Louisville Federal Credit Union

BLUEBIRD'S NEST
TWEET EDITION

Down with Debt:
Snowball vs Avalanche Methods

Though there are plenty of methods to consolidate or payoff debt, at LFCU we want to highlight two very effective methods that we would recommend. Financial experts often disagree on which is the best, but we tend to think that which method you choose largely depends on the individual and doing anything is better than nothing. Following either of these methods will help you get out of debt faster and easier than if you had no plan at all.

Before we highlight the differences, lets take a look at the similarities in these methods. First, both aim to eliminate debt. Second, they both involve prioritizing your payments and paying one debt off before others. Third, you've got to believe they will be a success; they're really only effective if you stick with it.

Now lets examine the differences. These two methods prioritize your payments very differently. With the Snowball Method, you would place your smallest debt balance at the top and work your way down to the largest balance. When making payments, make the minimum required payment to all but your smallest balance, while at the same time, paying the maximum payment you can afford on your budget to your smallest balance. Once you pay off your smallest balance, take the money you were paying on it and combine it with the next payment on your list to begin paying off your next smallest balance. This is called snowballing your payments because the payments build up like a rolling snowball.

The advantage to this method is that there is a psychological benefit to paying off debt. You'll feel accomplished when you pay off those smaller debts and will help you see results quickly. However, the biggest disadvantage to this method is that it doesn't take into account the interest rate you are being

From all of us at LFCU we'd like to say:

"Tweet tweeet. Tttwwweeeet tweet twweet tweet twweeeeetttttt.
Tweet tweet. TWEET!"

Or in English:

"We're on Twitter!!! Search for and Follow us! We'd love a tweet from you!"

Annual Meeting Update:

Thanks to all who RSVPed. You're now eligible to win great prizes! Beginning in April, we'll be mailing Golden Tickets to those who RSVPed. Look for yours in the mail.

charged on your debt. This means even though you're paying off debt, by not paying your higher interest debts first, you are actually paying more in total interest over the life of the loans. This is where the Avalanche Method comes in.

The Avalanche Method prioritizes your debt by the interest rate: from high to low, working your way down as you pay off debt with higher rates. Unlike the Snowball Method, it doesn't factor in the balances of your debt. When making payments, make the minimum required payment to all your debts expect for your debt with the highest interest rate. That payment should be the maximum amount you can afford based on your budget. Once you payoff your debt with the highest interest rate, take the money you were paying on it and combine it with the next payment on your list to begin paying off your next debt with the highest interest rate. This is why it is called the Avalanche Method: high interest falls off in big chunks.

The advantage to this method is that you're paying off your debt with the highest interest rate quicker. Because of compounding interest, the total amount of interest you're paying is significantly less. However, if your highest interest debt also has a high balance, it could mean you won't see the results as quickly as if you were to have used the Snowball Method. This can be discouraging, but you're pay less total interest.

One way to get the best out of both worlds would be to combine these methods. When you first commit to paying off your debt, use the Snowball method to see results quickly and give yourself confidence in knowing you can tackle your debt. Once you've paid off a few of your smallest debt balances, switch to the Avalanche Method and begin paying off your higher interest debt to reduce the total interest you'll pay over the life of the loan. Using a combination of the two methods, you'll see results quickly and pay less in total interest. A Win-Win if we ever heard it.

One thing that these methods don't consider is switching to lower interest loans. At LFCU, we have low rates on everything from cars and houses to unsecured lines of credit. To help you get your debt under control, we can refinance that high interest car loan or use a Signature Loan to pay down those astronomically high credit cards. No matter which method you choose, lowering your total required minimum payment will help you pay off those debts quicker. Talk to a MSR for more information.

6 Things to do Now if You Cannot Pay Your Income Tax Bill

By Andrew Housser of Bills.com

If you cannot pay your taxes this year, take these steps.

1. File a return anyway – on time. Filing a tax return late incurs penalties of 5 percent of the tax due per month. The maximum penalty is 25 percent. Filing late actually costs more in penalties than paying late. If you file more than 60 days late, you might face a penalty equal to the taxes you owe – doubling your payment. If you cannot complete your return on time, file an extension. Remember that even if you file an extension, taxes owed are due on the original deadline.

A loan from LFCU may help you avoid penalties and fees the IRS will charge you. Talk to a MSR about your options. We're here to help!

2. Pay what you can. If you pay tax due after the deadline, the balance will accrue interest at 0.5 percent of the unpaid amount each month, plus interest on the balance owed. To reduce these fees, pay any amount you can at the time you file the return or extension. Consider borrowing from family, taking a personal loan or even paying via credit card if necessary. The interest on these vehicles is often less than IRS interest and penalties.

3. Contact the IRS directly. IRS policies may offer reduced penalties for taxpayers who contact the IRS or pay a late bill voluntarily. If your tax debt exists because of "reasonable cause," the IRS might waive the penalties. To receive the waiver, you must contact the IRS. "Reasonable causes" may be situations such as a death in the family, serious illness or financial records lost in a natural disaster.

4. Apply for an installment agreement. Taxpayers who owe up to $50,000 can pay in monthly installments. To do so, attach Form 9465 (Installment Agreement Request) to your tax return. Alternatively, complete the Online Payment Agreement application. Setting up the agreement costs $120, or $52 if you sign up for direct withdrawal from a bank account. You must propose a monthly payment amount and due date. You will still pay monthly interest and late payment penalties.

5. Consult a specialist. If you owe more than $10,000 in tax debt, consider consulting a tax debt relief specialist. These specialists can negotiate directly with the IRS on your behalf to help obtain a settlement. One of the most common settlement options is the offer in compromise, which reduces the principal amount owed to the IRS. The other, the installment agreement, is a payment plan for the amount due, and often includes reduced penalties.

6. Consider bankruptcy as a last resort. Chapter 7 bankruptcy filings generally do not provide relief from tax debt. Chapter 13 bankruptcy filing establishes a repayment plan rather than wiping out all debt. However, working with a tax debt relief specialist often can produce the most favorable outcome.

7. Monitor estimated tax payments due. People who are self-employed or for other reasons must pay estimated income tax should double-check estimated earnings and taxes due. It is important to pay enough tax each quarter to avoid penalties next year.

You cannot hide from the IRS. No matter how much tax debt you have, the best route is to face the issue head-on. Resolving your tax debt will help you achieve peace of mind in tax season and throughout the year.

Introducing: *e-@lerts*

A brand new way to manage your account.

Get alerts on your mobile device through text or email.

Ask a MSR for more details.

Terri Williams from Experian on why Credit Scores Vary:

Many of the major credit card companies are now including a free credit score on your monthly statement. You would think that it is a good thing---but it does come with some "fine print."

The free credit score that is on your monthly [credit card] statement might not be the same model OR the same version of the model that [LFCU uses]. The algorithms can vary from model to model. In fact, it is very unlikely that the score on your statement is the score that your Lender uses [to make their decisions]. In general, the score on your statement SHOULD be directionally similar---if you have good credit, all of your credit scores will be good. I am not saying that the credit score on your statement is bad or inferior---it is just that you can't take it to your Lender and have them base their decision on that score. All Lenders will use the score that they have validated and trust.

Regardless of the scoring model, credit bureau or website, your credit score is based on the information on your credit report. Thanks to the Fair Credit Reporting Act (FCRA), you can get a FREE copy of your credit report each year. Go to: annualcreditreport.com and check each report carefully for errors. If your score starts to fluctuate and your financial behavior has not changed—address it ASAP. If there are errors, notify the appropriate Bureau immediately. Each bureau has a clearly explained dispute process to follow to correct errors.

One of the best ways to keep and maintain a good credit score is to make sure that the information on your credit report reflects your good financial management practices. Pay your bills on time and keep your credit card balances low to your credit limits. VantageScore 3.0 recommends staying at or below 30% utilization. If you follow these simple rules, your scores will be closer to 850 vs. the 300.

Did you know that April is one of the best months to buy a vacuum? Speaking of, is high interest sucking up all your money? We can help! Talk to a MSR about cleaning up your old debt and lowering that monthly payment (or about getting a new vacuum).

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