SBA Special Report

This information is provided for your education only by Systematized Benefits Administrators, Inc.

Get Out of Debt

Kick the over-spending habit

You know the difficulty in trying to rid yourself of a bad habit. You need self-discipline and, most importantly, a plan of action. In many ways, getting out of debt is similar. With the right game plan, your financial burdens can soon be a thing of the past.

Owning up to what you owe

How much do you owe? In our debt-friendly society, this question sounds as natural as, "How are the kids?" But as your mortgage, credit cards and other bills pile up, you may find that you're in over your head – without a plan to reduce your financial burden. Your goal, of course, is to get out of debt as quickly as possible. Only then you can begin to put money towards your savings, instead of in someone else's pocket.

So where do you start?

Like kicking any other bad habit, getting out of debt begins with changing certain behaviors. In this case, that behavior is spending more than you make. And the first place to start is with creating a budget and then curbing your credit card purchases.

Lists aren't only for Santa

Not spending more than you make seems simple enough. But it's easy to lose track of all your expenses. So make a list. Be sure to include **everything** on which you spend money.

Here's a good starting point:

Expenses	% of monthly budget
Housing	________________
Food	________________
Transportation	________________
Insurance/pensions	________________
Utilities	________________
Healthcare	________________
Clothing	________________
Entertainment	________________
Debt	________________
Non-Essentials	________________

Get your scissors

Next, decide where you can cut expenses. You'll have to make a few sacrifices, but they'll be worth it.

Some ideas:

- Refinance your mortgage
- Brown-bag your lunches
- Rent movies rather than going out to the movies
- Carpool
- Purchase a used car vs. a new car
- Have dinners at home rather than eating out
- Scale-back to basic cable rather than expanded or digital
- Reduce your clothing budget by 10%
- Cancel magazine subscriptions
- Make your own coffee rather than a daily trip to the coffee shop
- Conserve energy
- Buy fewer music CDs

When you've figured out where you can save money, the savings should go towards reducing your debt.

Say no to plastic – yes to paper

When you're trying to get in shape, you might clear your home of all junk food and stock your fridge with fruits and vegetables. If the fattening stuff isn't available, you reason, you're less likely to eat poorly.

When trying to cut back on using your credit cards, a similar strategy is to simply leave your plastic at home and carry real money (the paper stuff!) instead. Not a lot of money, just what you plan to use that day or that week. The key is to stick to a budget and avoid impulse purchases, which you'll find easier to do when you have to actually reach in your pocket for cash.

Use your credit card only for purchases that will still be around when the debt is paid off, like a computer or appliances. Avoid purchases such as meals or concert tickets, as by the time you pay them off, you may end up spending twice their original cost – with nothing to show for it.

Tackle your credit card debt

Once you have an idea of what your budget is and have begun making an effort to curb your spending, the following strategies will help you reduce your credit card debt:

- **Focus on high-rate debt first** – Pay as much as you can (more than just the minimum payment) on your highest rate credit cards, while making minimum payments on your other cards. When the first card is paid off, use the same strategy on the next highest rate card (and so on) until you're debt free.
- **Transfer high-rate balances** – Consolidate your high-rate credit card balances to a single, lower rate card. Intense competition has created a number of low-rate opportunities, so shop around for the best rate. Beware of "teaser" rates that start low and increase substantially after the introductory period.
- **Negotiate a lower rate** – Call your credit company and ask to reduce your current rate; threaten to transfer your balance to another issuer. With a good credit score, this strategy is often successful, as many companies are willing to lower rates to keep you as a customer.

Owe no more

The decision to begin paying off your debt is the most important one you can make for your financial future. Once you create a plan of attack that works best for you and your budget, you can begin to tackle your debt. To learn more about getting out of debt and saving for your future, contact your SBA representative.

Just paying the minimum each month is very costly.

Assuming an $8,000* credit card balance…

If your interest rate is	…and your minimum payment is…	…it will take this long to pay off your card…	…and cost this much in interest.
12%	$200	250 months	$5,180
18%	$200	360 months	$11,615
28%	$200	1,913 months	$107,149

*average American's credit card debt according to Frontline and www.pbs.org, 2006

The decision to begin paying off your debt is the most important one you can make for your financial future.