SPACE COAST® CREDIT UNION

Your life. Your financial watchdog.

A Handy Guide For Managing Debt

When you apply for a loan or credit card, lenders typically take the following into consideration:

- Credit scores
- Income and employment
- Debt-to-income ratio (DTI)

If a lender has a DTI requirement, your total DTI (including the new loan) must not exceed that specific percentage. (A good rule of thumb is to keep your DTI under 35% or less.)

To determine your DTI, divide your total monthly debt (loans, mortgage, etc.) by your total gross (before tax) monthly income.

For example, let's say your monthly debts add up to $1,000 and your monthly gross income is $3,000. So, $1,000/$3,000 is .33 and multiply by 100 to get 33%. If yours is above 35%, it may be a good idea to look at ways of reducing or consolidating your debt.

Ideas to help save more money and reduce your debt:

- Find ways to lower monthly insurance premiums.
- Set aside your tax refunds to help pay your debts.
- Look into refinancing loans at a lower interest rate.
- Redeem any credit card points or cash back.
- Eat at home or bring lunch from home more often.
- Cut out unnecessary memberships and subscriptions.
- Only buy things that are necessities.
- Pick up a side job or see if you're due for a raise.
- Look into savings programs offered by your utility provider.
- Reach out to lenders/financial institutions to see if they can reduce or remove any monthly fees. (Hint: It's a good idea to have a free checking account.)

What is debt consolidation?

Debt consolidation often means taking out a new loan to pay off numerous existing debts. Ideally, your new loan would have a lower interest rate and a shorter loan term to help you save more money, too.

Top benefits of debt consolidation often include:

- having fewer monthly payments
- enjoying more room in your budget
- protecting your credit

When is it a good idea to consolidate debt?

It depends on a few factors;

- Is your credit score 660 or higher?
- Is the interest rate lower on the new loan?
- Do you have a secure loan or line of credit?
- Are your total monthly debt payments less than half of your monthly income?
- Are you able to pay off your debts with a new loan in 1.5 to 5 years and still save money?

Top three ways to consolidate debt:

1. Balance-transfer credit cards: Many financial institutions offer balance-transfer credit cards—just make sure balance transfers are free. These credit cards often offer a low introductory rate (but be sure to look at what the rate will be when the offer ends and mark your calendar with the end date). It's a good idea to only transfer a debt amount that you can pay off before the introductory offer ends.

2. Home equity loans: At SCCU, we offer fixed-rate home equity loans and home equity lines of credit (HELOC) at competitively low interest rates, bypassing high-interest credit cards.

- **Fixed-Rate Home Equity Loan:** Also known as a 2nd mortgage, a fixed-rate home equity loan allows you to borrow up to 85% of your home's value as a lump sum with specific repayment terms.
- **Home Equity Line of Credit (HELOC):** With a HELOC, you can receive cash in one lump sum or access your funds at any time, right when you need it. You can borrow up to 80% of your home's value or 70% on investment properties and interest-only mortgages.

3. Personal loans: A personal loan is a type of unsecured credit, which depends highly on your DTI and creditworthiness, so you may end up with a high interest rate. If you need more time than a balance-transfer credit card could offer or don't have home equity as a source of funding, this may be the best option.

Brevard: 321-752-2222
Broward: 954-704-5000
Miami-Dade: 305-882-5000
Volusia/Flagler: 800-447-7228

For more information, visit **SCCU.com**

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