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Restraint best cure for 'debt hangover'

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NEW YORK -- Many people feel great when they're buying piles of gifts for relatives and friends at Christmas, but they can be overwhelmed when that blizzard of credit card bills arrives in the new year.

Credit counselors call it the "debt hangover."

"We often see a rush of people in January and February," said Sandra Shore, a senior counselor with Novadebt, a nonprofit credit counseling organization based in Freehold, N.J.

Some, she said, have greatly underestimated how much they've spent for the holidays and are shocked when the bills come in. For others, a lack of planning means Christmas is like any other "unexpected" event -- say a big hospital bill or a necessary car repair -- that can skew their budgets.

Shirley Gilbert of Waterloo, Ill., isn't exactly sure why, but she says she got "totally carried away" buying presents during the Christmas season in 2005.

"I bought all kinds of stuff -- you name it, I bought it -- for my daughters, for my grandchildren, for my friends," said Gilbert. "I wanted a good Christmas for them. I figured I'd pay the cards off later."

But Gilbert, who is 62 and living on Social Security and disability benefits, found she couldn't deal with the more than \$7,000 she accumulated on her cards -- or with the phone calls from bill collectors. With the help of Novadebt counseling, she's been whittling down the balance since last summer, she said.

"This Christmas, I bought what I could afford and that was it," Gilbert said. "Everyone understood."

Sacha Millstone, a senior vice president at the Millstone Evans Group in Boulder, Colo., said that although some consumers feel the pain of overwhelming credit card bills in January and February, it's often a symptom of a deeper problem.

"I believe that many people who overspend at the holidays overspend all the time," she said. "They maybe do it a little bit more at the holidays."

As a result, Millstone, whose company is affiliated with Raymond James & Associates Inc. financial advisers, believes consumers who are in credit card trouble need to work on a long-term solution.

"Start by looking back at the past year to determine what you actually spent," she said. "Next, create a spending plan for all of 2007."

The plan will be more realistic if the consumer can do projections based on actual spending in the previous year, Millstone pointed out. Once this has been done, it's easier for most people to identify where they're overspending and where they can find "extra" money to pay down bills, she said.

"Let's say you discover you're spending \$8,000 a year on clothes," Millstone said. "You have to ask, 'Is that a priority for us?' If not, maybe you're just doing it out of habit or not thinking about it at all."

Jack Lazar, a 58-year-old civil engineer, and his wife, Lisa, started spending heavily on credit cards in 2003 and 2004 and continued through the 2005 holiday season.

The Lazars, who live in Putnam Valley, N.Y., realized about a year ago that they were falling behind. With the help of credit counselors, they were able to make a budget, increase their monthly card payments -- and start saving more than \$100 a month as an emergency cushion.

Lazar said he switched to using a debit card instead of a credit card so that he wasn't building more debt, and the couple became more careful about spending.

"For the holidays in 2006, we probably spent 10 percent of what we spent in 2005," Lazar said. Instead of gifts, the couple hopes to throw a party later this year for family and friends.

Shore, the Novadebt counselor, said many people have to come to terms with what is causing their debt problems, which typically is spending more than they take in.

"Classically, someone will say, I lost my job," she said. "Then you ask, when was that, and the answer is 'two months ago.' And they're collecting unemployment insurance. But they have \$40,000 in credit card debt. That obviously started happening more than two months ago."

She believes people trying to get out of debt need to track their spending for a while because "it can be a real eye opener" as to where the money actually is going.

Next, people need to make a chart of their debts with the monthly amounts due, interest rates and totals.

Shore said consumers have to begin paying more than the minimum to get the balances to start dropping.

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