

Debt Management Strategies Reference Sheet

Quick reference for managing high levels of debt

Strategy	Description	Best For	Credit Impact	Timeline
Debt Management Plan (DMP)	Credit counselor negotiates lower rates; you make one payment	High-interest unsecured debt; need structure	Minimal; accounts may show "managed"	3-5 years
Debt Consolidation	Combine debts into single loan with lower interest	Good credit; multiple high-rate debts	Initial dip; improves long-term	2-5 years
Debt Settlement	Negotiate to pay less than full amount owed	Unable to make minimum payments; considering bankruptcy	Significant damage; stays 7 years	2-4 years
Balance Transfer	Move debt to 0% APR card for promotional period	Good credit; can pay off during promo period	Minimal; new account inquiry	12-21 months
Chapter 7 Bankruptcy	Liquidate non-exempt assets to discharge debts	Unable to repay; limited assets	Severe; stays 10 years	3-6 months
Chapter 13 Bankruptcy	Repayment plan while keeping assets	Regular income; want to keep home/car	Severe; stays 7 years	3-5 years

Debt Avalanche Method

- Pay minimums on all debts
- Put extra toward highest interest rate debt
- When paid off, move to next highest rate
- Saves most money in interest

Pros: Mathematically optimal; saves most money

Cons: Slower initial wins; requires discipline

Debt Snowball Method

- Pay minimums on all debts
- Put extra toward smallest balance
- When paid off, move to next smallest
- Quick wins build momentum

Pros: Psychological wins; builds confidence

Cons: May pay more interest overall

Bankruptcy: Last Resort Options

Chapter 7 (Liquidation)

- Must pass means test (income below state median)
- Discharges most unsecured debts in 3-6 months
- May lose non-exempt assets
- Cannot file again for 8 years
- Stays on credit report 10 years

Chapter 13 (Reorganization)

- Must have regular income
- 3-5 year repayment plan
- Keep home, car, and other assets
- Can file more frequently
- Stays on credit report 7 years

Warning Signs You Need Help

Using new credit to pay off old credit

Can only afford minimum payments

Debt-to-income ratio over 40%

Receiving collection calls

Hiding spending from family

Considering payday loans

Missing bill payments

No emergency savings

Anxiety about finances daily

Key Financial Ratios

Debt-to-Income Ratio

Monthly Debt Payments / Gross Monthly Income

Target: Under 36% | Concern: Over 43%

Credit Utilization

Total Credit Card Balances / Total Credit Limits

Target: Under 30% | Ideal: Under 10%

Emergency Fund Target

Monthly Expenses x 3-6

Save this before aggressive debt payoff

Payment Priority

1. Min payments 2. Essentials 3. Extra to debt

Never miss minimums; avoid late fees

Credit Rebuilding Roadmap

1

Secured Card

Get secured credit card with small deposit. Use for small purchases, pay in full.

2

On-Time Payments

Pay all bills on time. Set up autopay. Payment history is 35% of score.

3

Monitor Credit

Check reports for errors. Use free services. Dispute inaccuracies.

4

Graduate Up

After 12-18 months, apply for unsecured card. Keep old accounts open.

Resources for Help

- **NFCC:** National Foundation for Credit Counseling - nfcc.org
- **AICCCA:** Association of Independent Consumer Credit Counseling
- **HUD:** Housing counseling agencies
- **211:** Dial for local assistance programs

Red Flags to Avoid

- Companies that charge high upfront fees
- Promises to "fix" your credit quickly
- Advice to stop paying bills without explanation
- Pressure to sign up immediately

Key Takeaway

The best debt management strategy depends on your specific situation, including total debt amount, income stability, credit score, and personal goals. Credit counseling from a nonprofit agency is often a good first step to evaluate options. While bankruptcy can provide a fresh start, explore all alternatives first as its impact on credit lasts 7-10 years. Regardless of which strategy you use, rebuilding credit afterward requires patience, discipline, and consistent positive financial behaviors.