

Get Out of Debt

Get – and stay afloat

Special Report



Have you woken up to find yourself lost in a sea of debt? Hold off on sending up that S.O.S. flare. You have the power to take control and turn your situation in the right direction. A few simple steps can really help to keep your finances afloat.

You're not lost!

With 75% of Americans in debt, you are not alone in this situation. And debt is not necessarily the result of a bad habit or “keeping up with the Joneses” anymore. With the dizzying whirlpool of job cuts, wage freezes, inflation, health care costs, etc... it's not uncommon to have a less than perfect financial situation. However, it is completely in your power to get back on course!

Chart the course

First things first. You can't pay off your debt if you have “no money,” so let's find some money! To create an effective budget that will have lasting power, don't try to squeeze your finances into someone else's spending format. Record your own spending for a period of time. Capture every dollar that you spend, including gum, coffee or ATM fees. Be sure to pre-plan as well. Property taxes, car insurance, and even birthdays are all predictable payments you can add to your budgeting plan. If you are saving for a large item such as a car or home, be sure to include that as well!

Key points to remember:

- Be flexible. Your spending may need to change so your budget should change along with it.
- Do not forget to list “saving for retirement” as a budget item, preferably as a necessity!

Stop going overboard

Next, categorize your expenses into necessities and discretionary spending. Necessities are a must, so focus on the discretionary list. No one expects you to cut all of the fun items out entirely, just consider what you can cut back rather than cut out.

Key points to remember:

- Pay in cash! If you don't have any, you can't afford the item.
- Make shopping lists and stick to them. Challenge yourself to get in and out of the store as quickly as possible. Use coupons!
- Get a home energy audit to uncover household changes.
- Keep your home just a few degrees cooler in the winter and warmer in the summer.
- Brown bag your lunches, and eat dinners out less often.
- Review all contracts (e.g. cell phone, bank, cable TV) to see if you can cut back on certain services such as ATM fees, long distance calling, etc.

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Life preserver

Now that you have a budget in place, and have cut your expenses, you can use that reallocated money to get your head above water by reducing your debt.

Focus on high-rate debt first –

Pay as much as you can (more than just the minimum payment) on your highest rate debt, while making minimum payments on your other debt. When the first debt is paid off, use the same strategy on the next highest debt (and so on) until you're debt free.

Transfer high-rate balances –

Consolidate your high-rate credit card balances to a single, lower rate card. Intense competition has created a number of low-rate opportunities, so shop around for the best rate. Beware of "teaser" rates that start low and increase substantially after the introductory period.

Negotiate a lower rate –

Call your credit company and ask to reduce your current rate; threaten to transfer your balance to another issuer. With a good credit score, this strategy is often successful, as many companies are willing to lower rates to keep you as a customer.

Just paying the minimum each month is very costly.

Assuming an \$15,956 * credit card balance...

2011 average American credit card balance according to creditcards.com

If your interest rate is	...and your minimum payment is...	...it will take this long to pay off your card...	...and cost this much in interest.
12%	\$400	4 years, 3 months	\$4,242.62
18%	\$400	5 years	\$7,966.04
28%	\$400	8 years, 9 months	\$25,715.83

Calculations according to CNNMoney.com

The decision to begin paying off your debt is the most important one you can make for your financial future.



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