

6. Consider Your Options to Reduce Your Debt

If you are overextended, there are a number of ways you can start to reduce your debt. First, cancel any credit cards you don't really need, and look into options to reschedule your debt under new terms. Creditors may offer you one of these options:

A Loan Extension – an extra 30 to 60 days to make a payment. Be sure to check and see if the loan extension would be reported as a delinquency to the credit bureau.

A Loan Revision – lowering your monthly payments by extending the term of the loan. This will mean more interest, but having a lower payment might help.

Refinance Your Loan – a brand new loan with a new payment schedule. Confirm if there will be a new interest rate as well.

Home Equity Loan or Line of Credit – you may be eligible to receive a loan secured by the equity in your home. This usually means lower interest rates, and the interest may be tax-deductible, but you'll want to be careful here, because you don't want to end up losing your business and your home.

Consolidation Loan – one loan designed to pay off a number of existing debts. The benefits are one monthly payment, possibly less than the individual amounts, because you would be paying it over an extended period of time. Be careful you don't use the extra money to take on new debts. Consolidating your debt is a great option, but beware of unscrupulous debt consolidators and shop around for the best deal.

When considering all your options, beware of “balloon payments” or other requirements to pay off a large amount of debt at once. If a loan is coming due, be sure to develop a plan well in advance for how to pay off or refinance the debt on acceptable terms.

Bankruptcy should be the last step for anyone, as filing for bankruptcy would seriously affect your ability to obtain credit in the future.