that any suspicious entries in your report could be an indication of identity theft, which is another good reason to keep an eye on your credit report.

Skipping a payment or mailing your check a little late may not seem like a big deal, but it can cause a big headache. Not only will you likely be stuck with a late fee, but your creditor may also raise your interest rate. When other creditors see the late or missed payment, they may deny you credit or raise the rates they charge you. This small mistake can become a costly one.

If you are squeezed for cash, it is better to pay a little rather than nothing at all, but try to pay off as many of your recent purchases whenever possible. If you pay as you go, you avoid interest charges on your purchases altogether. Even if you cannot cover your full balance, paying only the minimum due lengthens the amount of time you will have that outstanding balance —and the amount of interest you'll be paying.

Creditors understand that good customers sometimes fall on hard times, especially in the current troubled economy. And they are often willing to work with you to prevent your account from falling into default, but you have to let them know that you are facing problems. If you lose your job or face some unexpected financial hardship, contact all of your creditors immediately. Ask them if it is possible to pay a lower interest rate or minimum payment for the time being, or if you can skip payments altogether for a few months until you are back on your feet.

If you have any questions about how to better manage your debt or cash availability, please contact one of our professionals today.



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