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Rein in your debt

Four strategies to help you get your debt back under control

By MoneySense staff | Online only, 22/08/12

Tags: credit cards, debt, financial consolidation, Power of Advice, saving

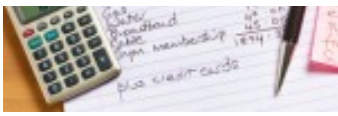


No one wants to borrow more than they can afford, but life doesn't always go as planned. With a few effective strategies you can get your debt under control.

1. Look for lower interest rates

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Ask your credit card provider to lower your interest rate or transfer your high-interest credit card debt to a card that charges less. “The key when you make that phone call is to tell them you’re simply looking for their best rate, and not to tell them you’re struggling,” says Debbie Gillis, credit counselling manager of K3C Credit Counselling in Kingston, Ont.

2. Consolidate debt with loans or a line of credit

Apply for a debt consolidation loan or a line of credit, since they charge lower interest rates. You can pay your debt off faster if you pay less interest, since more of your money will go towards your principal. Better still, you’ll only have one payment to worry about each month.

3. Refine your debt-paying strategy

Pay off your highest-rate debt first. It may take longer to pay off, but you’ll save money on interest. Alternatively, you could pay off your smallest loan first for the satisfaction of having one less bill to pay. “There’s an emotional side to debt management that sometimes trumps mathematics,” says Scott Plaskett, of Ironshield Financial Planning in Toronto.

4. Pay more than the minimum

“A lot of people get a false sense of security because they’ve been making minimum payments on their debts,” says Scott Hannah, president of the Credit Counselling Society in New Westminister, B.C. “I call that ‘credit creep’ and the clients’ mouths drop when they look at their total debt, which is actually rising.” To avoid this, try applying any bonuses or extra cash you have against the principal. It will cut your debt repayment time substantially.

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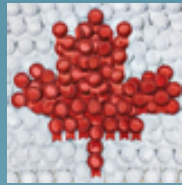


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