



In Debt? Here's How to Get Out of Debt — and Stay Out — for Good

Description

Canadians are no strangers to debt. In fact, just last week, [the Bank of Canada](#) expressed concern over growing levels of household debt, which has spiked since the start of the pandemic. Though they were mostly worried about Canadians taking on bigger mortgages, credit cards and personal loans were certainly on their radar.

If you're deep in debt, it can feel incredibly overwhelming. The APRs and interest rates start to eat into your personal income, robbing you of your ability to pay off debt faster. And if an emergency strikes, that's one more big debt you'll lose sleep over.

The good news? Millions of people have gotten out of debt before. It takes perseverance, sure. But with some simple steps, you can stay goodbye to debt forever.

1. Negotiate with your lenders

Let's be real: [the APRs on credit cards](#) and personal loans can be ridiculously high. Credit cards range from 0% to 30%, while personal loans can get as high as 45% (in Canada, 60% is the highest a lender can charge you).

Most people think once a lender gives you an APR, it's set in stone. But that's simply not true. If you're struggling to pay off your debt, you can always call your lender and negotiate a lower rate. Simply tell them what you're going through (or [use your superior negotiation skills](#)) and you could get a rate that you want.

While you're not guaranteed a lower rate, it's definitely worth a try.

2. Pick a debt pay-off strategy

Next, let's get organized and [make a plan](#). Pick a date in the future (three months, six months, one year away) and aim to pay your debt by that date. When you have a date picked out, you can work

backward. You can figure out how much you need to pay between now and then (per week, per month, per pay period) to become debt-free.

As far as *how* you pay off your debt, you have options. You could attack your least favourite debt (such as the debt with a lender who wasn't willing to negotiate your interest rate), or you could pick from common strategies, such as the debt snowball or debt avalanche.

I personally like the debt avalanche. With this method, you pay off the debt with the highest interest rate first. Once you've paid off this debt, you move to the debt with the *next* highest interest rate. You keep moving downward like this until you're completely debt-free. With this method, you can potentially save a lot in interest over the long run.

But the debt avalanche isn't for everyone. You might prefer the debt snowball instead. Basically, with this debt payoff strategy, you line your debts up from smallest to largest amount. You tackle the smallest one first, then move to bigger debts. The idea is that as you pay off smaller debts you can build momentum, which becomes so large you have enough drive and motivation (you're in a "snowball") to tackle bigger debts.

3. Make a realistic budget

[Living on a budget](#) is essential to getting out (and staying out) of debt.

When you live on a budget, you see the big picture of your expenses, which can help you make necessary cuts. You can also bracket your lifestyle with well-defined spending limits, ensuring you spend less than what you make.

You can create a budget in whatever way that works for you. But, for the purpose of getting out of debt, [the more detailed your budget, the better](#).

One approach is the 50/30/20 budget. With this approach, you put 50% of your take-home pay toward necessities, 30% toward "wants," and 20% toward debt payments (if you're out of debt, savings). You can adjust this to pay off debt faster. You could make a 50/20/30 budget and put 30% toward debt. Or, if you're really sick of debt, you could make a 50/10/40 budget and put nearly half of your take-home pay toward debt payments.

4. Stay focused for the long haul

Finally, don't give up. Depending on your level of debt, you may be living on a strict budget and paying off debt for a year or more. Trust me — it's worth it. Once you put your debt behind you, you can focus on other important financial matters, such as saving for retirement, investing in stocks, building a bigger emergency fund, and, most importantly, putting money aside for a well-deserved debt-free vacation.

For more help on getting out of debt, as well as taking control of your finances, take a look at [our checklist](#).

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Date

2025/06/30

Date Created

2021/05/28

Author

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