

## HOW TO GET OUT OF DEBT

In my time working with customers regarding money and budget, I've come to a realization: while there are many actions that you can take to get out of debt, there is only one overarching secret to it, and that secret is ... break the large problem (your debt) down into smaller problems with corresponding actions to fix them.

What do I mean by that? Well, if you've ever had debt (or have it right now) you can probably testify to the feeling that the problem seems so big and so overwhelming that you're too afraid and/or discouraged to even think about how to tackle it.

That overwhelming feeling is like a monster that feeds off of your own uncertainty. In order to kill the monster, you have to understand your situation better and see the steps ahead that can take you to freedom. Then the monster will have no more power over you and you'll be ready to get out of debt.

That's why this secret is so powerful. By breaking it down into small, manageable problems instead of looking at it as one big, seemingly insurmountable problem, you give yourself a path to freedom — and that makes all the difference. Here's how you do it:

### **Small Problem #1: You Don't Know Where Your Money Goes**

Okay, so we need to take away your fear and replace it with facts. The most important facts: How much you spend each month and where your money goes.

**Small Action #1:** If you make most of your purchases with a credit card or debit card, log into your online account and find where it shows your purchase history. Then add up all your costs in each category, such as Groceries, Entertainment, Rent, Utilities, Transportation, etc. This should only take ten minutes and it will give you a concrete view of your monthly budget. If you use cash instead of plastic, you'll need to track your spending for a month in order to get this data.

### **Small Problem #2: You Spend Too Much**

This is a tough one for many of us. With all of the advertising out there, it's easy to get caught up in a mentality of buying your way to happiness. However, new iPhones, new outfits, or new cars rarely make us happy in the long run. Instead, they can mess up our budget and make us unhappy because they prevent us from reaching financial freedom.

**Small Action #2:** Examine your spending behavior and begin to change your mentality. Remove the triggers in your life that enable you to overspend. Take your credit cards out of your wallet (and freeze them in ice if necessary). Only use debit cards, cash or checks. More importantly, challenge yourself to find new ways of getting pleasure and happiness without spending money. There are many fun things you can do for free — so go out and find them! (If you suspect you have a serious spending addiction, you may want to get professional help.)

### **Small Problem #3: You Don't Know Which Debt to Focus On**

This can be one of the trickiest parts of getting out of debt, especially for those who have several credit cards plus other types of debt like student loans, medical debt, etc.

**Small Action #3:** In general, you want to pay off the debt that has the highest interest rate first. That's because you will save yourself money by avoiding unnecessary and excessive interest charges over the life of your debt. But also see if you can obtain a lower interest rate: call up your lenders and ask them for a lower rate and if they say "No," look into balance transfer options or even think about getting a consolidation loan. You can save a ton of money by lowering your interest rate a few percentage points.

#### **Small Problem #4: You Can't Stay Motivated with Your Debt**

This is when the monster is dangerous. The monster loves it when you don't have any motivation because that makes it more likely you won't figure out how to get out of debt.

**Small Action #4:** Motivation is a tricky thing, but what I've found is there are a few things that can really increase your motivation: your family, your life goals, or winning a challenge. Whichever of these speaks most powerfully to you, use it as your key to motivation. If it's your family, make an "inspiration board" with pictures of your family and all the things you'll do together once you get out of debt. If it's your life goals, then write down those goals (buying a home, retiring early, etc.) and place them in a prominent place where you'll see them every day. And if it's winning a challenge that motivates you, then give yourself a specific date when you plan to be debt free and circle it on all of your calendars. Then you'll want to prove to yourself that you can actually do it — which will keep you focused!

#### **Small Problem #5: You Don't Have Enough Income**

This is a hard one. You might think it's a big problem rather than a small problem, but actually these days there are small actions you can take to increase your income a little bit at a time.

**Small Action #5:** If you want to make more money on the side (in addition to your regular job) think about part-time work you can do evenings or weekends (Wal-Mart, for example, hires lots of part-timers). The other thing you can do is start looking into ways to increase your salary at your full-time job (more overtime, perhaps, or swapping for a shift with a pay differential). Find out what income other people in your field make and see what skills or new job opportunities might lead you to a higher salary eventually.

Now you know the secret to getting out of debt! If you use these 5 small steps to get out of debt, you'll be much more successful than those who continue to let fear and inertia prevent them from taking action. You need to conquer that debt monster, and with these steps you can do it!