

Take control of your debt

5 steps to help you reduce your debt

Are you feeling overwhelmed with debt? Worried about how much you are spending on interest each month? Lowering the amount of debt you carry can significantly improve your credit profile, reduce the loan rates you could receive and save you a lot in interest payments. It just takes a few easy steps and a little dedication to take control of your debt.

1. Get the facts—Collect all your account, loan and credit information and go over the records with a fine tooth comb. Write down the monthly payment, debt amount, interest rate and term of each debt on a sheet of paper. Next, write down your total monthly income and list your estimated monthly expenses. Order your Credit Report and Credit Score online to get a baseline for tracking your improvements.

2. Do the math—Calculate your monthly budget and find a way to reduce your expenses so that you are saving 10% of your income each month. Apply these savings toward paying off your debts. Use the following “accelerator margin” formula to decide what to pay first:

- a. Create a list of all your debts.
 - For each debt, divide the total amount that you owe by the monthly payment.
 - Put the debts in order, starting with the lowest division answer.

b. Each month make the current minimum payment on each debt.

- Except debt No. 1 (lowest division answer), to which you apply about 10% of your monthly income.
- Repeat until debt No. 1 is paid.

c. When the first debt is paid repeat the process by paying the minimum monthly payment on all bills except the No. 2 debt.

- Pay the 10% amount plus the amount you previously paid for debt No. 1.
- Continue until debt No. 2. is paid.

d. Begin eliminating debt No. 3 with your 10% savings and the amount you owed on former debt No. 1, No. 2 and so on...

3. Negotiate and consolidate—While you are working on reducing those balances with the “accelerator margin” schedule, try lowering the interest rates on some of the highest interest debts. Call your creditors and negotiate for a rate reduction or consider moving your balances to less expensive credit cards (this may cause a slight drop in your credit score if you open a new credit account). Also, take this opportunity to see if you have any account balances above 50% of the available line of credit. Having high balances can harm your credit score, you can help this by transferring some of the debts to different accounts.



4. Refinance—After taking control of your credit card and small loan debts, take a look at your major loans. Would it make sense to refinance your mortgage or auto loan? Reducing your interest rate by a few points can potentially save you hundreds each month. Talk with your lender about a home equity loan, you can apply the amount you pull out toward reducing your high interest debts.

5. Stick to the plan—Create a payment calendar with the due dates and the payment amounts you just calculated. Sign up for automatic bill payment through your bank or register for online payments to keep you on schedule. Track improvements in your credit profile by registering for Credit Monitoring. With this service you will receive quarterly updates, email fraud alerts, fraud resolution assistance and trending reports that highlight your financial changes over time. Set goals for reducing your debts and don't forget to celebrate when you reach a major debt-reduction milestone!

