Reducing Your Debts

1. Prioritize your debts. Debts are directly related to your ability to survive such as mortgages or other secured loans like auto loans should take first priority. If you default on these kinds of loans, you can face foreclosure or repossession. If, for example, your car is repossessed, it may affect your ability to work and adversely affect your income. Additionally, the car will be sold or auctioned off. If the sale of the car brings in less than you owe, you still have to pay the difference! In effect, you could be sitting on the bus and still making car payments.

2. Use cash for new purchases. Unless you pay off the entire balance every month, you are probably paying interest on new purchases from the date of the purchase. If you stop using your credit cards all together, you will be able to reduce your debt more quickly. Because of compounded daily interest, it is far better to use cash for the things you need and adjust your budget to accommodate those expenses than to use credit cards and then struggle to send large payments.

3. Set your own payment. Establish a budget and a tracking system for your income and expenses. Then you will know how much money you have available for credit payments. This amount must be more than the creditor's minimum payment. Once you have established amounts for each creditor, send your payments in regularly. When smaller balances are paid off, apply that money toward increasing the payments to your other creditors.

4. Pay more than the minimum amount due. When you compare the finance charge column and the minimum payment column, you realize that most of your payment is going toward interest and little goes toward the principle. When you increase your payment, the additional funds are applied directly toward the principle. Years of payments and thousands of dollars can be cut from the life of a debt simply by adding a few dollars to the payment. For example, if your minimum payment is $25 and $19 dollars are going to pay interest, that leaves only $6 for the principle. If you increase your payment to $31 this month, it is like making two months payments toward the principle-essentially doubling your payment. The more you increases your payment, the less you will ultimately have to pay.

Payment	Interest	Principle
$25	**$19**	**$6.00**
$31	**$19**	**$12.00**

5. Pay off higher interest rate cards first. Dedicate more money toward higher interest rate cards because you will ultimately save in interest. It is better to owe $100 on an account that has an APR of 14% than to owe $50 to one at 14% and $50 to another at 19%. Note if there are cash advances on any accounts. Cash advances usually command higher interest rates than balances on purchases. Usually, your creditor will divide the payment on a percentage basis between the two balances. If you increase your payment, the creditor will divide additional payments along the same guidelines unless you specify otherwise. For accounts such as this, after you decide how much extra you can send, consider making the minimum payment as usual and write a separate check for the extra funds. Stipulate in writing that the extra payment is to be applied directly to the principle balance for cash advances. Verify how the payments were distributed in your future statements.

6. Pay your bills when you receive them, not when they are due. Most creditors use the Average Daily Balance method of calculating interest. Reducing the average daily balance by making your payment sooner will ultimately reduce the amount of interest you pay.

7. Don't accept your creditor's offers to skip payments. Interest continues to compound while you're skipping your payment. The longer your balance goes without a reduction, the more interest you'll pay. If you've established your budget and have scheduled payments, continue to make those payments until the balance is paid off.

8. Consider transferring balances to lower rate cards. You may receive offers of credit with low-interest teaser rates. These low rates are called teaser rates because they usually only last for 3 to 9 months. They offer to transfer balances from your other credit cards to theirs with the lower interest rates. In general, an opportunity to pay less interest is a fairly good idea but, if you are considering this step, you must consider more than the teaser interest rate. Examine the contract carefully before you apply for the card.

Some More Tips

Do your homework -

- Prepare a budget; one of the goals should be to pay off your debts.
- Cut expenses where possible.
- Decide how much extra money you can afford, based on your budget, on your bills each month. Make sure you have an emergency fund of three months worth of expenses in the bank first. (If you don't have an emergency fund at all, then start saving for one month's worth of expenses. Once you obtain that goal, then work towards the second and third months' worth. If you try to come up with such a large sum of money all at one time, it is easy to get distracted or get discouraged. You will be more successful if you set obtainable, realistic goals.)

Strategies -

- Pay the extra amount available from your budget to your creditors like part of the bill. Do it regularly. If you send what's left over at the end of the month, there will never be any extra left to send.

- Compare the interest rates on your loans. Pay extra on those with the highest interest rates first.

- Shop for cheaper interest rates. Check with your local credit union, bank, or your life insurance agent to see if you can take out a loan with a lower interest rate to pay off those with higher rates.

- Most importantly, STOP CHARGING!