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MONEY WI$E
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MANAGING IN TOUGH TIMES INITIATIVE

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THIS MONTH'S TOPIC:

PAYING DOWN YOUR CREDIT CARD DEBT

According to NerdWallet's 2018 annual analysis of household debt in the United States, the average household with credit card debt has an estimated $6,929 in revolving balances. What's more, as many as 1 in 11 indebted Americans thinks that they will never be completely debt free. If you are among those American households with credit card debt then paying down your debt is priority one in terms of your household finance. Consider the following suggestions to help you finally break free from debt for good.

Diagnose the Damage

You can't begin to develop a viable solution until you understand the nature and scope of the problem. Gather all of your bills and statements and list all of the debt you owe. Determine how much you owe on each individual credit card and arrive at a grand total. It may be painful to finally see all you owe totaled in one number, but it is important to gain some perspective on the extent of your debt.

Plan Your Success

Now that you understand the problem, it is time to develop a plan. The way out of debt is the same as the way into debt: A dollar at a time.

Prioritize the credit cards that have the highest interest rates. These are the cards that pose the greatest threat to your financial health because the credit card with the highest interest rate is the one you are paying the most on relative to your principal balance. Therefore, these are the debts that you will want to tackle first.

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Also, be sure to actually write down your plan. You may think that you can develop a plan in your head all the same, but there is something to be said for committing to your plan by putting pen to paper.

Borrow from Yourself
If you have money in savings, you may consider using it to pay down your credit card debt. Your dollars go further towards debt than they do accumulating small amounts of interest in a bank account. However, do not use your emergency savings fund to pay down debts. You still want to keep three months of income in your emergency savings fund.

Cut the Fat
Once you have looked to savings accounts for extra dollars, it's time to begin shaving dollars off your budget. When governments find themselves in debt, they turn to austerity measures (i.e. cutting spending or increasing revenue) and you should too.

Begin by looking at your discretionary spending. Is there room to cut spending on entertainment or eating out? Are you packing your lunch every day and making your own coffee at home? Small changes in your day-to-day spending habits can add up to savings that will help you eliminate your credit card debt.

When governments get into debt, cutting spending isn't their only option. They can also increase revenue. In terms of your personal finances, that means looking for supplemental income. You may consider a part-time job on the weekend, selling unwanted items at a consignment sale, or babysitting for the neighbors. Any additional income helps to create a savings margin that will get you headed in the right direction.

Communicate with Creditors
Occasionally, creditors may consider lowering monthly payments, waiving fees, or even reducing your interest rate. You could also discuss your payment plan with creditors and ask for some leniency.

Consolidate Credit Card Debt
If you cannot reduce your debt with any of the steps mentioned above, then you may consider consolidating your credit card debt. However, beware: There are lots of potential traps that can push you even deeper into debt. For instance, some debt consolidation loans offer low interest rates that are not fixed. In other words, they are teaser rates that will later be increased. Also, although consolidating your debt may reduce your monthly payment, it may be because you will be paying over a longer period (and thus paying more money overall). Whatever you choose, be sure to compare loan terms and interest rates so you know how the loans compares to your existing debt over time.

References: NerdWallet, Annual Household Survey, 2018

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