glossary

Liabilities

A person's debt or other financial obligations.

Source: Federal Trade Commission

did you know?

$35,658

Colorado's average student loan debt in 2019 was $35,658.

Source: Experian

interactive intersection

Video

Debt collector or scammer?

Watch CFPB's video to learn more.

financial fitness focus: debt

In part two of *Your Road Home's* Financial Fitness Focus series, we're delving into something that affects many of us: debt. In fact, U.S. household debt recently topped more than $14 trillion, according to the Federal Reserve Bank of New York. Common debt categories include mortgages, credit cards, auto loans, and student loans. Here are some tips to help you avoid pitfalls, be a wise borrower, and get help if you're struggling with debt.

1. **avoid debt traps**

   the basics

   - **Pay as agreed:** If you miss a payment, various consequences could result. In some cases, your interest rate could increase significantly. Read and understand the terms of your financing agreements.

   - **30 percent rule:** If you carry credit card debt, keep your balance at 30 percent or below the total credit limit. When your balance rises above 30 percent, it may hurt your credit score and the more credit you use, the higher your monthly payment can become.

   importance of budget and savings

   - **Review budget beforehand:** Marcia Zipkin, Financial and Homeownership Workshop Facilitator for Workforce Boulder County explains, "When considering borrowing money, it's really important to look at your budget first. If you don't evaluate your budget really closely, you could end up making poor decisions in how much you borrow and how much your monthly payment is."

   - **Establish savings:** "If you don't have any savings to either help reduce the amount you need to borrow or cover an emergency expense, these situations really throw a wrench into our budget," added Zipkin.

2. **be wise about limits and rates**

    - **Borrow only what you need**: Pay as much as you can on your own to avoid how much debt you take on and avoid high-limit or open-ended credit lines. The more credit that's available can possibly translate to more debt for you.

    - **Pay close attention to rates**: High-interest debt can compound as the balance grows, leading to unmanageable monthly payments. When shopping for low rates, beware of enticing "limited-time only" offers, in which the rate increases after an introductory period. Also, carefully weigh the pros and cons of discount offers associated with retailer credit cards before signing up.

3. **get debt under control**

    - **Make the right choice for you**
      Katie Pague, Consultant for Financial Health Institute said, "There are many options for managing debt. Debt-relief services from trustworthy organizations might be great for people who have a lot of high-interest debt. For others, debt stacking can be the answer. For others, refinance may be the answer. It all depends.

      In the debt-stacking method, you order your debt to pay the lowest-balance debt first, while paying minimums on all others. Once the smallest debt is paid off, you take that money you were paying on it and add to the [minimum payment of the] next smallest debt, and so on. Just by doing that, it can take decades off the time it takes to get out of debt."

    - **Talk to a pro**
      Zipkin advises, "If you aren't sure where to start, get in touch with a HUD-approved housing counseling agency. They can discuss with you your options and help you understand debt consolidation and debt collection practices."

For more information about dealing with debt, access these resources from the Federal Trade Commission (FTC) and the Consumer Financial Protection Bureau (CFPB).

free online homebuyer education

Recently, you may have found yourself wondering if homeownership is still an option for you. It is important to remember, especially now, that an informed homebuyer makes a more successful homeowner. At this time, CHFA recommends taking homebuyer education to help you improve your financial capability and understanding. It is never too early to start preparing for the future.

Did you know, homebuyers who attend homebuyer education are 30 percent less likely to become delinquent on their loan in the first two years than those who do not participate*?CHFA sponsors classes across the state and online. Currently, CHFA is covering the cost of online homebuyer education.

Visit chfainfo.com/hbe to learn more and register.

**Source: Pre-Purchase Counseling Impacts on Mortgage Performance: Empirical Analysis of NeighborWorks® America's Experience*

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Colorado Housing and Finance Authority

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