

# Paying Off Your Debt

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Regardless of whether or not you're trying to specifically clean up your credit for a future purchase, it feels good to have a mountain of debt lifted off of your shoulders once you get everything paid off – or at least paid down to a highly manageable minimum.

Having some debt is a given in American society – such as a mortgage or a car payment. You *can* pay cash for those things, too – but at the very least you want to minimize your revolving credit.

## **Figure Out Everything You Owe**

The first step is to know where you stand. You don't want to just pay bills as they arrive in your mailbox, without knowing precisely how much you owe total – as well as a broken-down amount.

You want to organize your debt. You can do it with a pen and paper or use a tool on your computer like Excel, where you can create a spreadsheet. You want to know several things about your debt:

- The current total amount due
- The available credit
- The minimum payment due
- The percentage rate you're being charged.

Add up everything – including credit cards, money you owe to family or friends, medical bills, tuition, etc. Don't let yourself guess at these numbers – either look at your current statement or better yet, call for a current balance in case you've charged more since the last one was mailed out.

Make it a point to stop spending on your lines of credit that day. You want the arrow pointing down, not up in terms of what you owe to creditors and lenders. Pay cash for things from this point on.

You may also want to write out your current monthly bills that aren't based on revolving credit. This could include things such as:

- Electric bill
- Water bill
- Cable TV
- Internet Service
- Phone bill

Write down other monthly expenses, such as:

- Gas
- Groceries
- Haircuts
- Clothing

This helps you see what exactly where your money has to go each month. It might shock you to see it all laid out in front of you – especially if you're used to juggling bills and living paycheck to paycheck.

### **Decide How You Want to Pay Things Off**

There are two lines of thought in approaching how you should pay off debt. Both are considered the snowball method. Snowball means you start small and end up on a roll, making bigger payments.

The first method is widely approved by financial experts. It involves you going to that list of debt that you created and listing it in order of highest to lowest interest rate.

This means you pay off the card with the highest interest rate *first*, which saves you money in the long-run because you're no longer paying that high rate. This is sound advice, but there's another train of thought you might want to consider.

So for example, your list might look like this:

- Visa 29.99%
- Mastercard 23%
- American Express 15%

You can list your debt in order from smallest amount owed on your credit cards to largest amount owed. The idea here is that you'll find it very motivating to see a credit card paid off *in full* – and that frees up a minimum payment that you then apply to the next smallest credit card in your list.

Both ideas are good – only you can decide which approach would better suit you. If you want to cheer yourself on and celebrate each milestone, then option #2 might work better for you.

If finances are of utmost importance, then you might want the first option – because you can celebrate the money you're saving in interest. But pick a plan and then work it.

### **Create a Family Budget and Stick to It**

Without a family budget, you won't make much progress in how you pay off your debt – no matter which option you choose. You know how dieting is all about calories in – calories out?

Well money is no different. You want to spend less than you earn. Just as you listed your debt so that you could see it all spelled out for you, you have to do the same with your family money.

Write down what you earn and what your spouse earns. Pool all sources, including child support or alimony if you're divorced. Add up the incoming monies and compare it to the debt that you have in regards to minimum payments.

You want to tally up everything – school fees or activities, birthday parties, Christmas, and fun things you do as a family. You might need to go back through past statements to see what you've spent on discretionary items.

You're going to want to start building up a bit of a buffer or an emergency fund. You don't want to make arrangements to spend every last cent – when something unexpected might pop up that you have to address.

If you realize that you have too many bills all piling up at one time of the month, you can contact your lenders and ask for a new due date or billing cycle. This can help if you and your spouse get paid twice monthly, or weekly rather than one monthly payment.

As you start to get debt paid off, it's important that you update your monthly budget to adjust for things you've paid off or paid down – or when you have more money coming in.

### **Figure Out How You Can Earn More and Spend Less**

First let's talk about cutting down on your expenses. When you're serious about debt reduction, you have to feel the belt tightening – or else you're not doing everything you can to get out of debt fast enough!

Here are some things you can do to cut costs and save more money that you can put towards old debt:

- Get rid of unnecessary expenditures.

For example, do you really need the newspaper? Can you go online and read the news or watch it on TV instead? How about bottled water delivered to your doorstep – is it a luxury you can do without temporarily?

Do you have a landline and a cell phone bill? Would it be possible to get rid of your landline phone service and just go with a cell phone for the time being? If so, that's one less payment each month.

- Cut back on existing packages.

Cable TV is a budget buster. You might spend hundreds of dollars getting tons of movie channels and special packages for sports and entertainment. Cut back to a basic plan. If you need to, invest in a Netflix account for much less than you would a cable TV package.

If you can bundle things to save money, do it. For example, you might have your phone, cable TV and Internet service all with different companies. You can save money by bundling it with one provider.

- Save on electricity and water.

Make sure you (and everyone in your family) understands the importance of shutting off lights and conserving electricity for your monthly bills. Same with water usage – don't let the water run while brushing your teeth, and don't do small loads of dishes and laundry – wait until you have a full load.

- Quit eating out.

Eating out at restaurants doesn't help you stick to a budget. It might help you save time stopping by for fast food, but it can wreak havoc on your pocketbook and monthly budget.

- See who is charging you more.

If you have credit cards that are charging you annual fees, you can request that those be waived. Otherwise, you might want to shop elsewhere for a different line of credit with no fee.

You also want to check things like your bank accounts to see if they're charging you a monthly fee for using their service. There are some banks that will do away with this charge to keep you as a customer.

- Make a meal plan.

People who shop without a list tend to spend more than people who make a weekly meal plan and budget for their families. Shop based on whatever coupons your local store is offering in the weekly paper.

Make sure you pack lunches instead of eating out at work. As Dave Ramsey says, you can live on beans and rice while you're paying off your debt if you're serious about it.

- Look for cheaper forms of entertainment.

Don't have an official date night out every weekend where you're shelling out for an expensive dinner and a movie. Instead, invite other couples over and have game night at your house with snacks and wine!

Once you have seen how you can spend less, look at how you can earn more! Whether you get a second job, host garage sales, sign up for programs where you host parties and earn money, or make money working from home online – you can put all that extra dough toward your old debt.

### **Once You Get Out of Debt, Stay There!**

The most important thing to remember is that once you start digging your way out of debt, you can't fall back into the old trap a second time (or third or fourth). Some people find spending is a hard habit to break.

When you pay off your debt, you might find it hard to see all of that available credit and try to resist the urge to charge your cards up again. But a better way would be to save up the cash and spend it that way.

Using cash for purchases can often save you money – not just in the absence of interest charges – but because retailers will sometimes give you a discount when you pay cash.

Save up an emergency fund that covers at least 3 months' worth of your necessary payments. That way, you're covered in case you have an issue

that lasts longer than a few days off work – or an emergency pops up that you weren't prepared for.



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