

Dollars & Sense

HOW TO GET OUT OF DEBT

By Kate Rockwood • Illustration by Kate Collins

Total consumer debt (meaning credit cards, student loans, and the like) is now at an all-time high in this country, and according to the U.S. Department of Commerce, 43% of people spend more than they make each year. Plastic can be particularly onerous — the average American household owes about \$8,000 in credit card debt (in 1990, it was just \$3,000). Here's the good news: While eliminating debt is hard work, it's not rocket science.

SELF-ASSESS

Suck it up and give your finances a thorough inspection — there's no way you can whittle away at something when you don't know how big it is. Make a list of all of the debt you owe: credit cards, car payments, student loans, mortgages, personal loans, whatever, along with the interest rates you pay.

GET SMART

Rather than making a draconian budget that you're unlikely to stick to (like, say, \$20 per month for groceries?), track your real expenses for a month and then use that as a starting point to slim down your spending.

THE ART OF NEGOTIATION

When people call credit card companies and ask for a lower interest rate, they get it 56% of the time, a U.S. Public Interest Research Group survey reports. Before you call customer service, be armed and ready with backup information about yourself. Boast the length of time you've been a customer with the company and specific pre-approved credit card offers you've received lately. If the customer-service reps say they're not able to make the adjustment, tell them about the other offers, ask to speak to their supervisor, and — last resort — threaten to close your account.

CONSOLIDATE YOUR STUDENT LOANS

Most people with college or grad school debt are actually juggling multiple loans. Rolling them into one monthly payment through consolidation makes life easier. You can get a lower monthly payment and by consolidating, you can compare offers from different banks. When paying through automatic withdrawal or making several payments at once, look for good-behavior perks like interest-rate deductions.

DEBT MANAGEMENT RESOURCES

- **Big-Picture reading:** Check out *The Budget Kit* and *The Motley Fool Personal Finance Workbook* for additional tips, plus some background info on why so many people are broke in this country.
- **Call in the big guns with debt management programs:** If you're on a smart budget but your paycheck still doesn't stretch enough to make even your minimum monthly payments, it may be time to join a debt management program, which will collect one monthly payment from you each month and divvy it up among your

PRIORITIZE YOUR PAYMENTS

Now that you're rocking lower interest rates and getting better at budgeting, it's time to prioritize. You must make the minimum payments on each of your bills, no matter what — late fees and penalty charges will quickly make this feel like swimming upstream.

If you have any money to pay toward your debt above and beyond the minimum payments, start by putting every extra penny toward the debt with the highest interest rate (usually a credit card). Once you pay that off, take the amount that you were paying each month and put the whole amount toward the debt with the next-highest interest rate. Follow the domino effect and roll that monthly money down the list of debts. By concentrating your extra spending power on only one source of debt at a time and starting with the highest interest rate first, you get the most bang for your buck, plus a psychological boost as each debt gets wiped from your list entirely.

creditors at way lower interest rates. Stick to nonprofit organizations that belong to the National Foundation of Credit Counselors. In polling friends and acquaintances, Take Charge America got two thumbs up from several now-debt-free folks.

- **Debtors anonymous:** While it may sound extreme, talking to other people in the same boat sometimes helps. According to a June 10 *Wall Street Journal* article, debt support groups are gaining in popularity. Visit Meetup.com to join one of 138 groups focused on debt management.

