

# GET OUT OF DEBT

## The Best Strategy for Long-term Financial Well-Being

Smart consumers know that the best way to weather financial turmoil is to pay bills on time and eliminate debt. By doing so you will enhance your credit scores to make sure you are on solid financial ground. Financial expert Alvin Hall, best-selling author of *You & Your Money: It's More Than Just the Numbers*, says if you're in debt, you should commit to making 2008 the beginning of your new financial life. Hall offers EBONY readers 10 ways to get out of debt and on the road to financial freedom. "There is no magic, quick-fix way out of debt," he says. "It's always easier to get into debt than it is to get out of it. The process requires commitment and discipline on your part."

- 1 Understand and control the emotions that caused you to get into debt.** Overspending is almost always emotionally driven—a sense of entitlement to a certain lifestyle, the desire for status symbols (expensive car, big house, lavish apartment), the desire to keep up with one's peers, the need to feel valued and loved, or the need to feel better about oneself. Financial planning and advice will not help unless you understand your emotional weaknesses related to money and learn to control them.
  - 2 Keep a spending diary.** In order to figure out what's causing you to overspend, keep a daily spending diary for at least one month. Set up columns for the date, the amount you spend, the item you purchased, and the reason for the purchase or what you felt at the time of the purchase. Carry the diary with you everywhere and fill it in immediately after you spend any amount of money, no matter how small the amount. By the end of this one-month exercise, you will have a record of things on which you routinely (and often thoughtlessly) waste money, and perhaps, most importantly, examples of those moments of emotion-driven spending.
  - 3 Set a budget to determine how much you realistically can allocate to pay off your debts.** This will help you determine how much money you can commit to debt repayments each month.
  - 4 Set aside one day's earnings each week for paying off debt.** This is an alternative approach to allocating money for debt repayment. This means that you are allocating 20 percent of your take-home pay to erasing your debts and living within your means on the remaining 80 percent.
  - 5 Prioritize your debt payments.** Make a list of debts with the name of the creditor, total amount owed, interest rate and minimum monthly payment. Then focus first on the debt with the highest interest rate. After that debt is paid off, focus on the next, and then the next. The monthly amount you pay on the priority balance should include the amount paid on the previous debts. Thus you will be getting out of debt faster and faster as you move down the list.
  - 6 Call and ask creditors to lower the interest rate on outstanding balances.** Even if your creditor says no at first, try negotiating to have a reduction for three months or six months as a trial period during which time you promise to make all of your payments on time. (Keep that promise.)
  - 7 Set a fixed date to be totally debt free.** By setting a date, you give yourself a light at the end of what, at the moment, may seem to be a very dark tunnel. It's much easier to keep yourself motivated if you have a set goal to work toward rather than feeling you will be making payments endlessly. Another motivator is little rewards. As you reach goals, give yourself a low-cost treat as a reward.
  - 8 Pay cash.** Paying cash for your daily expenses helps you to put the brakes on your spending as you watch the dollars in your wallet dwindle. As part of this step, only withdraw a set amount (your weekly spending allowance) from the ATM or bank once a week. You must control your spending so you live within your means.
  - 9 Establish "no spending days."** Once or twice a week go through an entire day without spending money. Don't buy a cup of coffee or a magazine. Take your lunch to work. This is an important test of your discipline, a much-needed asset if you really want to get out of debt.
  - 10 Use any windfalls to negotiate payoffs.** Let's say you get a \$4,000 bonus and you have an outstanding balance of \$5,000 on a credit card; call and offer \$4,000 to clear the entire balance immediately. Try to get the support of the person you speak with. Emphasize that the company will get the money immediately rather than over a longer period of time. If you reach an agreement, be sure to follow up in writing or e-mail, and get a written response from the creditor agreeing to the proposed payoff before you send in the check.
- You must keep your eye on the prize of financial freedom, says Hall. "It often takes people four or five times as long to get out of debt as it did to accumulate it," he says. □