How to Reduce Your Debt

Description

Millions of Canadians out there have paid off significant credit card debt. Now it's your turn. In short, your get-out-of-debt goal is to assess, organize, attack, and then lather, rinse, repeat until those balances are down to $0.

Don't worry, because we're with you every step of the way.

Here's your six-step action plan for getting your debt under control. Take it at your own pace, and check off each step with a thick-line Sharpie when you're done. (Trust us, it's satisfying.)

1. Stop using your cards.

The last thing you want to do with credit card debt is add to it. Take all your credit cards out of your wallet or purse and leave them at home — safely out-of-reach behind a major appliance, or trapped in an ice block in your freezer. (You may want to keep one for emergencies. And no, a really great sandal sale or a cool new Bluetooth-enabled gadget does not qualify as an emergency.)

2. Assess your debt-to-income ratio.

It's time to face those debt demons and get a bird's-eye view of where you stand. Some debts, like mortgages and student loans, are just part of life. But the other ones (credit cards, car loans — a.k.a. "bad debt") can bring down your financial house of cards with an innocent sneeze. To calculate your debt-to-income (DTI) ratio, take your monthly debt payments all together (that includes your mortgage if you have one), multiply them by 12, then divide by your annual gross income (before taxes). That will give you a percentage.

If your DTI is at or below 35%, you're in good, or very good, shape. Between 35% and 50% is acceptable, mainly if that's loans like your mortgage or student loans. If your DTI is in this range, it's worth starting to think about how you can bring it down a bit. If your DTI is above 50%, that's the troublesome area. If you find yourself in that range, it's time to take action.

3. Dig into the details.

Don't just throw yourself at a mountain of debt without preparation. Knowing the dirty details about your enemy is half the battle in conquering credit card bills. How many cards do you have? What interest rates do they charge? Which have the highest balances? Are the payments flexible? Is the debt "secured" or "unsecured"? Get all of your information in one place so you can see what you're actually dealing with.

4. Reduce your interest rates.

One phone call can save you thousands of dollars. Sounds like marketing hype, but it's true. Getting your lender to lower your interest rate will fast-track your debt freedom plan. Sometimes lowering your interest rate can be as simple as a call to your lender. And the previous link includes a sample call script to help you make your sales pitch to your lender.

5. Plan your attack.

It's time to form your battle plan. Pick a date. That's when you'll celebrate "Freedom From Debt Day." When you have that date in mind, you can work backwards towards what you need to do between now and then to make sure you reach the goal line by that date.

6. Schedule a few (inexpensive) rewards.

Debt boot camp can get dull. Without a few treats along the way, you risk slipping back into old spending habits. Just like dieting rarely works if you never allow yourself to have the least little sweet treat, tightening the belt on your budget to work down debt is less workable if you don't have some release valves along the way. So plan for having some (small!) splurges along the way to help keep you balanced and motivated.

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