TOP 10 DEBT-DESTROYING STRATEGIES

Debt-Destroying Strategy #1: Get a Vision!

Write a vision statement with short-term financial goals and long-term financial goals. Keep it simple. Track your spending. To ensure you understand where all your money is going, track all spending for 30 days. If your bank has online features, it may have most of the information you need. Create a budget. Use your spending data to create a monthly budget. Adjust your spending to be in line with your vision. Today there are tons of apps that can help with budgeting and saving money.

Debt-Destroying Strategy #2: Look for Savings & Find Money!

Evaluate what could be removed from your lifestyle for a season to accelerate the reduction of debt. This only works if whatever is saved is applied to paying down debts. Consider refinancing your home but only if the total paid over the life of the new loan would be less than you would pay over the rest of your current loan. Look at a shorter-term loan. The interest rates on a 15-year mortgage are lower than on a 30-year mortgage. Shop around for cellphone providers, cable/satellite providers, auto/home insurance, charge card providers, etc., for savings. Prices on these items can be negotiated, so do your homework and talk to other providers before calling your existing providers because they'll often try to match those offers to keep your business.

Debt-Destroying Strategy #3: Commit to "No New Debt" and Saving $1,000

Stop using charge cards. Break the cycle of debt. Cut up your charge cards or leave them at home when you go out. Interest rates on charge cards can be up to 33% a year. Making minimum payments is not the way to acquire assets. It makes the item two to three times more expensive than if you would have paid cash. Adding no new debt allows you to focus on eliminating the existing debt and start saving. Saving $1,000 in an emergency fund will stop the cycle of new debt that often arises from unexpected emergencies. Keep this money in a savings account and do not use it unless there is an unexpected emergency (e.g., car breaking down, unexpected medical bills).

Debt-Destroying Strategy #4: Make a Charge Card Plan

Studies have shown that shoppers spend up to 18% more when they use charge cards vs. cash. Consider using cash. Only use your charge card if you have the cash in the bank to pay it off. Use your charge card companies' online payment process to make the payments as easy as possible. Call and talk to each of your charge card companies and ask if they can give you a better interest rate than the one you have now. Consider a balance transfer if you have a charge card with a lower rate and you have enough credit available. Confirm that the "balance transfer" interest rate is the same as the interest rate for "purchases." Be aware of short-term balance transfer rates that may go up significantly after a period of time. Be sure to close the original account once the balance is transferred by calling the company, then destroy the card.

Debt-Freedom Strategy #5: Use Cash for Areas Where Spending Fluctuates

Set aside cash every paycheck for essential & nonessential areas, making spending more predictable & avoiding the need to borrow in the future. Use separate envelopes that are clearly marked to keep cash separated. This allows you to see where you stand in spending at any time during the month. Essential areas: Groceries, clothing and car maintenance. (Studies show that we spend more when we shop hungry/tired and spend more if we pay with a debit/ charge card vs. paying with cash.) Nonessential areas: Dining out, entertainment, birthday, anniversary, & Christmas gifts. To plan effectively, estimate annual spending and divide by your number of paychecks.

Debt-Destroying Strategy #6: Use a Debt Snowball to Pay Off Debt Faster

Write down all of your debts, excluding your house debt, from smallest to largest. Add up all of the minimum payments into one big payment, which is being made to different places. This is critical. Once a debt is paid off, your payment amount does not go down. Instead, you take the amount you would have paid and apply that to the next debt. You continue to pay the same amount every month until all debt is paid off. Make the minimum monthly payment on all debts, while using all extra available cash to pay down the smallest debt. This will accelerate the payoff of the smallest debt. When the smallest debt is paid off, do not change your overall payment amount. Instead, add the amount you have been paying toward the smallest debt to the minimum payment on your next smallest debt. Continue until you have paid off all your debt.

Debt-Destroying Strategy #7: Generate Extra Cash

If you regularly receive a large income-tax refund, consider adjusting your payroll withholdings. For example, a $3,000 income-tax refund equates to an extra $250 per month to add to the debt snowball. (Link to IRS Withholding Calculator: www.irs.gov/Individuals/IRS-Withholding-Calculator) Use the 12-month rule. If you haven't used something for 12 months, it may be time to sell it. Consider a garage sale or using Craigslist. This extra cash should be added to your debt snowball. Use additional income—part-time jobs, bonuses, raises, etc., to accelerate the debt snowball.

Debt-Freedom Strategy #8: Pay Off Your Mortgage

Once all other debt is paid off, use the money you no longer pay to charge card companies, student loans, etc., to pay off your house debt. Pay the one big payment amount we talked about in step #6 to your mortgage company. You will need to check your loan documents or with your mortgage company on how to ensure the additional payments you are making are being applied to principal. For most fixed rate loans today, payments above the normal payment are applied to the last payment of the loan. Keep a copy of all extra payments made and track the loan balance to ensure you are getting credit for your additional principal payments. Make a half payment every two weeks. This equates to one extra payment per year. Check with your mortgage institution; they may offer a "biweekly payment plan." This could knock seven years off a 30-year mortgage! At $800 per month, that comes to $67,200 savings! If a significant amount of the total loan amount has been paid down, consider talking to your mortgage institution about re-amortizing the loan. This will allow for the money paid in advance to have the most impact. It will cause your loan to be paid off quicker, because the prepayments you made are impacting your compound interest calculation.

Debt-Destroying Strategy #9: Avoid Car Debt

After your car is paid off in the debt snowball, begin saving the monthly payment. Buy a newer used car with cash every three to five years.

Debt-Destroying Strategy #10: Stay Out of Debt

When all debt is paid off, begin increasing savings from $1,000 to three to six months of living expenses. This will allow you to have a little more freedom in your spending. Here is the fun part! Begin saving to make an extravagant offering or to sow a debt-free seed into a family/ministry. Begin saving for college or vacations and other large expenditures. Make investing a non-negotiable. Save 10 percent or more every paycheck. Think long term. (Proverbs 13:22 says, "children's children.") Think in terms of 40+ years. Saving $450 per month for 40 years earning nine percent = $2.1 million.

BONUS KEYS TO SAVING MONEY

Master the 30-Day Rule: Avoiding instant gratification is one of the most important rules of personal finance, and waiting 30 days to decide on a purchase is an excellent way to implement that rule. Quite often, after a month has passed, you'll find that the urge to buy has passed as well, and you'll have saved yourself some money simply by waiting. If you're on the fence about a purchase anyway, waiting a while can give you a better perspective on whether it's truly worth the money.

The Quadruple Casserole: We all know that casseroles are nice, easy dishes to prepare. The next time you make a casserole, make four batches of it and put the other three in the freezer. Then, when you need a quick meal for the family, you can grab one of those ready-made casseroles and just heat it up. Preparing a few at once allows you to buy the ingredients in bulk, which can mean additional savings. Meanwhile, having several casseroles in the freezer makes it less likely that you'll turn to fast food or junk food when you're in a hurry.

Create a Visual Reminder of Your Debt: To put your debt into terms that are easy to understand, make a giant progress bar that starts with the amount of debt you have and ends with zero. Each time you pay down a little bit, fill in a little more of that progress bar. Keep this reminder in a place where you'll see it often, and keep filling it in regularly. It can help keep your eye on the prize and lead you straight to debt freedom.