



NEW YEAR'S RESOLUTION: PAY OFF DEBT

Choose the *best strategy* for you

By Brandon Ballenger | MoneyTalksNews.com

Credit card debt is sneaky. It starts off like a little brush fire but quickly explodes into an inferno, laying waste to your finances.

Millions of people find themselves in this unfortunate situation. But it's never too late to crawl out of debt. There are a lot of different ways to pay down your obligations.

The best way to kill off your credit card debt is to pay it down as fast as possible. That means devoting every spare penny – raises, bonuses, gifts and even the coins in your pocket – to paying down everything you owe.

If you decide to take this approach, you have two major options. Both require one common element: motivation. If you aren't going to make consistently paying down debt a priority, you lose out regardless of strategy.

OPTION 1: PAY DOWN YOUR HIGH-INTEREST ACCOUNTS FIRST

In this model, you make just the minimum payment on every debt except the one with the highest interest rate – which is the one costing you the most money over time. For that debt, you throw whatever amount you can regularly afford beyond the minimum at that debt until it's paid off.

Once that debt's gone, your debt-paying budget stays the same – you just shift the biggest payment to the debt with the next-highest interest rate, paying minimums on the rest, until that one is paid off. Then, you go on down the line like that, knocking off each subsequent top debt one at a time.

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YOUR QUESTIONS ANSWERED

Jeral Croaker
The Village Financial
Resource Center

Q: How can I improve my financial situation in the New Year?

A: Exercising more, eating healthier, and losing weight are usually at the top of the list for New Year's resolutions. Working on your finances is another great goal for 2020. There's no better time than the present to come up with a plan to eliminate some debt, save more money, and establish a monthly spending plan! Here are some helpful recommendations to get your finances back on track in the New Year:

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YOUR QUESTIONS CONT.

- **Regular monthly budgeting** is one of the best ways to keep yourself from overspending. It allows you to visualize where your money is going, so that you can prioritize your spending to ensure that you're living within your means. If you find yourself short each month, cutbacks and/or additional income will have to be made to balance your budget.
- **Saving money** is something that I cannot stress enough. Saving for those unexpected expenses that are inevitable in our lives is almost mandatory. Even if you're only placing a small amount into savings each month (\$25 to \$50), it allows you to use those funds instead of credit for emergency purposes.
- **Talking with your creditors** doesn't sound like much fun, and a lot of people don't like to do it, however it can be extremely beneficial if you find yourself in a financial hardship. Inform them of your situation instead of ignoring them or just not paying.

Some creditors will work out internal payment plans, usually lowering the amount owed, to help you free up additional dollars while you work through your hardship. Talking with your creditors can also slow down the process of foreclosures, evictions, or repossessions since you are staying in contact and working to get things resolved.

- **Sit down with a Financial Counselor** so that they can help you develop a plan and give you options and ideas on how to deal with your debt load. Financial Counselors can review your credit report, help you create a monthly spending plan, and possibly offer a Debt Management Program where your credit card debt can be consolidated into one monthly payment. This program locks in lower interest rates, and monthly payments, to help put more of your money toward the principal balances owed instead of toward high interest and fees that credit card companies love to tack onto your balance.

- **Checking your credit report** helps protect you from identity theft and allows you to review your personal report card on your financial situation. Like it or not, we all have a credit report and we need to make sure it's accurate and in good condition. Visit www.annualcreditreport.com to pull one free credit report from each of the three credit bureaus every year. Pulling and reviewing your own credit report will not negatively impact your FICO score. Once you have your credit report, make sure that all the information listed is correct. If not, you can contact the credit bureaus to update information and dispute any creditors listed that perhaps shouldn't be on there.

Make 2020 a year where you finally get a better grasp on your financial situation. Don't let the stress and anxiety of finances limit your way of life. Develop a plan, create some goals and begin saving for the future.

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The obvious advantage to this model is you save the most money possible over the long term. The downside: Progress may appear to be slower than it actually is. Having a large number of debts may feel more stressful even though you're paying down the debts in the most effective way to eliminate them.

OPTION 2: PAYING DOWN LOW BALANCES FIRST

As with the first model, you pay the minimum on all but one debt and "snowball" the payments from one debt to the next as they disappear. However, the difference here is that you focus first on the smallest debt, and move through them one by one, allowing you to knock accounts off the list faster.

The advantage? Having fewer accounts to juggle feels good. It's a result we can easily see: Balances shifting downward are not as impressive or obvious as a big zero. Some people need to see that kind of accomplishment to stay motivated.

Unfortunately, this means you're actually making slower progress on your overall debt because

those big-interest accounts are still accruing as you pay off the smaller balances.

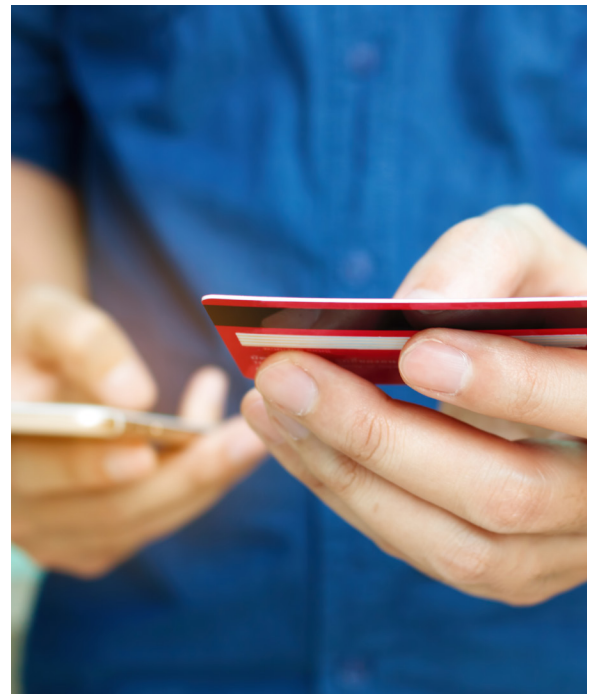
UNSURE WHICH OPTION IS BEST?

Imagine it this way: You're trying to bail out your sinking ship while sailing on a storm-tossed sea. Unfortunately, a bunch of creditors are standing behind you with beach pails, pouring more water in. The smallest guy with the littlest bucket is right in front of you. At the far end of the boat, a monster-sized jerk with a huge bucket stands, grinning with an evil gleam in his eye.

Since the big jerk has the biggest bucket, it makes sense to eliminate him first, then go to the next biggest jerk-and-bucket in line. But take another look – that guy at the end of the boat is awfully large, isn't he?

Perhaps it will be easier to tackle that big fella after you've eliminated the five smallest guys first.

The right answer depends on you. If you're ready for the challenge, head directly toward the big jerk. If you need



a bit more motivation and confidence, tackle those smaller jerks first.

No matter which path you choose, you can't go wrong as long as you start paying down that debt – right now, with all the energy you can muster.

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