**Ally Bank – Getting Out of Debt Articles**

Debt

June 2015

Debt is part of nearly everyone’s financial life at one time or another. Sound financial planning, savings, and budgeting not only help safeguard against debt problems, but they can also serve as first steps for reducing your amount of overall debt. Below are articles with tips for managing your budget and finding ways to save, as well as suggestions on where to start should you find yourself struggling with debt problems.

Getting Out of Debt

* [How Do CDs Help With Debt Relief Plans?](https://www.ally.com/debt/debt-relief/)
* [Tips for Credit Card Debt Reduction](https://www.ally.com/debt/credit-card-debt/)
* [Find Ways to Save and Get Out of Debt](https://www.ally.com/debt/get-out-of-debt/)
* [Track Spending and Eliminate Debt](https://www.ally.com/debt/track-spending/)

### Managing Debt

* [Six Smart Ways to Stop Debt From Getting Out of Control](https://www.ally.com/debt/stop-debt/)
* [Debt Management Basics](https://www.ally.com/debt/debt-management/)
* [An Important Student Loan Management Tactic](https://www.ally.com/debt/student-loan-debt/)
* [Tips for Improving Your Credit Score](https://www.ally.com/debt/improve-credit-score/)
* [The Key to Debt Management](https://www.ally.com/debt/debt-management-plan/)
* [Make a Savings Account Your Emergency Fund](https://www.ally.com/debt/debt-management-emergency-fund/)

# How Do CDs Help With Debt Relief plans?

## Credit Card Debt Relief

July 2015

Part of any sound debt relief strategy is having an emergency fund—a place to put money to handle unexpected expenses without adding to your debt burden. Depending on your plans, you may want to have as much as three to six months’ living expenses in your emergency fund, but it may not be wise to wait until you have that much saved before you start reducing your debt. One strategy is to put a modest amount, say $1000, in an emergency fund, and then put as much money as you can toward your outstanding balance(s) until you can go back to building your emergency fund.

**Can a CD Be Used for Credit Card Debt Relief?**
A certificate of deposit (CD) can be used for debt relief, but be sure to compare different types before committing. For example, if your CD charges penalties for making an early withdrawal, using the money for emergencies might be a problem unless the penalties end up being less than the interest you'd expect to pay by taking on more debt. On the other hand, consider the Ally Bank [No Penalty CD](https://www.ally.com/bank/no-penalty-cd/), which gives you a great rate and flexibility. The Ally Bank No Penalty CD allows you to withdraw all your money, including interest earned, without any penalty, any time after the first six days following the date you fund your account.

# Tips for Credit Card Debt Reduction

## Escaping Debt

May 2012

The key to help credit card debt reduction is to either pay off your balances every month or — when you can't do that — make higher-than-minimum payments. And while this may seem like a challenge if your credit card debt is very high, your determination and disciplined approach will go a long way toward helping you succeed.

In addition, you may reduce your credit card debt when you simply become more conscientious about where your money goes. To that end, Ally has some online banking tools to help you get and stay organized, which can greatly reduce dependence on credit cards:

* **Start an emergency fund account online**. Putting money in savings for emergencies — in a savings account, Money Market Account, CD or wherever it makes sense for you — may give you a way to tackle unexpected expenses without saddling yourself with more credit card debt. Plus, while brick-and-mortar banks are slashing savings account rates and raising fees for other services, Ally offers competitive interest rates, so your money works harder and you keep more of it.
* **Use a debit card**. Because debit cards pull money directly from your checking account, you may be less likely to spend more than you have — which makes them a great way to keep your spending in check.
* **Check out interest checking**. Ally offers interest-bearing checking accounts, so your everyday source of cash can work harder while you're trying to pay down your credit card debt.
* **Sign up for balance Alerts**. Sign up for email alerts so that, for example, when your account dips below a certain level, you get an email — which can help you better manage your finances and avoid the need to shop with a credit card.

# Understanding Your Debt-to-Income Ratio

## Find Ways to Save and Get Out of Debt

February 2012

Your debt-to-income ratio compares the amount of money you earn to the amount of money you owe to your creditors. It's an important indicator of your financial situation and whether or not you have control of your spending.

To calculate your own debt-to-income ratio, tally up your predictable, recurring debts, your mortgage, car payment, insurance, etc. and divide it by your gross monthly income. If the resulting number is low, then you probably have your spending in check and your financial situation under control. If the number is high, then you probably have some work to do and need to find ways to get out of debt. Some of the ways you can consider doing that include:

* Compare your credit card interest rates and pay down the highest ones first while still making at least the minimum monthly payment on the rest.
* Consider making higher-than-usual payments and you may be able to get out of debt faster.
* Save for large purchases and shop for items on sale
* Avoiding using your credit card unless it's for an emergency
* If they no longer have balances, close your high-interest credit card accounts.
* Never make a late payment — for anything. Whether it's for your car, credit card or electric bill, when you make a late payment, you'll usually have to pay a late fee — which depletes your available funds and makes it harder to get out of debt.

# Debt Management Basics

## Take Control and Stop the Cycle of Debt

June 2015

The goal of every debt management plan ought to be to eventually stop paying interest and start earning it instead. It may sound like an unreachable dream to some, but with some basic debt management techniques and a solid debt management plan, you can achieve it.

The reason a lot of people have difficulty getting to the point where they're earning more interest than they pay is not because they lack the determination to succeed. Two of the biggest stumbling blocks to successful debt management are 1) saving too much, and 2) unexpected expenses.

**How can saving too much be a problem?** It sounds counterintuitive, but consider this: the interest rate you pay on high interest debt is often exponentially higher than the rate you earn in a savings account, certificate of deposit or even many types of investments. When you make larger payments toward your debt instead of contributing to your savings balance, you pay less interest in the long run. And when you pay less interest, you can earn more interest after those debts are paid off because you can save even more than if you had not paid them off. It simply does no good to pile up savings while you continue to pay a lot of interest toward credit cards and the like.

**How can you plan for unexpected expenses?** While it makes sense to put every dollar you can toward paying off your debts, you should also consider contributing to an emergency or "rainy-day" fund. For example, let’s say you have $1000 or so in a safe place, away from your other funds. If you're suddenly faced with having to pay for a medical bill of $700, for example, you can use your emergency fund instead of using a credit card. This way, your debt management plan won’t be derailed. Once you've replenished your emergency fund and continue to pay off your debt, you'll have even more cash available to save for your other financial goals.

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# Track Spending and Eliminate Debt

## Tracking Spending

February 2012

In the past, the best way to balance a checkbook was by hand, recording daily spending habits to insure accounts were not overdrawn. But with the growth of technology, tracking spending habits is now as easy as clicking a mouse.

According to eMarketer, a digital marketing and media research group, an increasing number of consumers are using online banking to track spending habits because of its enormous convenience factor. With a few clicks, consumers can readily see a fairly up-to-date snapshot of their accounts instead of waiting for a monthly statement in the mail.

Online banking is a great way to conveniently track spending, pay bills and monitor account balances, which may make it easier to stick to your monthly budget and eliminate or avoid debt problems. To make the most of the online banking tools available, consumers should:

* Regularly using the resources offered by online banks to track spending.
* Making a plan and using a spending report to gain accurate information about your current expenditures so it's easier to compare your needs to your wants.
* Monitoring your progress and keeping your spending in check.
* Making adjustments. As you continue to track your finances, it may be necessary to adjust your budget to decrease spending and increase the amount of money used to pay your debt.

Tracking spending is only part of a sound approach to eliminating debt. You should also consider starting an emergency fund, which lets you handle unexpected expenses without adding to your debt burden.

# Six Smart Ways to Help Stop Debt FromGetting Out of Control

## How to Help Avoid Debt Problems

July 2015

Having some debt, such as a mortgage or car and student loans, is to be expected. However, accumulating an unmanageable amount of debt—especially unsecured, high-interest debt—may cause undue stress and financial hardship. But the good news is that there are many ways you can help stop debt from becoming a problem by taking control of your financial situation.

A few helpful online banking tools and a prudent approach to your finances can help you avoid debt problems and keep many financial stresses at bay.

**Lower your debt-to-income ratio.** Use credit cards only up to what you can afford to pay off every month. If you find that you're struggling to make monthly payments on unsecured debt, closely examine your budget and look for ways to cut your expenses or bring in more income.

**Use a savings account for an emergency fund.** Save a reasonable portion from each of your paychecks so you won't have to use credit for emergencies. Learn about the [savings options](https://www.ally.com/) from Ally Bank.

**Open a certificate of deposit to help you reach longer-term goals.** The restricted access to your money helps you stay disciplined as you save and earn interest.

**Set a budget, and stick to it.** Take a hard look at your expenses and set a realistic and reasonable budget for things like food, housing, transportation, insurance, recreation, savings and incidentals. Be sure to keep track of how you're doing and work to stay within the budget you've set. If you still find yourself accumulating debt, you may need to rethink your priorities or find ways to earn additional income.

**Seek credit counseling from a reputable source if you're having difficulty making your plans work.** A qualified financial professional can give you solid strategies for getting out of debt and developing healthy financial habits.

**Shop wisely.** Watch for sales, coupons and discount stores to stock up on things you need at the best prices. However, be careful not to buy things you don’t need simply because they are a “good deal.”

**Practice patience.** Self-control in spending is crucial to help avoid debt problems and make the other rules of debt prevention work. Learn to carefully evaluate your "wants" and "needs" both in the short and long term. Often what seems like an immediate need will seem less important once you give yourself time to evaluate it. It also helps to view purchases in terms of what it costs in time, or comparing the purchase price to your income on an hourly basis. If that "gotta have it" purchase actually costs you a day and a half at work, for example, it may not be worth it after all.

# Debt Management Basics

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**How can saving too much be a problem?** It sounds counterintuitive, but consider this: the interest rate you pay on high interest debt is often exponentially higher than the rate you earn in a savings account, certificate of deposit or even many types of investments. When you make larger payments toward your debt instead of contributing to your savings balance, you pay less interest in the long run. And when you pay less interest, you can earn more interest after those debts are paid off because you can save even more than if you had not paid them off. It simply does no good to pile up savings while you continue to pay a lot of interest toward credit cards and the like.

**How can you plan for unexpected expenses?** While it makes sense to put every dollar you can toward paying off your debts, you should also consider contributing to an emergency or "rainy-day" fund. For example, let’s say you have $1000 or so in a safe place, away from your other funds. If you're suddenly faced with having to pay for a medical bill of $700, for example, you can use your emergency fund instead of using a credit card. This way, your debt management plan won’t be derailed. Once you've replenished your emergency fund and continue to pay off your debt, you'll have even more cash available to save for your other financial goals.

# An Important Student Loan Management Tactic

## Reduce Your Student Loan Debt

July 2015

It's hard to overstate the lifelong value of higher education, yet with today's high cost of college tuition, books, housing and more, many students and their families find themselves dealing with the challenge of student loan debt. What's more, when it's time to pay off student loans, recent college grads often face questions about other kinds of debt (auto, credit card, first mortgage, etc.) on top of their student loans. Whatever you're facing, however, there is one tactic you should consider as part of your overall strategy to reduce debt of every kind.

### Start an Emergency Fund

It might seem a bit counter-intuitive. If your student loan debt is the proverbial "fire in the kitchen," shouldn't you "put out the fire" by immediately making the largest payments you can afford to make, as often as you can make them? While paying down debt is important, you should consider it in the context of your whole financial strategy.

Because life is full of unexpected expenses, building up an emergency fund can actually keep you from accumulating more debt. Auto repairs, doctor visits, vet bills, home repairs, the list can go on and on. If you don't have a plan for how to pay for these expenses, it's simply too easy to use a credit card, which only becomes another burden to carry along with the student loan and other debt you're already trying to pay off.

Consider making minimum payments toward your debt while you save a modest amount of money away from your other funds—perhaps in an [Ally Online Savings Account](https://www.ally.com/bank/savings/) or even in a [No Penalty CD](https://www.ally.com/bank/no-penalty-cd/). That way, you can pay emergency expenses out of your "rainy day" fund and get back to plugging away at your student loan debt reduction plans.

Maintaining your emergency fund balance at a level that makes sense for you is just part of building financial agility into your personal finance plan. Consider using a service like Mint.com, a free online service that helps you manage your finances, set goals and budgets and even find ways to keep more of your money.

When it comes to student loan debt, there are no shortcuts, but when you work toward building sound money management discipline for the long-term, you're more likely to succeed in less time.

# Tips for Improving Your Credit Score

## Take Control

February 2012

Whether you're just starting to build a credit history or you're working to improve your credit score, opening a savings account may help. That's because lenders see bank accounts as a sign of stability. Stability, in turn, helps them see you as a good credit risk, which helps make it easier for you to receive a credit card, apartment lease or auto loan — and the opportunity to improve your credit score.

In addition to [opening a savings account](http://www.ally.com/bank/online-savings-account/), you can also improve your credit score by paying your bills on time and building a credit history filled with positive information. Some ways you can ensure your credit report helps lenders see you as a positive risk include:

* **Review your report and dispute inaccuracies.** Consumers are entitled to receive a free credit report from each of the major credit reporting agencies once per year. Once you receive your report, review it for inaccurate information and make a formal request to have it expunged.
* **Ask for negative information to be removed.** If your credit report contains negative data, you may ask that the information to be removed. If the credit bureau won't grant your request, you may ask them to place the word "disputed" along with a short explanation next to the objectionable content. This won't improve your credit score, but it may make some potential creditors feel more at ease.
* **Practice good habits.** Consistently making on-time payments for your rent, auto loan, mortgage, electricity bills and other expenses, as well as paying more than the minimum on your monthly credit card bill will help show potential creditors that, even if you haven't had the best credit in the past, you've changed your ways.

# The Key to Debt Management

## Stop Paying Interest and Start Earning It

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# Make a Savings Account Your Emergency Fund

## Savings Account as Part of a Debt Management Plan

June 2015

A savings account can be more than just a place to park your money until you need it. It actually can be the foundation of your overall debt management plan. And if you've decided to get out of debt altogether, a savings account can even help you reach your goal.

For starters, you can sign up for an overdraft protection service that links your [savings account](https://www.ally.com/bank/savings) to your checking account. Since you can't always predict every expense in your budget, overdraft protection can help you avoid the fees associated with overdrawing your account.

Another way a savings account can be part of your debt management plan is by giving you a place for your emergency fund. Having an emergency fund helps you avoid compounding debt problems by putting unexpected expenses on a credit card. For instance, if you've made the commitment to reduce debt or even get out of debt but suddenly find yourself facing unplanned auto repairs, your only choice may be to use credit. On the other hand, if you have an emergency fund, you can handle the expense without interrupting your debt management plans.