

# Tips to get out of debt

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Are you in debt and don't know how to get out of it? Here are six tips to get you started.

## Make clearing debt a priority

For the moment, don't look at avenues to invest your money. Just look at channelising all your funds towards getting debt-free. Look at all the possible avenues from where money could come in: an inheritance, a gift, a bonus, a tax refund. Use all this additional money towards repaying your loans. If you get an increment, don't invest the extra income or spend it. Channelise it towards your loan repayment. If your loan is a fixed amount every month, then accumulate the increment over a few months and pre-pay your loan. If your loan is a credit card debt, then repay it every month with this incremental amount.

## Stop using your card

Talking about credit cards, if you owe a huge amount on your credit card, stop using the card. Because if you continue to do so, it becomes very difficult to get out of debt. That's because the amount that you owe the bank is not just the outstanding amount which you have not cleared. Now, every single payment you make on the card also gets caught up in this loan. Say you owe the bank Rs 10,000 on your card. This month, you use your card thrice. Twice at a restaurant and once for shopping. You spend Rs 3,000 totally. When your next statement is sent to you, you now owe the bank Rs 10,000 + Rs 3,000. And, the rate of interest on the outstanding amount (Rs 10,000) is now applied even to the Rs 3,000. Let's say the bank charges 2.5%. That means, you have to pay 2.5% not only on the Rs 10,000 but on Rs 13,000. The more you spend, the bigger your loan gets.

## Keep a tab

If you are only using cash and no longer using your card, then it is easy to keep tab. Withdraw just what you need for the month and live within that amount. If you do not owe any money on your card and are using it, it is difficult to keep a tab on spending. What you can do is to keep a simple clip/placeholder on your refrigerator and keep all credit card spending counterfoils there or you could keep them in a little box. Everytime you add to this, total it up. If you have reached your limit, take the card out of your wallet and use it only after you have settled your bill. Not only will this help you get disciplined but if you constantly see what you spend, you will fear spending more (hopefully!).

## Curb spending

Ah! Sounds tough? Not too difficult actually. Don't stop spending altogether. Just curb it. Pick an area or two where you spend a lot: Eating out, shopping, visiting coffee shops, cigarettes. Now cut it down. If you blow up Rs 3,000 every month on eating down, cut it down to Rs 1,500. Channelise all these extra savings not towards other areas of spending but towards paying back your loan. That way, you still get to go out though not as often. Don't worry if your social life is hindered, its only for a while.

## Prioritise your debt

Don't try to settle all your debts at one go. You will panic and drown in it. Prioritise your debt. Select some

loans to be paid before the rest. Don't just assume that the largest loan must be repaid first. Look at other factors such as the tax benefits and the rate of interest on the loan. Once you prioritise you loans as "Urgent", "Not so urgent" and "Can wait", you will know where to channelise your extra money.

### **Have a time frame**

Don't just promise yourself that you will eventually pay back all your loans and get out of debt. Give yourself a time frame. If the debt amount is huge, then give yourself a couple of years. If it is not too bad, then maybe six months should be fine. During this period make a sincere effort to get debt free.