7 STEPS
TO GET OUT OF DEBT

Don't just think about it, take action! Here are seven actions you can take to help you get out of debt and breathe easier.

1 Recognize there is a problem and commit to solving it.

Warning signs: You spend more than you earn each month. You skip payments on some bills in order to pay others. You make the minimum payments on your credit cards. You're maxed out on your credit card li mits. You're receiving late payment notices. **If you think you have too much debt, you probably do.**

By itself debt is not necessarily a problem. For instance, some people enjoy a tax advantage with their home mortgage interest write-off. However, if you're not reducing debt faster than you're accumulating it, then you need a new strategy. Banks evaluate your creditworthiness based on your total debt-to-income ratio. It's best to be under 30%. A ratio up to 36% is acceptable, while 40% is a red flag.

If you are married, make sure you both commit to your debt-free goal, or you may have trouble achieving success.

2 Do a complete written assessment of your current debt.

Researching and writing down what you owe can be the hardest part. Many people procrastinate on this step and live in denial about their debt because they don't want to face it, or they don't want to make behavioral changes. Don't fall into that trap, you can do this.

In a spreadsheet, list all outstanding debts, amounts, interest rates, minimum payments and payment due dates. Sort and organize them by interest rate, with the highest first. Total your debt and figure out your debt-to-income ratio. Include all credit cards, auto loans, mortgages, student loans, personal loans, medical bills—all debts.

Keep this written assessment, so you can look back later. At least once a year, check your credit report using a free service like www.freecreditreport.com to make sure that no one else is using your identity, and that your debts are accurately listed. Dispute anything that's inaccurate.

3 Document your net income and your monthly and yearly expenditures.

Create another spreadsheet, writing down exactly what you are bringing in (net after deductions) versus what is going out of your account. Examine your bank statements and include everything, and take note of any cash expenditures and what they're used for. Don't forget about incidentals, like clothing and haircuts.

Don't leave out yearly expenses like tax preparation, life insurance premiums, automobile tags/license renewal, birthdays or holidays. Convert them to a monthly amount by dividing by 12.

Organize by discretionary spending vs. monthly recurring bills like utilities, cable, cell phones. Think about your cash flow—when you get paid versus when your recurring bills are due—and order your spreadsheet accordingly.

4 Talk to your creditors/move things around.

If you've noticed that you have cash flow problems because of the dates of monthly recurring charges (utilities, cell phones, etc.), many companies will change your due dates for you.

Talk directly with your creditors. Many will work out a revised payment schedule. They might reduce your interest rate or fees, or might not report you to a credit bureau for late payments. CreditCards.com found that two-thirds of people who asked for a lower rate got it!

Consider transferring balances to 0% interest credit card accounts if beneficial. Read all the fine print to ensure that you won't end up with an even higher interest rate at the end of six months or a year. And if you have to pay a fee to transfer, it might not be worth it, depending on what you are paying in interest right now.

Refinance auto loans if the interest rate is too high. Credit unions are a good place to start.

If you have a high-interest mortgage loan, consider refinancing. The same goes for student loans, but remember, federal loans can offer more flexibility so be wary of losing that advantage—talk to them first.

In terms of paying off mortgages and student loans, remember that it is as important to save money as it is to pay these two balances down. After ensuring you have an emergency fund that totals three to six months of your monthly income, start saving for retirement, no matter how old or young you are. An emergency fund will help you avoid new credit card debt if the unplanned happens.

If you truly cannot make progress, consider professional help. Nonprofit credit counseling agencies can be especially helpful in helping you consolidate debt.

5 Create a debt-reduction plan along with a realistic budget.

Now that you've researched your options and written everything down, create a third spreadsheet that includes your debt pay-down strategy. Some people pay off the highest interest debts first, while others prefer to pay off the lowest balances first. Start small if necessary. Even paying an extra $10 a month toward a debt adds up over time.

Make the conscious decision to stop borrowing money. No more financing new furniture or cars, or putting dinners on your credit card to be paid later. You may have to live more simply for a while by making your lunches, brewing your own coffee and cooking your own meals. Couples need to work together on this.

Make your final budget realistic and obtainable, working on your debt repayment, necessary expenses and your discretionary expenses. Be one of the 39% of Americans who set a monthly budget and stick to it. Designate from 10% to 15% of your income towards savings—emergency fund first, then retirement.

Use any surplus cash—like a tax refund, windfall, inheritance or winnings—to pay off debt faster.

If your budget is simply unworkable, get serious about looking for a higher-paying job or take on a second job to bring in more income. A rule of thumb is that if necessary expenses total more than 50% of your income, you may run into trouble paying off debt if you don't start earning more.

Another option is to reduce major lifestyle expenses like housing by moving to a less expensive home, getting rid of extra vehicles or giving up an expensive gym or club membership. If you have enough space you could rent out a room.

Stick with your plan, and change it if necessary until you are debt-free. Leverage the power of peer pressure by asking a friend to hold you accountable.

6 Keep track of everything… and adjust.

Getting out of debt takes discipline over the long haul, and it's important to keep everything in writing so you hold yourself accountable.

Track your spending closely and stick to your budget when it comes to discretionary expenses. If you know you have a big expense coming up like a birthday dinner or gift, plan ahead and save up for it out of that discretionary budget line item. Buy in bulk and visit thrift shops. Plan activities that are free, like picnics or visits to the library. Sometimes using cash helps increase awareness.

Monitor everything. For instance, if you are getting a large tax refund, change your withholding amount to give yourself a larger amount every month to use toward debt epayment. (Decrease the number of withholding allowances on your W-4 tax form to increase your monthly take-home pay.) If you're spending too much on something, rein yourself in.

7 Celebrate successes.

Instead of deleting them from your spreadsheet, cross out debts as you pay them off so you see your progress. Every time you reach a milestone, celebrate with a little splurge that makes you feel good. But then get right back on top of your goals the next week.

Re-check your credit and your credit score regularly. Remember, it's going to take time. Slow and steady wins the race.

Celebrate your debt-free milestone! Then create a vision for what you really want to do with your money, whether it's college for the kids, saving for retirement or planning a special trip.

Work with a financial planner who is experienced to help you take the next step toward financial security.

Global View Capital Advisors

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