Top 10 Tips for
Paying Down Your Debt

Debt is not an inherently bad thing. Going into debt can help us get the things we need and want – a home, a car, an education, or even a vacation. But when debts get out of control, they have a way of making your life miserable.

By the time most people realize that they have a problem with debt, they're at the point where it's hard to even make the minimum payments. And if they only make the minimum payments, they will remain in debt for years to come. Here are ten tips for putting your debt behind you.

#1: Stop Acquiring New Debt

It sounds obvious, but surprisingly few people follow this advice when they're trying to get out of debt. If you want to make any progress on the debt you already have, you must stop taking on new debt.

Cut up the credit cards if you can't resist the temptation to use them, and avoid taking out loans unless absolutely necessary. If you have unexpected expenses such as car repairs or medical bills, try to work out a payment plan or sell something to raise the money before you borrow.

#2: Cut Your Interest Rate

The less interest you're paying, the quicker you'll be able to pay off your debt. So get on the phone with your creditors and ask if they can lower your interest rate.

But before you call, research rates for new cards and have them ready to increase your bargaining power. Tell the representative that you're prepared to get a card with a better rate and transfer your balance. Since they won't want to lose your business, they'll often agree to lower your rate, especially if you've been a good customer.

#3: Find Out if Your Can Transfer Balances

If you can't get a lower interest rate on existing cards, try to transfer balances on higher interest cards to cards with low rates. You may already have a card that offers a special rate for balance transfers – if so, check into transferring your other balances to that one. If your credit limit is not high enough, call the card company and ask if they will raise it.

Credit card companies frequently offer special balance transfer deals for new customers to get them in the door. By all means check into these, but be sure to read the fine print. Make sure you won't be paying more interest than you are now once the promotional period ends, and that you won't have to pay high annual fees or balance transfer fees.

#4: Snowball Your Debt

If you have several debts to tackle, the snowball method may be for you. It works like this: You choose one debt to pay down first…

Ideally this should be the debt with the highest interest rate, but it may also be the one with the smallest balance or just one that you want to get out of the way for some other reason. You pay the minimum payment on all of your other debts each month, and put all the money that you can toward the targeted debt. Once you've paid it off, you choose another debt and pay the amount you were paying on the first debt plus the minimum payment on that one. Repeat until everything is paid in full.

#5: Get a Home Equity Loan

If you have equity in your home, a home equity loan can help you pay off your debts. The interest rate will be much lower than the average credit card. The downside is that you could lose your home if you fail to make payments, so make sure that the payments are affordable and that you have an emergency fund to cover them in the event of illness or job loss.

#6: Borrow against Your Life Insurance

If you have a life insurance policy with cash value, you can borrow from it to pay off your debts. You'll get a nice, low interest rate, and since you're borrowing your own money, there are usually no late fees if you can't make a payment. The catch is that if you don't pay the loan back in full before you die, the outstanding balance will be deducted from the payout.

#7: Borrow from Your 401(k)

If you have a 401(k) retirement account, you have an additional option in borrowing from it. This is also your money, so it comes with low interest, and any interest paid goes back into your account. However, you'll have to repay the loan within five years, and if you leave or lose your job, you must pay the balance in full to avoid tax penalties.

#8: Take Money out of Savings

It’s always important to keep an emergency fund, but if you have extra money in savings, you could save money by putting it toward paying off high-interest debts. Just make sure to keep a cushion of at least three months’ worth of expenses. You can build up more savings once you’ve gotten control of your debts.

#9: Negotiate With Creditors

For those who seemingly have no options, negotiating with creditors can help. Call creditors and tell them that you’re having trouble making ends meet, and that you need their help to get your debt paid. Most are willing to temporarily lower your interest rate and set up a payment plan that works with your budget. They would rather work with you than have you file bankruptcy and risk getting nothing.

#10: Talk to a Credit Counselor

If you can't negotiate a workable deal with creditors on your own, consider credit counseling. When you talk to a credit counselor, you'll have to provide information about your income, your debts and your other expenses. They will determine how much you can afford to pay each month and negotiate with creditors on your behalf. When the negotiations are done, you'll make a single monthly payment to the credit counseling agency and they will forward payments to your creditors. This can work out well, but be sure to check out any organization thoroughly before you give them any of your money.

Paying down debts is much more difficult than accumulating them. But with some discipline and negotiating skills, it can be done.


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