

Dumping your debt



Millions of Canadians set a goal for and succeed in paying off their credit card debt each year – is this one of your goals? With a little determination and a plan, you can take control of your credit, and improve your credit score in the process. Here's how:

CUT THE CARDS

The first step toward reducing your credit card debt is to stop adding to it. While you don't have to literally shred your cards, you do need to stop using them routinely. Try one (or all) of the tips below to break this habit:

Carry cash – give yourself a weekly cash allowance for expenditures. You'll be more aware of how much you actually spend; plus, once you run out of money, you're more apt to stop spending.

Use debit, not credit – For times when only plastic will do, use your debit card instead of a credit card.

Out of sight, out of mind – keep your credit cards at home and you'll be less likely to use them.

Think strategically – decide on two to four credit cards with which you have a lengthy, positive history, and close any other accounts. Having a few good accounts will boost your credit score, but having too many will hurt it (and may also keep you tempted to spend money you don't have).

LOWER RATES / CUT A DEAL

Once you've got your spending under control, focus on reducing your interest rates.

Negotiate rates – call up your credit card issuers and ask for a better rate. Explain that you plan to transfer the balances to another card unless your rate is lowered. Usually, borrowers with good credit scores can cut their rates by a few points – sometimes as much as 10%.

Transfer balances – consider transferring balances from cards with high interest rates to a different card. Look for offers with low introductory rates that are good for at least a full year, with relatively low rates thereafter. Read the fine print and pass up offers from cards with hidden fees or costs.

Shop around – do a little investigative work to find the best card offers. Check out www.cardweb.ca for current offers.

REDUCE YOUR DEBT

Now it's time to start chipping away at those balances. Develop a strategy and make it happen, using the following tips:

Sort it out – make a list of each credit card you have, its existing balance, minimum payment and interest rate. Use any of the online calculators listed here to help you determine which card to pay off first.

Free Online Debt Reduction Planners

CNN Money Magazine	http://cgi.money.cnn.com/tools/debtplanner/debtplanner.jsp
Quicken	http://www.quicken.com/planning/debt/

Develop a plan – pay as much money as you can on your card with the highest interest rate, while paying the minimum on the other cards. This additional payment on the high-rate card will help to pay off the principal faster.

Build a debt snowball – once your highest interest rate card is paid off, take the same amount you've been paying on that card and add it to the minimum payment on the card with the next highest interest rate (this is commonly referred to as "snowballing" or a debt-reduction rollover of your payments). Continue to pay the minimum on the remaining accounts, repeating the process until you're debt-free.

Have a back-up – keep one low-interest card put away for emergencies, but maintain a zero monthly balance at all times by paying it off when due.

THINK AHEAD

Now that you're debt-free, start thinking even further ahead:

Invest – begin to invest the same amount of money you've been applying to debt every month. You've trained yourself to live on less by paying as much as possible toward your debt each month, now take that philosophy and use it to your advantage, reinforcing that thrift must continue in order to develop a mindset of abundance.

Visualize – spend a few moments each day imagining what it will feel like to be debt-free, paying cash for every purchase, and looking forward to a comfortable retirement!

RE/MAX

