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# Get Out of Debt Now: Don't be Held Hostage By Your Credit Cards

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# Get Out of Debt Now: Don't be Held Hostage By Your Credit Cards

## A Problem Called 'Credit Card Debt'

Credit cards are no more a luxury, they are almost a necessity. So, you would imagine a lot of people going for credit cards. In fact, a lot of people possess more than one credit card. So, the credit card industry is growing by leaps and bounds. However, the credit card industry and credit card holders are posed with a big problem called 'Credit Card Debt'.

In order to understand what 'credit card debt' actually means, we need to understand the workflow associated with the use of credit cards as such.

Credit cards, as the name suggests, are cards on which you can get credit i.e. make borrowings (your credit card debt). Your credit card is a representative of the credit account that you hold with the credit card supplier. Whatever payments you make using your credit card are actually your borrowings that contribute towards your credit card debt. Your total credit card debt is the total amount you owe credit card supplier.

You must settle your credit card debt on a monthly basis. So, you receive a monthly statement or your credit card bill which shows your total credit card debt. You must pay off your credit card debt by the payment due date failing which you will incur late fee and interest charges. However, you have the option of making a partial (minimum) payment too, in which case you don't incur late fee but just the interest charges on your credit card debt.

If you don't pay off your credit card debt in full, the interest charges too get added to it. So your credit card debt keeps on increasing, more so because the interest rates on credit card debt are generally higher than the interest rates on other kind of loans/borrowings. Further, the interest charges add on to your credit card debt each month to form the new balance or the new credit card debt amount. If you continue making partial payments (or no payments) the interest charges are calculated afresh on the new credit card debt.

So you end up paying interest on the last month's interest too. Thus your credit card debt accumulates rapidly and soon you find that what was once a relatively small credit card debt has ballooned into a big amount which you find almost impossible to pay. Moreover, if you don't control your spending habits, your credit card debt rises even faster. This is how the vicious cycle of credit card debt works.

## Stop Paying the Minimum

Credit cards are there to put you in debt and keep you in debt. When they do it, they have one tool at their disposal that is more effective than all the others. It's called the minimum payment.

## **What's a Minimum Payment?**

Your minimum payment is the absolute minimum that you must pay off each month to avoid defaulting on the debt. If you don't pay your minimum, they'll come after you – but don't make the mistake of thinking it's just fine to only ever pay that much.

## **Why are Minimums Bad?**

They never used to be. Minimum payments used to be set at relatively high percentages, anywhere from 5% to 10%. This meant that you paid more, but your debt would get paid back faster.

Credit card lenders realized, though, that they could set the minimum payments lower, and collect a smaller amount of money each month for a much longer period of time. This would let them tell people that debts on their cards were 'affordable', while they raked in the cash over the long term, thanks to the power of compound interest.

Here's an Example.

Let's say you owed \$1000 at an interest rate of 12.7% per year (1% per month). Your minimum payment is 5% per month. Remember that your payment goes towards the interest first, and then the debt. In this example, \$10 out of the \$50 you paid would disappear as interest – but \$40 would still go towards paying off the debt, meaning that your debt the next month would be \$960.

What happens if you change the minimum payment to only 2%? Well, the difference is enormous. Sure, you're only paying an 'affordable' \$20 – but \$10 of it is still going on interest. That means that your \$20 has only paid back \$10 towards the debt, and you still owe \$990!

There are so many people who just look at the interest rates they're being charged, and don't understand the terrible difference it can make if you only ever pay the minimum payment. In our example (which is relatively typical), 50% of the payment was going on interest – meaning that paying the minimum gets you an effective 50% interest rate, even though your APR was only 12.7%. For higher interest rates, it only gets worse: there are cards out there where only making the minimum payments will actually cause you to owe more each month, not less!

## **So What Should You Do?**

The answers aren't fun, but they are true. Firstly, look for a card with a high minimum payment – this is a good way to discipline yourself into paying off the debt faster.

Secondly, always pay more than the minimum if you can afford to. I know it feels like money for nothing, but isn't it better to pay it now and get it over with, instead of paying it for the rest of your life?

## **How to Play the Balance Transfer Game Successfully**

Do you have heavy credit card debt? If so, you can save some big money by taking advantage of credit card transfers. With balance transfer credit cards you can take advantage of teaser rates that are offered several times each year by major credit card companies.

Teaser rates are usually good for three to six months after you receive the card. Rates can range from 0% to 9% and they are beneficial to credit card holders who have large debts on credit cards with higher interest rates. By transferring the balance from the high interest card to the teaser card, you will save big money on interest.

Be sure to remember that most banks treat transfers identical to cash advances. Also, the transfer may be subject to daily interest fees, which can add up quickly and often there is no grace period where interest isn't charged. The costs of transferring a large balance in these cases can be astronomical. Try to choose a teaser card that waives transfer charges for balance transfers in the initial promotional period.

Always read the fine print when applying for a credit card. Be aware of the term 'flat balance transfer', which will cost you fees on all balance transfers. You must be knowledgeable of the cost of all balance transfers. If you find nothing on the credit card application, ask a banking representative if there are any flat balance transfer fees.

Take advantage of the credit card grace period. Transfer the balance on your high interest card to the teaser card before the payment due date that appears on your bill. Most credit card companies offer a grace period of between 25 and 30 days. After the due date, interest is charged on the outstanding balance. If you transfer the balance before the due date, you will save money on interest. Some credit card companies offer no grace period. In this case, you are charged interest from the moment you charge an item or from the day you transfer your balance. Do not apply for credit cards that do not offer a grace period.

After you have transferred your balance to the low interest teaser card, you will receive a bill with a payment due date. Always pay before the due date and always pay more than the minimum payment, which is the lowest payment you can make if you wish to keep your card and your credit history in good standing. Credit card companies are ecstatic when you only make minimum payments. Why? Because minimum payments usually pay only the accrued interest or a portion of it. That means that the principal remains at the same amount that it was before you made your payment. This is the way that credit card companies rake in huge profits.

Minimum payments extend the principal amount for months or years. Each month you pay a minimum payment, it is taken off the interest. The following month, the credit card company charges the interest again and you pay it - again and again and... Well, you get the idea. If you pay only the minimum payment, it will take years to pay off credit card debt.

Balance transfer credit cards are a good short term strategy, but don't use it over an extended period of time. Be sure to check out all options before playing the balance transfer game. If not, you will find that you have created a financial nightmare that has no end.

## **College Student Credit Card Debt**

Credit card debt doesn't shy away from anyone who doesn't want to shy away from it. It treats everyone equally irrespective of whether the person is a seasoned professional or just a college student. So college student credit card debt isn't uncommon.

Since the credit limit on college student credit cards is much lower, the college student credit card debt cannot rise to the levels it does for other credit cards. However, college student credit card debt is an even bigger menace because a lot of students are already in debt due to the loans they have taken for their education. If they pass out of college with college student credit card debt, they will have to pay back not just the loan they have taken out for their studies but also their college student credit card debt.

Since most college students are inexperienced in the use of credit cards, they can easily fall prey to what we call as 'college student credit card debt'. In fact, college student credit card debt is one reason why the credit card suppliers keep a lower credit limit on college student credit cards.

The solution for avoiding college student credit card debt the same as it is for avoiding any type of credit card debt. You must understand the concept that credit cards are not free money and that whatever you pay-for using your credit card has to be paid back to the credit card supplier when your credit card bill arrives. So don't treat credit cards separate from hard cash. Avoid overspending e.g. do not buy things just because they are on sale, sales keep coming and going and there are always better offers each time; buy only those things that you really need.

A good thing to do is to prepare your monthly budget and follow it religiously. Never budge from your budget. Another very important preventive measure for avoiding college student credit card debt is to avoid going for a second credit card. Some students have a tendency to go for multiple credit cards just because the credit limit on college student credit cards is very low. However, this is a perfect recipe for getting into a college student credit card debt. This is how college student credit card debt builds up. One credit card is more than enough for any student.

College student credit card is really meant to be treated like a training ground for learning more about credit cards. It should not be make an instrument of getting into debt.

## **Getting Out of Credit Card Debt**

Can I get out of credit card debt?

Yes, you can get out of credit card debt. If you are determined to get out of credit card debt, you surely can. Though it's a bit difficult, it isn't impossible. All you need to get out of credit card debt is determination and planning. Both are equally important (or maybe determination is even more important). Determination doesn't come without proper reason.

So, you need to first ask this question to yourself – “What will I get if I am able to get out of credit card debt?”, “What difference will it make”, “What’s in it for me” or “Is it really beneficial to get out of credit card debt”. Use the answers to build your determination. The fact that all the nagging via mails/phone (by the credit card supplier and/or their collection agent), will be gone, should go a long way toward strengthening your determination and should provide you with a reason on why you should endeavor to get out of credit card debt.

Think about the stress-free life after you get out of credit card debt. Try to link various reasons together and try to see the benefits through them. All these collectively will help in bolstering your determination and prevent it from getting weak at any point in time.

The second thing that you need to get out of credit card debt is planning. The planning to get out of credit card debt will start with making a list of the credit cards that you currently possess and noting the debt and the APR for each of them. The sum total of all these various credit card debts, will give you the total credit card debt. You also need to check if you have been defaulting on payments on some of these credit cards (and hence incurring a late fee). You will need to avoid that and put it on the plan you have prepared to get out of credit card debt.

The next step in getting out of credit card debt is to check your current financial position and make an assessment of what you expect your future financial position to be.

Next comes the research to check the various balance transfer offers available in the market; to see if one of these can prove beneficial to you. Use all this information to calculate how much time you will require to get out of credit card debt and how you will distribute the debt payment across your various credit cards (ensuring that you payoff the debt that is hitting you the most and also ensuring that you don’t incur late fee on any credit card payments).

## **Don’t Save When You Have Debt**

Humans are funny creatures. We don’t always do what’s best for us – instead, we do what feels best, and try to blank out any reasons why it might not be the best thing to do. Maybe that’s why there are so many people who have both savings and debts.

### **It’s a Matter of Psychology**

Yes, it feels better to save. Saving feels like building a foundation for your future, while paying off debt feels like throwing your money down a hole. That money is for the kids’ education, or for improving your house, or whatever else – and it’s in an account earning a good rate of interest. What could be wrong with that? Lots, if you have debts.

### **Don’t Be Fooled**

There are almost no savings accounts that offer interest rates as high as the ones credit cards charge. Here’s a question: if you have \$10,000 in a savings account earning 5% per year and \$5,000 on a credit card at an interest rate of 20% per year, how much money do you have?

After just five years, the answer is effectively \$0 – your debt would have grown to around \$12,500, the same amount that your savings are now worth.

You might not believe it now, but it really is much better to pay off your debt. If you used half your savings to pay off that debt, you'd be in such a better position that it's really amazing. You avoid five years of compound interest on the debt, but you still get to keep \$5,000 in your savings account, earning interest – after five years, that's about \$6,380.

If you'd still rather keep your savings intact instead of using them to pay off your debts, ask yourself this simple question: is your pride worth \$6,380 of your family's money?

### **Think of Your Financial Health**

When you have enough money to pay off your debt, there's absolutely no reason to keep it. Debt is for people who don't have the money, and need to borrow it. Debt costs money, and savings make money – you want as much of your finances as possible to be savings, not debts. If your savings account and credit card are with the same bank, then you're effectively paying for the privilege of borrowing your own money from them. Why would you do that?

There are other benefits to paying off your debt with savings. You'll be less stressed about your debts, and your credit report will show that you were able to pay everything back – getting you a much better interest rate if you ever need to go into debt again.

I know it can be hard. You just have to remember that any money you've 'saved' hasn't really been saved at all. It's money you should have been spending instead of making purchases with a credit card. Yes, it feels much worse to spend money thinking that you're spending away your future – but always remember that when you use a credit card to spend that same money, you're spending away your future, plus interest. Anyway, if you've got the debt, then those savings have already been spent – stop denying it to yourself.

### **Credit Card Debt Management**

Credit cards that are used in moderation could be helpful in managing your finances. This means that splurging through the use of credit cards is almost financial suicide.

Here are few tips to manage the way you use your credit card to prevent you from acquiring debts that could lead to your financial death (excuse the pun).

1) Planning. Before purchasing any product using your credit card, make sure to provide yourself with a plan on how you will be able to pay for your credit card bills. Prioritize your needs before your wants. Purchasing grand items that you don't really need might give you that temporary high that impulsive buyers are addicted to. But that temporary high would eventually turn to long-term down feeling due to your piled up debts.

2) Limit. For you to be able to manage your debts and payments, never go overboard when it comes to your credit limit. If it's possible, it will help a lot if you just use about two-thirds of your limit.

3) Statement of account. Keep a record of all your credit card transactions for future reference. In order to prevent inaccuracies of bills and fraud, always remember to check the list of your purchase for the month. If your list and the statement of account do not match, report this to your bank.

4) Piled up debt remedies. There are a number of steps you have to do in order to escape these financial problems.

\* Determine the amount you need to pay and provide yourself with a plan that would fix your finances without pressure.

\* Consider paying the minimum amount to be paid. Then, ask for debt consolidation options that would make it a lot easier for you to pay your debts. If you don't know how to solve your financial problems, there are financial advisers that could help you with your credit card management. They might offer you financial assistance through bank loans that would allow you more time to pay aside from the debt consolidation method. But of course, remember to research on the agency before getting involved with them. Don't just go saying amen to whatever they offer since there is a possibility that they could cause the situation to aggravate.

Self-control is the best way to prevent getting debts that you won't be able to pay immediately. But if you're already in the pits, considering the abovementioned suggestions won't hurt.

## **Credit Card Debt Reduction**

Getting into debt is easy but getting out of it is a really a difficult task. This holds good for any kind of debt and includes credit card debt too. Credit card debt reduction needs planning and discipline in the way you spend money.

Credit card debt reduction starts with the reduction in the expenditures you make using your credit card. So, the first trick for credit card reduction is to go shopping without your credit card (carry some small amount of cash). This credit card reduction technique isn't asking you to stop shopping, instead it's just asking you to seriously evaluate the need of anything you want to purchase and not just purchase it on the spur of the moment.

So, if you really-really need to buy it, you will go back to your home to fetch your credit card thus introducing a delay that is instrumental in killing spur-of-the-moment purchase (and hence helping in credit card debt reduction). It gives you time to evaluate if it's really worth going back home and getting the credit card for purchasing that item. So, in this case, credit card debt reduction is achieved by preventing the debt from building up further. It's a very effective credit card debt reduction measure.

The other effective way of credit card debt reduction is debt consolidation i.e. consolidating debt from high APR credit cards to a low APR one. So this credit card debt reduction measure works by reducing the rate at which your credit card debt grows. Moreover, this way of credit card debt reduction also gives you a breather in the form of a short initial period when the APR is 0%.

Besides credit card debt reduction, debt consolidation also brings some additional benefits which are basically in terms of rewards etc offered by the new credit card supplier. Thus this method of credit card debt reduction is really more than just a credit card debt reduction method – it's a benefit provider too. If you are not comfortable in taking forward this method of credit card debt reduction, you can seek the help of a credit card debt assistance company.

Besides these two credit card debt reduction measures, there are other methods too for credit card debt reduction. One is to ask your current credit card supplier for help in credit card debt reduction i.e. by lowering the APR. Also there are plenty of professionals out there who provide advice on credit card debt reduction.

## **Negotiating Your Debts**

If you're in a really bad situation, and you just can't even make your minimum payments this month, don't worry. You can negotiate your debts, and pay back much less than you owe – as long as they get their debt plus interest in the end, no-one is expecting you to pay the full amount when you just can't afford to.

Settling your debts takes a lot of time, and many people find it intimidating. If you do it right, though, you'll be surprised at how kind your creditors (that is, the people you owe money to) can be.

### **Close My Account**

It might feel bad, but if you can't afford to pay that credit card, you'll have to close the account – that means you can't borrow any more money with that card. To close the account, you'll have to negotiate something called a 'payment plan'.

A payment plan turns your credit card debt into a plain old loan. The company might take as much as 50% off the amount that you need to pay back. It might seem strange, but they're happy you're paying at all – there are plenty of people who just don't pay and have to be chased, costing their creditors time and money. They'd rather hear from you if you're having trouble, so don't bury your head in the sand.

It's in your creditors' best interest to take whatever you can offer them, within reason. Their alternatives are lengthy court proceedings, or paying collection agencies to come round and intimidate you. They know that your offer will probably be the only offer you make before you do something more extreme that could result in them never getting any money back.

## **Do It in a Letter**

Phoning companies to ask to negotiate your debts isn't a good idea – it's too easy to get flustered and say the wrong thing. They're professional negotiators, and you're not. You need the advantage of having time to think, which is why you should always negotiate with them by post. Getting it in writing also means that you can hold them to what they say later on. Here's a sample letter:

"Dear Sir or Madam,

I regret to inform you that I can no longer afford to make my minimum payments of \$100 per month on my credit card account with you (account number 111-222-333). I would like to request the closure of my account, followed by the settlement of the debt on a monthly payment plan. Please advise what kind of terms I could expect from such a plan.

Yours faithfully..."

## **The Damage to Your Credit Report**

You will rarely be able to negotiate over your debts without doing some damage to your credit report. If you're willing to pay a bigger percentage of the debt, though, you might be able to persuade the creditor to say that it was paid off to their satisfaction, instead of recording that they accepted less than they wanted. It's up to you just how much you feel your credit report is worth – if you're planning on getting a big loan anytime soon, this could be something to consider.

## **Credit Card Debt Settlement**

'Credit card debt' is the worst of all nightmares. A successful credit card debt settlement is like getting a new lease of life. Credit card debt settlement is a wonderful stress relieving mechanism. Once you are done with your credit card debt settlement, you are assured of a much better life. All those nagging phone calls and mails will become history and all that surmounting tension will be gone. That's why credit card debt settlement is so essential.

You can approach credit card debt settlement in two ways. You can either handle it by yourself or you can take advice from a credit counseling company or a professional. Either of these credit card debt settlement methods are fine, as long as they work for you and help you get debt-free quickly.

If you go for credit card debt settlement all by yourself, you will need to analyze the various options available to you e.g. checking on various balance transfer offers available in the market, checking the short term loan options with the banks etc.

However, if you want to take credit card debt settlement advice from a professional, you should be able to trust the advisor fully. So you need to check the credentials of the credit card debt

settlement advisor/company. There are hordes of people and companies that advertise “credit card debt settlement in one day” or something of that kind which will look just fantastic. Such credit card debt settlement offers/advice are generally not genuine.

Moreover, you need to understand that credit card debt settlement cannot happen overnight (unless you win a lottery or something like that). So, beware of such agencies. That said it's important to mention that there are a lot of good credit card debt settlement advisors/companies available too who will not only give you genuine credit card debt settlement advice but will help you throughout until you are finally out of debt. Their advice may, in fact, more than compensate for the fee that they charge you for credit card debt settlement.

These credit card debt settlement companies/advisors will be able to help you in the best way if you tell them your current financial situation correctly. Your future plans are important too, as they might influence the decision on 'What route for credit card debt settlement would work the best for you'.

Moreover, once you are done with your credit card debt settlement, you should also take measures to avoid falling into that pit again.

## **Taking Steps Towards Credit Card Debt Elimination**

So you have decided to go for credit card debt elimination and are wondering on what the methods for credit card debt elimination are. As they say, let's take the bull by its horns and lay it all flat on the ground.

There are generally two recommendations that are most common for credit card debt elimination: controlling the expenditures and consolidating debt. Let's check both of these credit card debt elimination recommendations and check the list of things that you can do for achieving credit card debt elimination using these recommendations:

1. **Control your urge to spend:** The first thing to do for credit card debt elimination is to control your expenditures. Here we are talking about the payments you make using your credit card. Remember that the main reason being your getting into credit card debt is uncontrolled expenditures using your credit card. So if you are really serious about credit card debt elimination, this is one thing that will help in credit card debt elimination by preventing accumulation of further debt. Here is what you can do to control your expenditures:

- You need to stay away from attractive offers that are put-up by various shops and stores. Don't buy anything that you don't really-really need. After all you are looking for credit card debt elimination not supplementation.
- Leave your credit card at home. If you really-really need something, then you can fetch your credit card from your house. This will prevent you from yielding to the too-attractive-to-resist sale offers (that are actually there all the year round). This credit card debt elimination technique, again, works on the principal of 'prevention is better than cure'. This will prevent unplanned expenses from happening.

- Prepare a monthly budget and stick to it. This is really a very important credit card debt elimination measure. This budget will form the basis of your credit card debt elimination plan. So if you deviate from your budget, your credit card debt elimination plan will go for a toss.

2. **Debt consolidation:** Debt consolidation or moving from high APR credit cards to a low APR one is generally the first step (the first reactive step) for credit card debt elimination. Here are a few things that you need to do:

- Do not go for the first balance offer you come across. Analyse various offers and choose the one that best suits you. This will be an important thing on your credit card debt elimination plan. Initial APR, Initial APR period and standard Apr, all need to be considered.
- Read the fine print on the balance transfer offer and check the terms and conditions on these. These might affect your overall credit card debt elimination plan.
- Compare other benefits e.g. rebates, reward points, etc, before you actually decide to go for one of the offers.

Credit card debt elimination is about proper planning and discipline. So make your credit card debt elimination plan and stick to it.

## **Getting a Run for Your Money: How to Consolidate Your Debt**

Spending is such a hard habit to break, especially when people use their credit cards. Once they get addicted, they continuously endure the agony of spending in spite of imminent problems that tag behind.

And when things eventually get out of hand, most people will soon realize that they are already stuck with a mountain load of credit card debts. And mornings after mornings, they will wake up each day with worries in their head about how they can repay all of those instant splurges.

There's one way to get out of credit card debt—consolidation. Here's a list of ways how to do it:

### **1. Make a balance transfer.**

One way of consolidating a credit card debt is through a balance transfer. In this way, the person who has a huge outstanding balance on his or her credit cards will get another credit card with a lower interest rate. Once approved, they should immediately get a cash advance and use it to pay off their standing balance on the other credit card. In that way, they consolidate all of their payables into one credit card. Plus, they get to have only one rate to worry.

### **2. Home equity loans can do the job.**

This is a very workable strategy provided that it will be used properly.

Getting a home equity loan is probably one of the easiest things to do. Best of all, home equity loans can offer tax deductions for the interest rate of the loan.

However, there is a drawback. The debtor's house will serve as the collateral. But nevertheless, it still one good way of consolidating credit card debts. The debtor should only keep in mind that the money from the loan should only be used in paying credit card debts. If used on other things, it will only worsen the problem.

### **3. Make use of retirement funds.**

There are instances wherein debtors can make use of their retirement funds in order to consolidate credit card debts. But this should only be made if there are no other options available. This is because this type of consolidating credit card debts can be very tricky.

Loans on retirement funds are not actually tax deductibles. However, the problem sets in when the fails to pay back the loan within five years or when he or she will resign from work.

Indeed, there are no nippy fixes when consolidating credit card debts. The bottom line is that, it is better if the person will stay out of debt so as not to worry on consolidation matters.

## **Consolidate Credit Card Debt**

We know that it's good to consolidate credit card debt (at least that is what we keep hearing from everyone). In fact, the first step towards addressing the problem of credit card debt is to consolidate credit card debt. Now, what do you do to consolidate credit card debt? Should you just go with that attractive ad in the newspaper that says '...the lowest APR in the town is available here'?

The first thing, really, is to keep your eyes and ears open. There are always a number of offers available for you to choose from. The credit card suppliers keep coming up with new and more attractive offers asking you to consolidate credit card debt with them. However, you must note that the APR quoted in bold, e.g. 0% APR, is applicable only for a short term (3-9 months). The long term (or the standard) APR is different. So, when you go looking for a credit card to consolidate credit card debt, you must be keenly looking for these 3 things (in terms of APR) – introductory APR, introductory APR period and the standard APR. Let's see how each one is important.

Introductory APR is probably the most attractive thing to look for when you are looking to consolidate credit card debt. If you consolidate credit card debt to a card that has a low introductory APR e.g. 0%, the first thing you get is a breather/relief in terms of the rate at which your credit card debt has been growing. Based on how long that 0% APR period is (generally you will look to consolidate credit card debt with a credit card supplier who offers 0%

initial APR), you will at least be able to temporarily break the growth rate of your credit card debt. The longer the introductory period, the better it is.

However, you should not ignore the standard APR when you consolidate credit card debt. This is the interest rate that will be applied to your balance after the expiry of the introductory low APR period that was given to lure you to consolidate credit card debt with that credit card supplier. If the standard APR is too high and you know that you will not be able to clear off the entire credit card debt during the low APR period, that credit card is probably not the best for you to consolidate credit card debt to. However, if you think that you will be able to clear off the entire credit card debt during that period, you can make some compromises on the standard APR of the credit card to which you consolidate credit card debt.

The card that synchronizes with your current and future financial position (and needs), is the one you should consolidate credit card debt to.

## **The Benefits of Credit Card Debt Consolidation**

'Credit card debt consolidation' seems to be the most talked-about term in the world of credit cards. It's true that credit cards have been very useful and convenient for us and we, in fact, treat the credit cards as a necessity. However, with every good you have evil too. In the world of credit cards, 'Credit card debt' is that evil and 'Credit card debt consolidation' is often regarded as a medicine for treating credit card debt.

Anyone who has read any newspaper articles on 'Credit card debt' would already know what credit card debt consolidation is. However, just for the benefit of others, credit card debt consolidation, in simple terms, is the process of consolidating debt which you hold on various high APR credit cards onto just one low APR credit card.

Thus, the main benefit of credit card debt consolidation is realized in terms of APR reduction (and hence reduction in credit card debt growth rate). This is touted as the most important benefit (and sometimes the sole benefit) from credit card debt consolidation. However, credit card debt consolidation comes with few more benefits as well. Some of these credit card debt consolidation benefits are widely publicized by the credit card suppliers and some not so much:

1. **Initial APR:** As mentioned above, lower APR is the biggest benefit from credit card debt consolidation. Since credit card debt consolidation is used by credit card suppliers as a tool to attract consumers, they generally offer a 0% APR for an initial period of 6-9 months of you joining their credit card debt consolidation program i.e. first few months after you get the new credit card.
2. **Standard APR:** Lower standard APR (i.e. the long term APR) is the other important benefit from credit card debt consolidation. Though not all credit card suppliers offer a lower standard APR with credit card debt consolidation some do design credit card debt consolidation

programs with good standard APR. These credit card debt consolidation programs offer a trade-off between initial and standard APR rates.

3. **0% on purchases:** This is another common benefit from credit card debt consolidation. The 0% interest (or some lower percentage) on purchases is offered as an incentive for credit card debt consolidation. This credit card debt consolidation benefit is again applicable only for a short initial period.

4. **Easy management:** This credit card debt consolidation benefit is not as discussed as others. However, one benefit of credit card debt consolidation (from multiple to single credit card) is the fact that you need to track and manage a lesser number of credit cards.

5. **Other benefits:** The credit card debt consolidation exercise might bring you some more benefits in terms of rebates, discounts and reward points (especially if you move to a co-branded card as part of credit card debt consolidation)

## **Should I Get a Consolidation Loan?**

If you've got a really unmanageable amount of credit card debt, you might be considering a consolidation loan. A consolidation loan is a loan that you can use to pay off all your debts, meaning that you can pay them off for less money without having to worry about lots of different bills. Like anything, though, consolidation loans have their advantages and their disadvantages, and it pays to take a careful look at what they offer before you commit yourself.

### **The Interest Rate**

You should always shop around to get the best interest rate you can if you opt for debt consolidation. This interest rate is almost as important as the one on your mortgage, but much harder to change after you've signed on the dotted line. Don't be fooled by any offers that give you a good rate for a limited time – you're going to have this loan for quite a while.

That said, the chances are that any interest rate you're offered on a debt consolidation loan will be significantly lower than the interest rates you're currently paying on credit cards. If you have lots of cards at a high rate and you've had no luck transferring the balances, then debt consolidation could be a very good idea.

### **The Length of the Loan**

The most dangerous thing about debt consolidation loans is that the ones with lower payments generally last a very long time – you could be paying it off for twenty years, or even longer. You should try to find a loan that doesn't last as long, and asks for payments that are as much as you can afford. If you look at what your payments would be and think 'oh, how cheap!', the chances are you'd be signing up to them for a long time to come.

## **Look Out for More Cards**

One of the most dangerous things about getting a debt consolidation loan is that, since your credit cards have all been paid off, it can be tempting to accept the next few offers you get for new ones. After all, now you're saving all this money, you can afford a few more cards, can't you? Don't fall into this trap! Consolidating your debt and then running up more is an extremely bad idea.

## **You Could Lose Your Home**

Of course, this is the absolute number one most dangerous thing about debt consolidation. Almost without exception, the loan will be secured on your home. That means that if you start missing payments, the finance company will kick you out, take ('repossess') your house, sell it, and pay back the debt with that money.

There's a whole industry around property developers buying repossessed houses and selling them on for a profit. The chances are that you'll come out of it with nowhere near enough money left to buy even the smallest home, and nowhere to live. Just imagine that. If you do take a debt consolidation loan, you need to read the small print as if your life depended on it (it does), and then be very, very careful. Good luck.

## **Is Consolidating Credit Card Debt a Good Option?**

Well, the answer will more often be yes than no. Consolidating credit card debt is often regarded as the first step towards credit card debt elimination. However, even before you move to take first step towards consolidating credit card debt, you must understand that consolidating credit card debt (or balance transfer) is an action that you are taking to eliminate credit card debt. Consolidating credit card debt is not a means of deferring the problem for later.

Consolidating credit card debt is indeed a good option in more than one sense. Not only do you get relief from the rapid increase in your credit card debt, but also get other benefits too. Offers for consolidating credit card debt are in abundance and are very attractive indeed. Almost all the offers for consolidating credit card debt have an initial low APR period during which the APR is generally 0% (or some low figure).

In fact, this is one of the main things which make consolidating credit card debt a very attractive option. Besides this low APR, the offers for consolidating credit card debt also include things like no interest rate on the purchases made during first 5 months (or some other initial period) of balance transfer. This is another thing that lowers the speed at which your credit card debt gallops. So these are the two most important benefits that credit card suppliers deploy to attract people into consolidating credit card debt with them.

Then there are other benefits which include things like additional reward points on the member's reward program of the credit card you are consolidating credit card debt to. These

reward points can be redeemed for other attractive goods/rebates/rewards etc. Sometimes, the new credit card (i.e. the one you are consolidating credit card debt to) might be a credit card that caters more to your current spending needs both in terms of the credit limits and the way you spend your money.

For example, the new credit card might be a co-branded one offered by an airline that you have started traveling with very frequently in the recent times and consolidating credit card debt on such a card may open up much more benefits as compared to your current credit card which was based on your needs at the time of you applying for your current credit card. The credit card you are consolidating credit card debt to might open up discount offers to you.

### **Bad Debt Credit Card: What is It?**

A bad debt credit card is basically a credit card that the credit card suppliers offer to people who have bad debt. Does this astonish you? Well, don't let your thoughts run just yet.

#### **You can classify bad debt credit cards into two categories:**

The first category of bad debt credit cards is those credit cards that are secured (and are also known as secured credit cards). These bad debt credit cards require a security i.e. you have to open (and maintain) a bank account with the bad debt credit card supplier. The credit limit on your bad debt credit card is calculated as a percentage of the balance you hold in the bank account you have opened with bad debt credit card supplier.

Generally, this is 50-100% of your bank account balance. So, this bad debt credit card enables you to spend the amount you hold in your bank account; only the way you spend it changes (i.e. instead of spending that as cash you spend it using your bad debt credit card). So bad debt credit card lets you enjoy the convenience and other benefits that are associated with credit cards, even with a bad debt. This security is as such important for the bad debt credit card supplier; after all how can you trust someone who has a bad credit rating.

The other category of bad debt credit cards are nothing unusual, they are the same cards that we know of most commonly; the only difference is in the way you get them and the objective behind getting them. Here, we are talking about the credit cards that you use as a debt consolidation mechanism i.e. consolidating bad debt (as such any debt is bad). So we can call them bad debt credit cards too.

These operate by transferring of the balance you owe on your current, high interest credit cards to these bad debt credit cards that have a lower APR (at least for some initial period). Hence, these bad debt credit cards help you in consolidating your debt and getting some relief from the higher APR that you were experiencing on your current card.

Some people accept both of the above categories of credit cards as bad debt credit cards while others tend to go with one or the other. So, what you regard as a bad debt credit card is really a matter of personal choice.

## **Always Avoid Payment Holidays**

Once you've been paying off a credit card for a while, you might be offered a 'payment holiday'. You'll get a letter, saying that since the company knows it's difficult for some families around Christmas (or whatever other excuse they think up), they're offering you a month off from paying, as a 'special present'.

### **Why Would They Do That?**

Offers of payment holidays typically have a very high acceptance rate. People think it's great that they can take a month off from the stress of paying back debt. What they don't usually realise is that these 'holidays' aren't a present at all – they're a great money-spinner for the credit card company. For the company, it's a win-win situation: they get to make big profits just by making their poorer customers happy.

### **How Can Letting Me Off Paying Earn Them Money?**

Well, that's where the trick comes in. If you read the small print, you'll find that the payment holiday isn't interest free! You're still being charged interest – and since you're not paying anything back that month, the interest will be there next month for you to pay interest on (compound interest, you see).

That might feel a little hard to grasp, so here's an example. Let's say you were paying back \$1000 of debt at 1.5% per month (about 19.5% per year). Your minimum payment each month is 2% (26.82% per year).

If you pay the minimum for all 12 months of the year, then you will pay back \$233.51, and owe \$941.62 at the end of the year. Your debt has been reduced by \$58.38, and you've lost \$175.13 in interest.

With the payment holiday, though, you pay 2% per month for only 11 months (so you pay 24.3% back on the debt over the year). That's \$217.80, and you'd owe \$960.55 at the end of the year. Overall, you've paid \$37.86 for your payment holiday from a payment of about \$20. In other words, your month off cost you almost two months of payments.

Don't worry if you don't understand all the maths involved here – it's been deliberately designed by mathematicians and marketers to be as confusing as possible, to stop you working out what a bad deal you're getting. After all, if you haven't read this, would you really ever turn down a month off paying your bills? Just remember: don't fall for it. The more you owe, the more that

'holiday' will cost you. Wouldn't you rather take your money and go on a real holiday, instead of spending it all on repaying credit card debt?

### **If It Sounds Too Good to Be True...**

In all things in life, remember that no-one gives you anything for nothing – least of all credit card companies. Anytime they offer you anything, it's because they're going to make a profit on it. If you can't see where their profit is coming from, be suspicious – it's probably all a big scam that's going to cost you money, even if you don't realize it.

### **Low Interest Credit Cards**

If you use your credit card wisely, it can offer you some great advantages. A low interest credit card can be greatly beneficial to consumers. You may still use a credit card that you received many years ago and have never had the inclination to get a different one or update the one you have. Though you may feel comfortable with the card you've carried for so long, it may be extremely beneficial to you, as a consumer, to change to a low interest credit card.

Today, there are a wide range of credit card companies who offer incentives to draw people to their cards. Since the competition is so aggressive, you won't have any trouble finding a low interest credit card. Be sure to read the fine print when you apply for the low interest card, in order to know exactly what you are signing for.

Your credit history will determine how low of a rate you will be able to get. The better your credit history, the lower the rate will be on the card. If your credit history has some minor flaws, you may still be able to obtain a lower interest rate than what you're paying on your present card. It pays to shop around.

Hundreds of people world wide carry a balance on their credit card every month. If you are one of these people, switching to a low interest card can save you big money. If your goal in life is to pay the balance on your credit card off completely, this will be accomplished much faster if the balance is on a low interest card. Some of the major credit card companies offer a 0 % interest rate if you transfer your credit card balance to their low interest card. If you can obtain a 0 % interest rate, you can have your credit card paid off in no time.

Possibly you are able to pay your entire credit card balance off before the due date each month. If this is the case, a low interest credit card can be beneficial to you as well. You never know when something might happen that would keep you from paying the balance on your credit card before the due date. If this should happen, you would greatly benefit by having a low interest credit card. No matter what your financial status is, a low interest credit card can be a lifesaver in an emergency.

Are there any disadvantages? When you switch to your low or 0 % interest card, the initial term is usually for six months. When that period is over, the interest rate will go up and sometimes it

goes up a great deal. If you are able to pay your total credit card debt off within the initial period, the card will be very beneficial. However, if you are unable to clear the total debt within the introductory period, your monthly payments will increase. This can greatly reduce any benefits that you have gained during the initial time frame. Though credit card companies are supposed to send you notification of the end of the introductory low or 0 % time period, be alert. You, and only you, are responsible for your credit card debt.

When your credit card bill arrives in the mail, check it over to be certain there aren't any errors. When you have determined that the balance on your credit card bill is correct, pay off the entire balance, if it is within your means to do so. This will save you big money on interest rates. Never pay only the minimum payment. This figure is usually only about 3 % of the balance. Interest will continue to accumulate on the balance that is not paid off and will cost you big bucks over the course of a year. Imagine! You could have gone on a trip or paid off your car with that money.

Use your low interest credit card wisely and it can save you hundreds of dollars each year. If you are unsure of anything, or have any questions, don't hesitate to contact your credit card company to alleviate future problems.

### **Excessive Credit Card Debt Examined**

Most people advocate the case of credit cards, quoting the benefits and convenience that arises from them. However, there is another line-of-thought that strongly opposes credit cards. The reason being 'Excessive Credit Card Debt', which is one of the most serious problems faced by the credit card holders and credit card industry.

Still, you can't pull the shutters on the credit card industry just because of a few irresponsible people (or even if it's more than few). That is not a solution for beating excessive credit card debt. The issue of excessive credit card debt can be looked at from two angles.

First is addressing of the excessive credit card debt problem at the industry level and second is the addressing of the excessive credit card debt problem at the individual's level i.e. at the credit card holder level. The first method involves increasing awareness of the excessive credit card debt problem to the masses. This is more or less being done currently.

However, there should also be an effort to tackle this problem of excessive credit card debt at an even deeper level. This means trying to devise a mechanism to nip the problem (of excessive credit card debt) in the bud. This mechanism should actually be a part of the overall system. A lot of thought needs to go into devising such a mechanism.

Case studies should be taken up, statistics gathered and a proper forum formed (with representatives from the credit card holders and from the credit card suppliers). As of now, the credit card suppliers just seem to be engaged in coming out with new products and getting customers enrolled to those products.

There is little attention paid towards addressing the problem of excessive credit card debt in the real sense. Something like attending mandatory seminars on the root causes of excessive credit card debt could be made part of the credit card application process.

Another way of dealing with the problem of excessive credit card debt could be: developing a system for calculation of applicable credit card limit at the individual level i.e. no standard/product-based credit limits. Then there could be mechanisms for proactively warning the users about excessive credit card debt (based on their credit card usage) or even imposition of early restrictions on noticing the first signs that lead to excessive credit card debt.

At the individual's level, the treatment of the problem of excessive credit card debt would include following of best practices (on credit card usage and avoidance of excessive credit card debt) by the individuals themselves. A checklist or a set of questions could be provided to individuals for recognizing the first signs of excessive credit card debt.

So, the problem of excessive credit card debt can surely be dealt with by putting together some serious thinking at a broader level together with discipline at the individual's level.

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