

What Should I Do If I Can't Make My Credit Card Payments?

If you find yourself drowning in credit card debt and you can't figure out how to make your payments, there are several steps you can take to get your head above water.

The mistake most people make is ignoring the obvious. Your credit card debt won't go away by itself and pretending that the bill didn't come in the mail won't work.

Don't wait for your credit card accounts to be turned over to a debt collection agency. You may be surprised at what creditors will do to help work out a manageable payment plan. It's also in the creditor's best interest to prevent the account from being turned over to a debt collector.

Follow these steps to get your financial security back on track:

1. Contact your creditors and explain your financial situation. You can ask them to lower your interest rate. Paying less in interest each month means that more money is going toward paying down your balance.
2. Ask your creditors to stop charging you interest altogether and work out a payment plan. The creditors may be willing to do this if your account has not already been turned over to a collection agency. Be sure to ask the creditor how this payment plan will be reported to the three major credit reporting agencies: Not paid as agreed? Now paying as agreed per the new terms? Make certain you get any agreement in writing. It is also possible that the creditor will agree to this payment plan only if you shut off the card, which won't be good for your credit report. If you do negotiate a lower payment or there is a charge-off (the lender writes off your debt), you'll receive a 1099 from the creditor and you may have to pay federal income tax on the difference between what you owed and what the creditor charged off.
3. If your credit card debt is very high or you're not making progress with your lenders on your own, you can contact a nonprofit credit counseling agency. A counselor will work with the lenders on your behalf and set you up with a debt management program (DMP), which is a long-term plan to pay off your credit card debt. A DMP can help get you a reduced interest rate, lower your monthly payments, eliminate more late fees and reduce calls and letters from creditors. Your creditors may be willing to accept reduced payments if you're in a debt management program with a reputable firm. Signing up for a DMP will not lower your credit score, but it will show up in your credit history until your account is paid in full. It could also affect your ability to qualify for new credit. Just make sure the nonprofit credit counseling agency you use is affiliated with the National Foundation for Consumer Credit (www.nfcc.org).
4. Stay away from credit repair companies that say they can clean up your credit in just a few short weeks. They usually will charge you a big up-front fee (often \$1,000 to \$1,500) for something you can do yourself for free. Instead, visit the

National Foundation for Credit Counseling (www.nfcc.org) for a recommendation to a local, nonprofit credit counseling agency.