

7 steps toward debt repayment



Carrying debt threatens your ability to spend on what you need now—as well as your capacity to save. Although paying off debt can seem daunting, you can start to tackle it by following a few simple steps.

1 Take stock of your debt

The first step is understanding what you owe. To start, make a master list of all your monthly credit card and loan statements. For each bill, include:

- The creditor's name
- The total amount you owe on that bill
- The minimum required monthly payment
- The interest rate (also known as APR)
- The payment due date

2 Determine how much you can pay



Add up all your monthly expenses: rent, car, food, utilities, health insurance and the minimum payments on your debts; as well as regular spending on things such as entertainment and clothing. Subtract that figure from your monthly after-tax income. The remaining amount is what you could put toward debt repayment each month—though you may also want to save some.


3 Pick up the phone

Call your lenders and explain your situation. They may be willing to lower your interest rate temporarily or waive late fees. You may also be able to lower your interest rate by transferring some high-interest credit card debt onto a new credit card with a lower rate (though that's not a long-term solution).

4 Start with a “target bill”

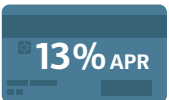
You can start with the bill carrying the highest interest, or the one with the smallest balance. Prioritizing the highest-rate debt can save you more money: You pay off your most expensive debt sooner. Paying off the smallest debt can eliminate a bill faster, providing a motivating boost. Whichever you choose, make sure to pay at least the minimum on all your debts.

**more money
saved**


18% APR
\$1,000 balance

VS.

pay off faster


13% APR
\$500 balance

5 Chart a payment path

Pay the monthly minimum on each debt. The exception: your target bill. Put more money toward this one to pay it down faster. Once you pay off that bill, choose another to pay down aggressively. Your monthly debt repayment total shouldn't change, even when you eliminate bills. This way you gain momentum as you go, putting more and more money toward each remaining bill.

6 Get creative

You can use your annual tax refund or holiday bonus to pay down debt. Look for small ways to save money every day, such as riding your bike to work, or eating in instead of dining out. Another way to make a dent quickly is to sell unused or unnecessary belongings—maybe downgrading your car to a more affordable model with lower monthly payments.

7 Break the cycle



As you start to escape debt, it can be tempting to reward yourself by splurging on a new smartphone or an expensive dinner. But just a few purchases can erase all your hard work. Instead buy things with cash or your debit card, and think long and hard before taking on any new debt.



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