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# Repaying debt is tough, but possible

By David Bauerlein,  
*The Times-Union*

Coming off a divorce and bankruptcy, Montana Fortune knew drastic changes were needed to put herself on firm financial ground.

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Each payday, she returned to her apartment with cash and divided the money among a set of envelopes, each marked for different parts of her household budget - rent, food, entertainment, clothes.

"It was very difficult at first because once the money was gone from one envelope, I would go to another envelope to compensate," she said.

But eventually, she forced herself to limit her spending to each envelope's contents. At the same time, she took every financial education course she could find. She stuck notes on the bathroom mirror to remind herself she was doing it all for her three children with a goal of buying a home.

Last week, she completed a four-year mission when she closed on the purchase of a new home on the Northside.

Her plunge into a cash-only world is a journey more Northeast Florida residents will be taking. In drastic cases, bankruptcy will force them to shed credit cards. Others will see danger signs and rein in credit card spending voluntarily, or they'll find themselves facing credit limits as lenders pull back from making loans.

"We have people routinely come in with \$30,000 in credit card debt and we ask, 'How can that be?' " said Martha Cox, a vice president at Family Foundations, a nonprofit organization that does credit counseling in Jacksonville. "We continue to see more and more families who are living in debt, struggling to pay it off, and making little or no provision for their retirement."

### Debt takes its toll

Putting the credit card on ice is easier said than done. Consumer prices rose by 5.6 percent the past year, the biggest jump in 17 years. The "instant loans" enabled by credit cards are one way to cover the higher costs at the checkout counter, at least in the short run.

Over the years consumers have found it easier to borrow. Thirty years ago, one-third of Americans could qualify for a credit card, but today about 75 percent of families have at least one card, according to the American Bankers Association.

Before the housing bubble burst, home buyers could get loans with low "teaser rates" that adjusted to higher payments after a few years. Homeowners took advantage of increased home values by getting home equity loans and lines of credit.

The payback is taking its toll:

- One in every 125 Jacksonville households was in some stage of foreclosure in the second quarter of 2008, according to RealtyTrac, a company that tracks foreclosure records. Nationwide, one in 171 households nationwide was in that position.

- According to Experian credit information service, Americans have an average of 1.04 late payments monthly for loans such as credit card bills and car loans. In the Jacksonville area, the figure is 1.37 late payments, about the same as the statewide average.

- The first half of 2008 saw 3,862 bankruptcy filings, a 38 percent increase from the same time in 2007.

Bryan Mickler, a bankruptcy attorney with Mickler & Mickler in Jacksonville, said more people are hitting the financial wall when borrowing to pay for day-to-day expenses.

"Typically, what I'm seeing is that people haven't had an interruption in income, but they have had an increase in expenses," he said of clients filing for bankruptcy. "I've seen people who are putting everything on their credit cards."

#### Congress takes notice

The debt load has caught the attention of federal regulators and lawmakers. In Congress, a bill known as the Credit Cardholders' Bill of Rights would tighten federal control of credit cards by prohibiting companies from raising interest rates on the credit card balance owed by a cardholder. The Federal Reserve Board has proposed the same regulation.

The American Bankers Association opposes the measures, saying it would prevent card companies from adjusting interest rates when companies determine there is a higher risk the cardholder won't repay the credit card debt.

"From our perspective, the vast majority of consumers manage their debt responsibly," said Peter Garuccio, spokesman for the American Bankers Association.

He said that under the current system, those consumers benefit by having lower rates while riskier borrowers get charged higher interest. If card companies face restrictions in how they reset interest rates, people with good credit will end up being charged higher rates.

"Our main concern is the proposal would in effect turn back the clock a couple of decades to when everybody paid high interest rates and annual fees, and low-risk borrowers subsidized high-risk borrowers," he said.

#### Finding a road to recovery

For people sliding deeper into debt, the first step toward regaining control is to simply put away the credit cards, said Jim Peterson, district adviser in Florida for First Command Financial Planning.

"The problem is the pleasure and the pain are decoupled - the pleasure of doing something and buying something is decoupled from the pain of paying for it," he said.

Peterson said the next step is to take stock of long-term goals. "Getting somebody to look at their values - what's important in life to an individual - is how you help them develop a savings and investment strategy that they will stick with because that's something beyond collecting a bunch of money in a bank account or a mutual fund."

In some cases, people weighed down by debt can work out a repayment plan that minimizes interest and fees, said Teresa Campbell, vice president of consumer credit counseling services at Family Foundations. After reaching an agreement with all the creditors, the plan sets up a monthly schedule for paying down the debt.

It's not a realistic option for everyone because even after getting a break on what's owed, many people are still over their heads compared to their income, Campbell said. For them, a repayment plan only puts off the day of reckoning, all the while worsening their financial situation by requiring fees for the service.

"Sometimes, the only way - you hate to say it - is to file bankruptcy and get to the point of reestablishing credit and starting over," she said. "It's a step backward. It's not the end of the world."

#### Planning for the future

Fortune, 31, said her post-bankruptcy life was filled with hard choices. To save money, she and her children shared an apartment with a roommate. They cut back on going to the movies, replacing such outings with a family membership at the Jacksonville Zoo. She went to personal finance classes offered by Family Foundations, the Duval County Extension Office and through her church.

"There are just things you think you know but you don't," she said.

She took out student loans to get a master's degree at the University of Phoenix, which she called "good debt" because it boosted her career and salary. To improve her credit score for getting a home loan, she became a credit cardholder again. The temptation to spend beyond her budget remains, but she said she has a far different mindset about borrowing money.

She's saving money to pay for her children to go to college. And she's looking ahead to the next generation beyond that.

Each month, she puts \$10 into an account she's set aside for her future grandchildren.

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#### Warning signs for debt problems

Consumer prices have risen 5.6 percent the past year nationwide, putting a strain on household budgets. Here are some signs of financial trouble, according to the National Foundation for Credit Counseling.

You normally pay only the minimum amount due on credit card bills. - Your credit card balances increase each month. - You frequently charge items that used to be paid for with cash. - You've thought about filing for bankruptcy. - You've begun using cash advances to meet financial obligations. - Most of your credit cards are near the limit and you're applying for new lines of credit. - You don't know the total amount you owe. - Your savings are gone. - You are taking money from retirement accounts to pay off debt. - If you lost your job, it would mean an immediate financial crisis.

Getting help for financial woes - Family Foundations, based in Jacksonville, provides credit counseling and foreclosure avoidance workshops. Call (904) 396-4846. - The Duval County Extension Office offers classes in money management. Call (904) 387-8850.

This story can be found on Jacksonville.com at [http://www.jacksonville.com/tu-online/stories/081708/met\\_319578380.shtml](http://www.jacksonville.com/tu-online/stories/081708/met_319578380.shtml).

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