



A Quick Guide to Getting out of Debt

Description

Imagine being free of debt — no more sleepless nights over mounting credit card balances, no more ball-and-chain of debt feeding your anxieties, and no chance of threats from dreaded collection agencies. You can do it! Here's the scoop — in one minute flat.

Resolve to spend less than you make

Make it a habit as fundamental as stopping for red lights. Realize once and for all that if you can't pay for it today — you can't afford it.

Distinguish between Bad Debt and OK Debt

OK Debt has an interest rate well under 10%. In the best case, what you bought with borrowed funds will appreciate in value. Home mortgages and student loans are examples of OK Debt. Automobile loans are on the border: They often satisfy the low-rate piece, but automobiles almost never appreciate in value. Bad Debt is everything else — from debt on your titanium [credit card](#) to the 35% loan from Larry's Kwik Kash.

Pick a winner

Out of all your cards, pick the one or two major credit cards that feature the lowest annual interest rate. Resolve to use those cards for emergencies only. As for all the other plastic pals in your wallet, remove temptation by taking them *out* of your wallet. Throw them behind a major appliance, freeze them in a bowl of water, or decoupage them to a shoebox. Do whatever it takes not to use them.

Gather the latest bills from all Bad Debt accounts

Line these up on the kitchen table. Find the minimum monthly payment for each account and then add

these up to get an overall monthly minimum. Pledge to pay this overall minimum PLUS a hefty additional chunk every month — enough to make a solid dent in the outstanding balance of at least *one* account.

If you can't pull this off, you'll have to make a drastic move to increase your income or lower your expenses. It's harsh, we know, but it's also an inescapable fact.

Pick the highest interest rate account and: Attack!

Next, order the latest bills according to annual interest rate charged. Apply the "hefty additional chunk" (beyond the minimum) to the highest rate account(s). Repeat this process monthly until the last Bad Debt account is paid in full.

Ask for a lower interest rate

Grab a bill from any account charging you more than 14% interest. Dial the toll-free number on the bill and ask to have your rate reduced — say, to 11%. Tell them that you'd really like to stay with them out of customer loyalty (embellish according to your acting skills), but that you have received offers for much-lower-rate cards. Expect to be made very uncomfortable, but stand firm and remember that, to them, you are both a customer and a profit center. You also stand to save a bundle. The more calls you make, the more persuasive you'll become.

Be prudent

Be aggressive in paying down Bad Debt, but don't get so ambitious that you risk missing minimum payments on your mortgage, automobile, or any other secured credit account. (Secured means that if you miss enough payments, the bank can show up and take away your stuff.)

Dance, Fool!

You're done when the Bad Debt is 100% exorcised and you can make remaining OK Debt payments with ease, leaving plenty of budget room for savings.

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Date

2025/07/22

Date Created

2012/12/21

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