Ask the Budget Guy

Submitted by Allen Gunter

Set 'Em Up and Knock 'Em Down!

CONGRATULATIONS!! You're firmly commited to getting out of debt (see *Here's My Wallet,* October newsletter). You've gotten your expenses in line with your income and you're not adding to your debt (see *It's Really About the Tree*, November newsletter). And now you're looking for the best way to blast your existing debt to smithereens.

Start with your credit cards, store charges, and other time payments. (We'll get to your car notes and mortgage next month.)

1. Don't Play Their Game

Why do the minimum payments on credit cards go down each month? Because that will keep you in debt for a long time and make it easier for you to add to your debt.

Suppose you have $5,000 in credit card debt at 12% interest and your monthly minimum payment is 2% of the balance. That means that your minimum is $200 in the first month. Here's how long it will take you to completely pay off that $5,000:

Monthly Payment	Time to Pay Off	Interest Paid
Monthly minimum	21 yrs, 7 mos	$4,545
$200	2 yrs, 5 mos	782

That's right – keeping your monthly payment at $200 instead of reducing it as the monthly minimum goes down makes a ***huge*** difference – *more than 19 years* on the payoff and *nearly $3,800* in interest!

Decide how much you can pay each month and stick with it, even though the minimum amount you're required to pay goes down.

2. Pay as Much as You Can

As you put your budget together, you may have found some spending that you can reduce or eliminate, at least for a while. If not, look again. The more you can pay each month, the faster you will get out of debt and the less it will cost you.

Keeping Christmas Debt-Free...
...It's as Easy as 1 – 2 – 3

1. Decide how much you can spend…
…BEFORE you ever set foot in a single store or click on an "Add to shopping cart" button.
2. Make a list…
…of everyone you want to give a present to, and how much you can spend for that present. If your total spending on the list is more than the amount in Step 1, change your list.
3. Stick to Steps 2 and 3…
…like super glue wrapped in steel bands and encased in cement.

3. Divide and Conquer

Pick one card, store note, etc. to annihilate first. Pay only the monthly minimum on everything else and pay all of the rest of your total monthly payment on the "doomed" debt.

Which one should that be? If you want to get out of debt the fastest and save the most on your finance charges, start with the balance that has the highest interest rate. If you want to get at least one balance paid off as soon as possible, start with the balance that is the smallest.

Since the total amount you're paying each month stays the same, the amount going to the "doomed" debt goes up as the minimum on your other cards goes down. And that means your "doomed" debt goes down pretty fast.

4. "Snowball" Your Payments

When you get the "doomed" debt paid off, all of that money gets added to the money you're already paying on the next debt you decide to get rid of. That balance will fall so fast you'll be dancing in the streets!

5. Reduce Your Interest Rate

This is the first thing many people try to do to get out of debt. Unfortunately, there are many, many pitfalls and "gotchas". And since I'm out of space for this month, come back in January and we'll take a look at ways to *safely* reduce your interest rate. In the meantime, get started on the payment plan described above. It's the foundation for getting out of debt.

Part of my job for SHPC is to help people get out of debt. It's free, and it's confidential. Just call the Budget Guy, Allen Gunter, at 892-3580, ext. 122 or send an email to BudgetGuy@SHPC.org. And check out the Crown Financial Ministries Small Study Groups and Sunday School classes. Call Ron Miller at 892-1862 for more information on those.