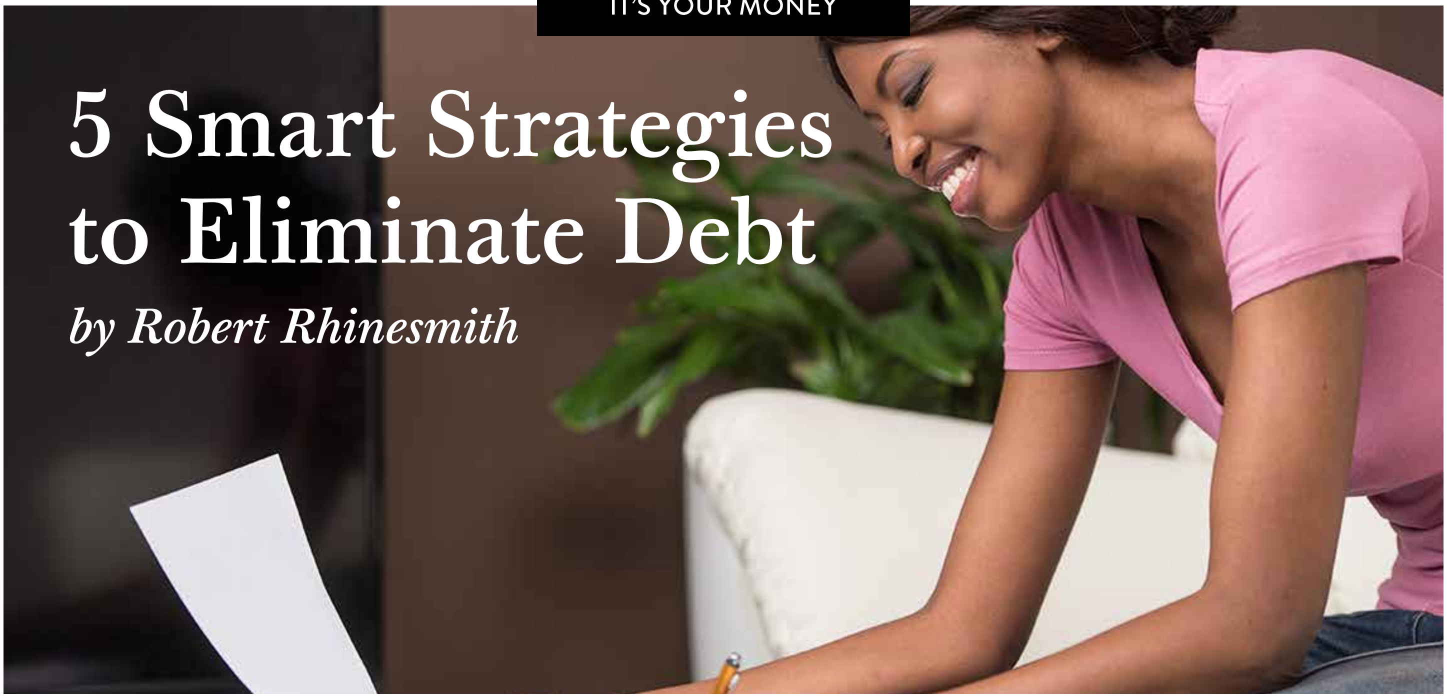


5 Smart Strategies to Eliminate Debt

by Robert Rhinesmith

Weighed down by credit-card bills?

Do your credit card balances keep you awake at night? Have they wrecked your credit score? Short of winning the lottery or coming into a large inheritance, you won't find a quick-fix solution that will make your debt disappear, despite what solicitors or infomercials might have you believe.

There are, however, many reliable strategies for paying down your debt. They've worked for others. Will they work for you? Ultimately, you'll achieve success by

- Picking a plan that appeals to you.
- Sticking with it until you're debt-free.
- NEVER, EVER USE A PAYDAY LOAN SERVICE!! (There are no usurious use laws in some states, which means a lender can charge you ANY interest rate they choose! I've seen rates as high as 300%!!!)

Minimum payment due, read the box on your credit-card statement. What an enticing idea: Pay a small amount and you don't have to worry about the bill for another month! Alas, as the more than 45 percent of Americans who carry a balance every month know, that rotating charge usually comes back to bite you. For example, a cardholder who owes $15,956—the average amount of debt per household, according to Ben Woolsey, the director of marketing and consumer research for CreditCards.com, a credit-card–comparison site—will end up shelling out an additional $11,000 in total interest if they pay only the minimum each month.

You may have had a very good reason for running up high-interest debt: Maybe you had to make some unexpected big-ticket purchases or lost a job or endured an illness. But regardless of the cause, ridding yourself of that balance should be your top financial priority. "You need an action plan to help you work at reducing and eventually eliminating what you owe," says Gail Cunningham, a spokesperson for the National Foundation for Credit Counseling, a nonprofit organization. This action plan needs to be committed to writing and placed in a conspicuous place where you'll see several times each day.

Ask yourself: What short-term financial goal will make me feel as though I'm making meaningful progress on debt reduction?

Here are five smart strategies for developing a debt elimination action plan.

1. TARGET JUST ONE CARD FIRST

If you're carrying balances on multiple cards, it's a long slog to wipe out those debts. So give yourself a boost of instant gratification right from the start, says Mary Ann Campbell, a certified financial planner in Little Rock, Arkansas. Ask yourself: What short-term financial goal will make me feel as though I'm making meaningful progress on debt reduction?

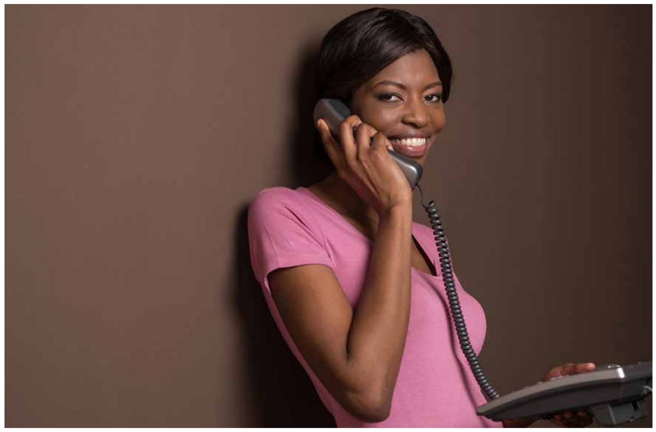
If your answer is "Having one card totally paid off," then throw as much money as you can toward the card with the lowest balance first, says Curtis Arnold, the founder of CardRatings.com, a credit-card–comparison site. (Yes, do this even if you need to pay only the minimum on your other cards in the meantime.) If your answer is "Boosting my credit score," then tackle the card with the highest utilization rate (that's your balance divided by the card's limit). Since your score takes a hit if you use more than 30 percent of your available balance, bringing the utilization rate down just 20 percent could significantly increase your score. And if your answer is "Paying less in interest," then the tried-and-true method is to pay off the card that has the highest interest rate first.

2. ASK YOUR CREDITORS FOR LOWER INTEREST RATES

Often a simple phone call to the issuer is all it takes to get a reduced rate—provided that you have good credit (a score of 730 or higher) and you are a long-term customer who makes payments on time. You could get a percentage point or two shaved off, which can add up to hundreds of dollars saved annually. One tip to try: "If you've been offered a lower rate by a competitor, tell the customer-service rep," says Bill Hardekopf, the CEO of LowCards.com, a credit-card–comparison site. "There's a chance they'll match the offer."

3. TRANSFER YOUR BALANCE (CAUTIOUSLY)

It's tempting to move a balance from a card with a high interest rate to a card with a substantially lower one (find one at Bankrate.com). And potentially that's a smart move; you can save hundreds of dollars a year. But be careful: You should transfer a balance only if you're committed to paying off the debt within an introductory low-interest-rate window (which typically lasts 12 to 18 months after the first billing cycle closes), and to making monthly payments on time, says Arnold. Otherwise your rate could skyrocket, possibly ending up higher than the one you just got rid of. (Important: You should also avoid making any purchases with the new card, as sometimes the low interest rate won't apply to them). In addition, find out if the issuing institution charges a balance-transfer fee, which may be up to about 3 percent of the total amount transferred. (To calculate how much this will cost you, go to smartbalance-transfers.com.)



4. USE A PEER-TO-PEER LENDER

In an ideal world, you would pay off your credit card in full and be free and clear. But if you can't do that, consider borrowing money to pay off your card from a peer-to- peer lender, such as the websites LendingClub.com or Prosper.com. These secure sites offer loans with fixed interest rates that can be 20 to 30 percent lower than most credit cards, meaning you could save hundreds of dollars in interest on your debt, says Lynnette Khalfani-Cox, a cofounder of AskTheMoneyCoach.com, a personal-finance site. If you have a job and a good credit score, you may qualify to make an online loan request for up to about $25,000.

5. IF YOU'RE REALLY STRAPPED, MAKE TWO MINIMUM PAYMENTS EACH MONTH

Card issuers typically charge interest on a daily basis, so the sooner you make a payment, the faster your average daily balance is reduced, the fewer dollars in interest that you ultimately pay. If you're on a tight budget, go ahead and pay the minimum due each month, then try to make the same payment again two weeks later. Making twice monthly payments will more than cut your interest charges in half. Keep making a payment of the initial minimum-due amount twice a month until your debt is paid off. (To keep track, put a reminder on your phone's calendar.) Example: Say you charged $2,000, on a card with an 18 percent interest rate. If you make only the minimum monthly payment, (which is about 2 percent of the balance), it will take more than 21 years to pay-off the balance. But if you make an additional payment of the original amount two weeks later, you will be debt-free in about three (3) years.

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