

Guerrilla Debt Reduction Tactics

Introduction: Debt Free In Under 10 Years

One of the primary reasons given for the need of dams is to control the water levels downstream to avoid seasonal flooding. Once dams are built, however, a funny thing often happens. The water level behind the dam is often kept at high levels for hydroelectric production as well as for recreational activities which are created by the newly formed lake. If a large population gravitates around the dam, the water is often needed for plumbing and drinking. To meet all these demands, some dam water levels are kept at 70% or more of capacity. Eventually a heavy rain will come filling the dam to capacity and forcing the dam operators to release water downstream or face the possibility of the dam collapsing and creating an even larger disaster. The families downstream, which the dam was originally built to protect from flooding, find themselves and their houses under water.

This is a similar situation that happens to a lot of people who get credit cards. The original credit card is applied for with the intention of having it as a safety precaution to only use in emergency situations like when the car breaks down. Once they have the credit card, however, they find it is an easy and convenient way to pay for everyday expenses when there isn't enough cash on hand. In the end, the credit card that was supposed to protect in case there was an emergency, becomes an emergency in itself with the debt it creates.

There are a few questions you can ask yourself regarding your current credit card use to determine if you are creating a credit card debt problem. Do you have outstanding monthly balances on more than one credit card? Do you only make the minimum monthly payment on your credit card? Have you had debt on your credit card for more than three consecutive months? If you answer "Yes" to any of these questions, then your credit card is probably more of a liability to your financial well being than an asset and, you should consider a plan to reduce your debt.

Although there are many types of debt, credit card debt is by the far the most menacing form for most people. Although many sites have debt reduction plans, we have put together one that will not only eliminate your credit card debt, but ALL your debt (credit card, car payments, student loans, medical bills, legal bills, taxes and even the mortgage of your house) in less than 10 years. That's not a misprint. Depending on the depth of the debt and how motivated you are, it is quite possible to be debt free much quicker!

Before you write us off as crackpots - take the time to look at the system. There are no tricks, easy ways out or magic cures. It's all straight forward common sense and anyone can do it if they have the will. We do take an approach that is probably different than you have seen elsewhere, but that is the goal of all the writing on our site. Off to step #1.

No Magic Cures: What's Your Reason?

By the simple fact that you are here reading this article, you are far ahead of the vast majority of people that are stuck in the debt cycle. We heartily congratulate for this. You have come to realize, for your own personal reasons, that there has to be a way to get out of the debt spiral. Simply knowing this, however, isn't enough. Before any debt reduction plan can work, you have to be committed to get out of debt.

If you are reading this article thinking that it would be nice to get rid of all your debt as long as you can keep your current lifestyle, you are in for some hard reality. The reason you have your debt is because of your current lifestyle! If you aren't willing to change, then it's not worth your time continuing with this article. How hard this change will be depends heavily on how committed you are to getting out of debt. Those that are committed will find that the plan is actually quite simple, much more so than you probably imagine, and you'll wonder why you didn't take the time to implement it long before. Those who aren't fully committed to wipe out all their debt, or are searching for an easy way out, will find the steps much more difficult if not impossible.

In order to be committed, you have to have a reason. There has to be something that has finally made you realize that the current status quo can't continue. It can be as simple as realizing that the plans you have tried up to this point have failed or as urgent as you have creditors knocking at your doors and telephoning day at night. The reason isn't really important as long as you personally know what it is and can use it to motivate you to do what it takes to finally take the bull by the horns and tackle your debt in a systematic manner.

If you are still reading, we again congratulate you. You have found a reason to be committed. It's time to take the second step and start putting the plan into action.

The Dreaded 'B' Word

Now that you are committed to tackling your debt problem, it's time to step back and take a critical look at where you really stand. Since you're still reading, you already know that you have debt you want to get rid of. The only way to do this is to find out where your monthly paycheck has been going. The logical step is to take the time to write that information down. In other words, you need sit down and put your current budget into writing (okay, that was your first test to see if your commitment was true or just a passing fantasy).

There is something about the word "Budget" that brings about the image of all things terrible. It ranks right down there next to going to the dentist on the list of things people want to do. Before you stop reading, let us try to reassure you a bit. Making A Budget doesn't mean you can no longer do any of the things you like to do. It's merely a process that allows you to see where all your income is currently going. Unless you understand where the money is going, it will be difficult (if not impossible) to understand where the debt is coming from.

For most people, compiling their current spending habits is a truly eye opening experience. For many, the outflow that is causing the debt is often not the result of what they imagined. Many times it is not the big ticket items (sometimes it is), but the accumulation of easy to forget small expenses that is causing the problems. These seem to fly below the radar screen never to be seen until you take the time and effort to put your current spending habits down into writing so they are right in front of your eyes.

Once this is done, you are in the position to make the needed changes to bring your spending back within the limits of your current earnings. That, however, won't be enough. In addition to balancing your cash inflow and outflow, we will also search out an additional 10% of your earnings which will be used to pay off your debt. Okay, okay...we can already hear the shouts of "Impossible!" If you have already given up, it's time to go back to your reason for reading this article in the first place. The resources on this site will show you plenty of ways to do it if you have the commitment.

For most people, simply limiting credit card use to tangible items that do not disappear once they have been purchased will bring you back into balance. Purchases such as dinners, bar drinks, movie tickets and the like that no longer exist once they have been used are where most people get into trouble. It doesn't mean you can no longer do these things...just that if you chose to do them, you need to pay for them in cash. For those further in debt, and in order to find that extra 10% you will need to pay down your debt, a look through the saving articles such as Savings Games, as well as the saving tips on this site, will make it possible for you to easily accomplish this. If after reviewing all this, you still can't even balance your income and spending, you need to jump to step #10 to decide if that is your only alternative or if you want to give this step another shot.

This process will also give you a clear picture of all the debt you currently have. This debt will most likely include a minimum of number of credit and department store cards, a car payment and possibly some student loans and a house payment. Once you have figured out a way to live within your current means and have the current debt information directly in front of you, you have put yourself in the position of finally being able to take care of the debt. You are now ready to tackle the next step.

Consolidate & Destroy

Since credit card debt is the debt that gets most people into trouble due to the outrageously high interest rates charged, taking some time to reduce the costs associated with them is in order. The goal here is to consolidate all your current credit card debts into as few as possible. It's time to take a hard look at the different credit cards you currently possess, taking special care to note the interest rate each charges. Credit card interest rates vary widely and the goal will be to move as much credit card debt as possible to the card(s) with the lowest interest rate(s). You will need to call the credit card company with the lowest rate and ask that the balance(s) from the higher interest credit cards be transferred.

If you find that the interest rates being offered by the credit cards you possess are all in the 18% + interest rate range, it's time to make a call to each of your credit card companies and ask them if they will be willing to lower the rate. A polite explanation that you will transfer the entire balance to a competing credit card and close your existing account if you can't receive a better rate should help in the negotiating.

Another option is to take advantage of the promotional offers that many banks use to attract new customers. They will offer a low introductory interest rate (sometime as low as 0%) for a set number of months if you transfer your credit card balance to their card. The issue to be careful about is knowing what the credit card interest rate jumps to once the introductory rate ends. If that rate is still lower than your current credit card rates, then this option is probably well worth while. (NOTE: credit card companies have caught onto people who simply jump from credit card to credit card once the introductory rate ends. To combat this, many have written into the offers that if the balance is moved again to another card within a certain period - usually 12 months - the normal, higher interest rate will be retroactively applied to all outstanding balances).

Being able to move these balances, however, will be dependent on not having all your credit cards maxed out to their limits and having a credit report that leads the credit card companies to believe you will eventually be able to pay off all the balances. If all the above efforts fail and you have no savings, it's time to skip ahead to step #8. If you have managed to consolidate your balances to a few of the cards and lowered your interest rates on the cards which still have balances, you have saved quite a bit of money in interest charges, but you still aren't done.

While the balances may have been consolidated, you still have the credit cards. Keeping those cards is like placing candy in your pockets and will lead to even more trouble down the road unless you get rid of them. It's time to take out a pair of scissors and cut those babies up. Not just the ones that no longer have balances, but all the cards except the one with the lowest interest rate (there is rarely a good reason to have more than one credit card even for those with no debt). You now have a single credit card, your monthly payments on the same amount of credit card debt have been lowered, and you passed yet another large test on your commitment of getting out of debt. Onto the next step...

Getting Double Digit Returns On Your Savings

Here are a few questions you probably have never asked yourself because the answers seem so obvious. First: Why do you have a savings account? As the account name would imply, most people have saving accounts to save money. Second: If you have a savings account, does that mean you have saved money? The obvious answer would be "Yes" but let us take a closer look. If you have credit card debt and are paying double digit interest on it, and a savings account that is earning only single digit interest, you are actually paying out more money each month than you are saving.

If you are earning 3% on your savings and paying 18% on your credit card debt, you would assume that you were losing 15%. Not good at all, but in reality, it is even

WORSE than it looks on paper. You have to pay taxes on all the interest you earn in your savings account while you are paying the credit card interest rate with after tax dollars. Looking it at this way, you can see why even when you try to save, it's nearly impossible to get ahead if you have unpaid credit card debt outstanding.

Now that we have brought this out, it should be pretty clear what the best course of action for the savings would be. No matter where you look, getting a guaranteed double digit return on your money is pretty difficult, but that's exactly what you'll get by taking your savings and paying down your current credit card debt. No one wants to use their savings in such a way since it has usually been saved with the intentions of having it around for an emergency. What is essential to realize is that credit card debt is an emergency that will make it impossible for you to ever save for anything until it is taken care of.

If this eliminates all of your credit card debt, count yourself lucky and you can move onto other debts that need to be paid off. If you are like most people, however, you still probably have outstanding balances on your credit cards. Have no fear...we'll get them taken care of in the next step.

Guerrilla Debt Reduction

It's time to start getting yourself out of debt. You should at this point have discovered where your money had been going and made a new budget where you are living within your means. You should have also found 10% of your income for paying down your debt through the saving ideas on this site. To make the explanation as simple as possible, I will give an example situation.

This example is purely figurative to show the concept of how the guerrilla debt reduction plan works. After consolidating all his debt, Dave has 3 credit cards left with balances of \$1,000, \$2,000 and \$3,000, a car payment (\$250), and a house payment (\$750). His income comes to \$2,500 a month after taxes. There is the guerrilla way to pay off all these debts within 10 years:

He should make the minimum payment on each of his debts and then add the \$250 (10% of \$2,500 take home pay) to the highest interest credit card payment. For the first 4 months he'll be paying \$270 toward credit card A, \$40 toward credit card B, \$60 toward credit card C, \$250 toward the car payment and \$750 to the house payment at which point credit card A will be paid off. Once this has been accomplished, the payment that was being made toward credit card A will be applied to credit card B. Therefore for the next 7 months he will be paying \$310 (\$270 + \$40) toward credit card B, \$60 toward credit card C, \$250 toward the car payment and \$750 to the house payment at which point credit card B will be paid off.

Code:

Debt Amount	% Interest	Minimum Payment
Credit Card A \$1,000	16%	\$20

Credit Card B \$2,000	14%	\$40
Credit Card C \$2,500	12%	\$60
Car Loan \$10,000	6%	\$250
House Loan \$100,000	8%	\$740

This process should be continued until all the debt is paid off, and even assuming there are no pay increases, and therefore a larger 10% of income going toward eliminating the debt, , all debt (including the house mortgage) will be paid off in well under 10 years. Although I have used 10% of take home pay (and a minimum amount you should be shooting for), any percentage will do. If the percentage is lowered, it will take longer to get rid of the debt while if the amount is increased, the debt will be paid off that much sooner. Once all the debt is paid off, you can continue to make the same payments, but instead of to others to pay off your debt, pay it to yourself in the form of retirement savings. With your plan in place and now underway, here are some more ideas that may be of use.

Home Sweet Home

There is an effective way to consolidate all your outstanding high interest debts into one single debt with an attractive interest rate if you own a home with equity that has accumulated over the years. You can accomplish this by securing a home equity line of credit. Basically you are using the equity you have built up in your home to secure a bank loan which you can then use to pay off your other debt.

The home equity line of credit offers an extremely attractive situation in paying off your other debts. First, the interest rates on these loans are usually well below the rates charged by credit cards making an immediate savings on the interest charges. All your non secured (credit cards, car loan, student loan etc.) debt can be consolidated into a single payment with an interest rate charge in the single digits. In addition, the interest you pay on the home equity line of credit is, in most cases, deductible on your taxes effectively making the interest rate a couple of points less than what is written.

There is a reason that this option was not mentioned before you began your guerrilla debt reduction plan. **A problem with this type of loan is that many in credit card debt use a home equity line of credit to wipe out their credit card debts, but then immediately turn around and begin putting debt back onto the credit cards.** What ends up happening is that they get themselves in double trouble with new credit card debt as well as a home equity line of credit that must be paid off. Worse, this time their house is on the line since it has been pledged as collateral in securing the home equity line of credit. **That means if you default on paying this debt, you will end up losing your house.** Until you have begun your guerrilla debt reduction plan and have kept with it for a few months to make sure your committed to paying off the debt (and even after), you should approach this debt reduction tool with caution and carefully consider if is appropriate for your situation. Next we will look at a few other consolidation options...

More Consolidation Options

Once you have determined that you are committed to paying off your debt each month, there are several other options where you may be able to get money and consolidate all your credit card bills into one payment with lower interest rates.

If you have life insurance that has a cash value, you can borrow against the policy. The interest rate is usually much better than you can get with credit cards. Before doing this, however, you need to weigh the risks and you will want to repay this loan as quickly as possible. If you do die without the loan being repaid, the outstanding loan balance and interest would be deducted from the value of the life insurance that was to be paid to the beneficiary. Since you are taking the responsibility right now to get yourself out of debt, the last thing you want to do is pass that debt onto your loved ones.

Another option is to borrow from your 401K plan if you have one. Most 401K plans allow you to borrow the lesser of 50% of your account's value or \$50,000. Interest rates are usually well below credit card interest rates and, even better, the interest you pay back on the loan is to yourself and goes directly into your 401K account. There are, however, some issues of which you need to be aware. The loan needs to be paid in less than 5 years which should not be a problem if you can follow the guerrilla debt reduction plan. The area that you must be extremely careful about, and sometimes have little control over, is that **if you leave your employment before full repayment, any outstanding balance must be repaid immediately. If you can't, that money will be taxed as income by the IRS and a 10% tax penalty will be levied if you are not 59.5 years of age for early withdrawal from a retirement plan.**

A final place you may be able to find money is from family or friends. You need to consider this option quite carefully since the potential to ruin close relationships that can't be replaced by money comes into play. If you do believe a loan from family or friends may be a potential area to help consolidate your credit card bills, then take the responsibility up front to write a contract of the amount to be repaid plus the interest over a specific period of time. Not doing so could cost you and the lender IRS problems if you don't.

If after reviewing all the information thus far and there still is no sign that you will be able to climb your way out of debt, it's time to take a look at the next step...

If All Else Fails...

You have tried all the suggestions, read all the savings articles and tips, used up your savings and still you aren't able to make ends meet. Before you move onto the last resort, there is one more piece of leverage you can use to negotiate with. That leverage is the threat of declaring bankruptcy.

If you are truly in dire straits with no way to pay back all your debt, tell your creditors

exactly where you stand. Explain that if the current terms can't be renegotiated, the only option you will have left is to file for bankruptcy. Don't expect them to simply take your word for it. You will need to provide proof that you really are in the financial trouble you claim. If you are able to do this, they will more than likely be willing to sit down and try to work something out. Why? Because if you do file for bankruptcy, the chances of them getting anything is quite slim, and a little is better than nothing. If you don't want to do the actual negotiating yourself, there are a number of companies that will do the negotiations for you.

In doing this, keep in mind that if creditors do agree to write off some of your debt, there could be tax implications for you. The IRS requires financial institutions that forgive \$600 or more of a debt's principal to send you and the IRS a Form 1099-C and you must report this as income. The exceptions to this are if you discharge the debt in bankruptcy, or you were insolvent before the creditor agrees to settle or write off the debt. Insolvent usually means that your debts exceed the value of your assets. To figure out whether or not you are insolvent, you have to total up your assets and your debts, including the debt that was forgiven. If you have enormous debts, then it's advisable to talk with an accountant familiar with tax law that can calculate what, if any, tax implications will come from renegotiating your debt.

If your debts are so dire that you don't see even this line of action resolving your debt issues, then it's time to consider the last resort...

[The Last Resort](#)

If you are coming to this section, it means all the information in the previous sections, as well as reading through the money saving ideas on the site, has failed to resolve your debt problem. If you still can't come up with a plan to pay off your debt, your final option may be bankruptcy. It should be an absolute last resort and something to be avoided if at all possible. First and foremost, bankruptcy in itself can be quite expensive. You will need to pay lawyer, court and filing fees upfront. The entire process can take months and you will have to endure exhaustive questioning from creditors. Your finances will become exposed to the public and the bankruptcy will remain on your credit record for 10 years meaning that obtaining credit at affordable rates in the future will be extremely difficult. Sometimes, however, certain circumstances dictate it as the only option. There are two possible forms of bankruptcy that may be applicable if you have reached this state.

Chapter 7 Bankruptcy is a straight forward bankruptcy that eliminates most debts and relieves you of your responsibility of paying most creditors. There are, however, some debts that you are still required to pay even when filing chapter 7 bankruptcy. These include taxes, child support, alimony, student loans, legal judgments against you, money you obtained through false financial statements and loans not listed in the bankruptcy filing. While the court may force you to surrender property you own in order to help satisfy the debt, you are usually able to keep your home, car, tools used in your job and personal property.

In Chapter 13 Bankruptcy, unlike chapter 7 bankruptcy where your debts are relieved, you are required to pay back all or part of your debt. You surrender control of your finances to the bankruptcy court which will approve a repayment plan based on your financial resources. The plan will last from 3 to 5 years. During the period of repayment, The chapter 13 bankruptcy plan provides that you do not have to pay interest charges on the debt during the repayment period and your creditors can not harass you for repayment during that period.

If you find that one of these bankruptcy options is the only one for you, then rereading this article will be of even more importance. It will let you take a preemptive measure to get your personal finances in order so something like this never has to happen again.