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Reduce credit-card debt by budgeting, and spend only by debit, cash, check

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BANKRATE.COM

Q: I am in a lot of debt. I make \$40,000 a year and have \$16,000 in unsecured debt. I am slowly trying to pay off credit cards and then close them. I tend to find myself making large payments on the credit cards, but then needing to use them because I don't have enough cash on hand. I know I need to pay them off, but using them again because I need them is defeating my purpose. What should I do?

A: You are truly on a mission. First, let me congratulate you on your resolve to pay off your credit-card debt. I hear the frustration in your letter and believe I can help.

You are doing most things right in your efforts to pay off your debt. From what you have written, it seems you do not have a firm grasp on your total monthly expenses. The result is that you pay more than you can actually afford toward your card balances only to have to cover the shortfall later. That is where you need to start.

You can put together a budget, which is always a good exercise, or in your case you might try a shortcut as you seem to be more mistiming expenses rather than overspending.

Here's the plan: For two months, pay your normal expenses and only pay the minimum payments on your cards. Save all the money leftover from your paychecks in a separate account if you have one, or record the balance separately from the rest of your money in your check register. Now you can clearly see what you can afford to pay on your cards beyond the minimum.

If there is little or no money accumulating in your separate account, then you will need to take a hard look at what you purchased and decide if those purchases are more important to you than paying off your debt. Whatever you decide, you will need to act accordingly. In either case I suggest you stop spending by using the cards and instead use cash, checks or debit cards as much as possible.

Each of us defines progress differently. Here are two suggestions to consider. Put most of your available money each month toward the lowest balance card and pay it off quickly. You will see progress as the number of cards with balances goes down. Or choose the card with the highest interest rate, regardless of balance, and pay it off first. You will see your interest-rate savings accrue over time and more money will go to principal payments.

DEBT ADVISER

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