22 Key Ways to Get Out of Debt, Part I

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Most adults use credit to purchase homes, cars, send their kids to college, and pay for unexpected emergencies such as healthcare costs and auto repairs. In fact, a Pew Research study found that most Americans earn less than they spend and use credit as ready cash to make up the difference. So how do you even begin to work your way out of debt?

The key is to start with simple, everyday strategies that may not seem like much on the surface but eventually add up.

In this two-part series, we will discuss 22 ways to get out of debt. The first nine recommendations are the steps to take to manage debt, and part two will highlight daily habits to help you stick to your new plan.

1. Know Where You Stand on Outstanding Debt

It will come as no surprise to know that the first step is accessing how much debt you owe.

Gather your most recent statements for all loans and credit cards. Then, make a list of creditors, balances, due dates, interest rates, and minimum payments. Next, determine how long it will take to pay off balances and how much you're currently paying each month. Don't forget to check your credit report to confirm all outstanding debt.

If you don't already have a monthly budget, now is the time to create one. How much do you make, and how much is allocated for rent, transportation, and other recurring expenses. Making a list will help you see exactly where your money is going (and where you can cut back).

For example:

- Utilities
- Groceries
- Entertainment
- Clothing
- Cable and streaming services
- Landlines and cell phones expenses
- Subscriptions (magazines, services, etc.)
- Insurance (auto, homeowners, and renters)
- Healthcare copays

Having a budget and sticking to it are two different things. Recording purchases for a couple of months will give you a pretty good idea of your hidden expenses. The daily Starbucks latte, popcorn at the movies, the three films you rented online that you forgot about, and that $50 pizza order through DoorDash, are good examples.

A reasonable budget should help you stay on track but not overly restrict your quality of life. Plan money for the non-essentials that make life worth living, like the movies, a nice dinner, or a few happy hour drinks with friends. If you deprive yourself entirely, you're less likely to stick to it.

The next step is to develop a sound debt payment plan based on what you now know about how much you owe, how much you spend, and what you can afford to pay.

2. The Snowball Effect of Paying off Credit Cards

Now that your budget has shown you where to cut back and how much extra money you'll have, you can use that to pay more than the minimum balance on credit card bills, for example. Don't just randomly payoff bills, however.

There are a few ways to pay off debt and multiple things to consider before you do. The most common and psychologically rewarding plan is the snowball method. Here's how it works.

List your debt from smallest to the largest amount owed, so you know where to use the extra money to start paying more than the minimum balance. Continue making the lowest payment on all other bills once the smallest balance is paid off, and use the extra funds to pay the next smallest bill until you pay that off. This "snowball effect" will grow over time, and the best part is watching your debt dwindle. Who doesn't love crossing things off a To-Do List? It's the same with your bills.

3. The Debt Stacking Method to Paying off Bills

Another method of paying off debt is the stacking method. To do so, make a list from highest to lowest of all the debt you owe by interest rate. Pay the minimum on all other loans and use the extra money to pay off the one with the highest interest rate first. Once you do, pay off the next highest on the list, and so on.

This method may take longer to repay and cross off your list, especially if your highest interest rate debt happens to be the largest amount you owe.

4. Develop a Debt Repayment Plan You Can Live With

Before you dive in and start paying, here are a few other things to consider.

For each balance you owe, decide how much you need to pay and how long it will take to reach your debt-free target. Don't forget to adjust for interest rates.

Also, be realistic in your timeframe of paying off all debt and set your sights on smaller goals to avoid getting discouraged. Your budget and payment plan have to fit your wallet, personality, and lifestyle.

However, don't give yourself too much time. One way to estimate is to divide how much you owe by 52 weeks (the total in a year). If it's too much, you can also cut other expenses or add another 12 weeks and three months to your calculations. Another option is to pay weekly—doing so leaves little room for unnecessary spending.

Keep in mind, too, that paying more may have pitfalls. For example, if you pay off your mortgage early, be sure there are no prepayment penalties. If you make more than the minimum payment, you end up paying less interest over the life of your mortgage and take advantage of time. As for loans, be sure your extra payments are going toward the principal and not the interest. Doing so helps you speed up the payoff process.

Next, choose the day of the week you want to pay and use auto-pay to set up a recurring schedule. Continue to use your debt payment plan to track progress, stay focused, and remain motivated.

Finally, remember once you pay off a credit card, don't close it. This will hurt your credit score, especially if it is an older card. Be sure to use it periodically for small purchases that you can pay off by the next billing cycle, or credit card companies will close the card due to inactivity.

In the meantime, there are other steps you can take toward your goal.

5. Ask for Lower Interest Rates and Balance Transfers

Owing interest on a loan or credit card can feel like you're a hamster spinning on a wheel—the more you owe, the more interest you're charged, and the more you owe.

Talk you your financial institution about lowering your interest rates— you'll find that they often will. If they don't, look for outside offers with zero percent introductory rates. Depending on your credit, you may qualify for better rates with new cards.

A balance transfer credit card with a lower interest rate and 0% APR lets you transfer balances from your old car to the new one. However, proceed with caution and make sure 1) you've stopped using the old credit cards, and 2) you can pay off the entire balance before the introductory period ends (usually 12-18 months). There might be a balance transfer fee, so be sure to ask the representative.

You can use this option to pay off your highest interest rate credit card but know that if you don't pay it off on time, you will be subjected to the new rate, which could be higher than your old card.

Another option to getting rid of high-interest debt is to take out a personal loan, which usually has lower rates. If you own a house, taking out a home equity line of credit may have lower interest rates, as well. You can also refinance your auto loan.

6. Reach out to Creditors to Lower Debt

As you begin paying off older debt, contact your creditors one at a time to see if they're willing to work out a deal. If you're having problems paying off old debt, they will often work with you. Just be sure to pay whatever new amount is agreed upon.

Also, if the interest rates are high and you can't make any headway on paying off balances, talk to the card issuer and see if they'll lower the rate.

7. Try Consolidating Student Loans

Whether or not you have several outstanding student loans or have consolidated them before, you might be eligible to do so again. Check with Studentloans.gov for details on service providers and if you meet the criteria. You may be able to get one loan with a fixed interest rate.

Federal student loans offer several repayment options based on your ability to pay and are called Income-Driven Repayment Plans (IDR). They include the Pay As You Earn Repayment Plan (PAYE), the Income-Contingent Repayment Plan (ICR), the Income-Based Repayment plan (IBR), and the Income-Sensitive Repayment plan (ISR).

Also, ask about deferments, forbearance, and loan forgiveness. For example, a teacher with Teach For America can receive up to $17,500 in student loan forgiveness after five consecutive years in a low-income school. There are also programs for those who enter public service.

Finally, if you are 100 percent disabled, you may also be eligible for student loan forgiveness.

8. Know Your Debt-to-income Ratio

As you implement a budget plan, look at your debt to income ratio (DTI). Your DTI determines the type of home loan you qualify for and is a crucial factor when looking at your overall financial standing. It compares the number of debt payments you make monthly to the amount you bring home and is a good indicator if you're overextending credit-wise.

9. Housing Cost Can Affect Your Debt Paying Goals

More than half of Americans spend 50 percent of their income on housing, making getting out of debt even more difficult. Hence, it's also good to know your DTI because if your housing expenses are higher than 30 percent, you may need to lower it.

Depending on where you live, you might be able to get a roommate, move back home with your parents until you pay off more debt, or move to a cheaper apartment. If you own a home, you can rent out a room to offset costs.

That still might not be enough in some urban cities, especially where apartments are scarce, too pricey, or too far away from work. In those circumstances, your options are narrower: you can move further away and become a super commuter, get a better paying job, or ask for a raise at work—all of which are either undesirable, difficult to do, or requires extra money.

Of course, you might be in a profession with upward mobility, and a promotion or job transfer is in your future, or you're able to work more than one job to pay off debt.

If none of these are options, you may have to save money first to move to a state or town with a lower cost of living and then work on paying off debt. It's one thing to live in or near a big city, but if you're in a

profession where you’re not making enough money, paying off debt will be difficult. You have to decide what works best for you in the long run.
These are just nine of the things to consider when you want to get out of debt. The following article will discuss additional ways to tackle paying off debt.