

## How to tackle debt

### Debt is a drag on a person – both financially and emotionally

With high interest debt, the costs of the interest payments make it extremely difficult to repay the principal of the debt, never mind the interest.

### There are 2 types of debt: **GOOD DEBT** and **BAD DEBT**

**Good debt** is debt associated with an asset that goes up in value (such as property) or something that makes it possible for you to earn more (education and at a stretch, a car to get to work).

**Bad debt** is debt associated with assets which depreciate in value (household appliances, computer and electronics), fines or penalties and debt that is used for day to day living (credit cards, store cards).



**However, you CAN develop a strategy to get out of BAD debt**

#### **#1 - Make a list**

The first thing that you need to do is to make a list of all of your debt.

That list needs to include the AMOUNT of the debt, the INTEREST RATE of the debt, the PAYMENTS which you are required to make and the point at which the debt will be REPAYED (if it is a fixed term debt or hire purchase).

You now know where you stand.

This is your Ground Zero point – it will get better from here.

There is no point beating yourself up. Just resolve that this is the turning point for you.

## **#2 - Commit to no further accumulation**

The second thing that you can do is to choose to commit to not accumulating any further debt from this point until your BAD debt is cleared.

Think about cutting up your credit or store cards, or at the very least, put them where you cannot get them. Give them to a friend (or a financial adviser!)

I had a client who froze them in a 2 litre ice cream container of water.

You need to break the habit of easy debt.

You cannot get ahead with clearing your current debt if you are continuing to add debt in other places.

### **#3 - Income vs Outgoings**

The third thing to do is to have a long and HARD look at your income and your outgoings.

The idea behind this is to identify and commit to an increase in money which you are assigning to debt repayment. You can only do this by decreasing your spending, or increasing your income.

I had a client who took on a weekend job and earmarked her earnings from this job specifically to clearing her debt.

Another client went through her house, room by room and listed hundreds of items on Trade Me.

It is tough, but it has to be done.

#### **#4 - Choose which to repay first**

The final thing is to choose which debt you want to target to repay first.

You can choose the debt with the highest interest rate OR if you think that you will need encouragement, choose the smallest debt.

Every additional saving that you can make should be applied solely to this debt.

You should be encouraged when you track the reduction of the debt. When it has been fully repaid – CELEBRATE! Give yourself a treat.

Then start again.

Choose another debt. Put the repayments that you were making on the repaid debt AND the additional savings onto the debt that is under target and go again.

Keep track of the balances of all of your other debt on a monthly basis, so that you can see that you are making progress.



Sometimes it is worth looking at a debt consolidation loan.

However, you need to assess if the establishment costs of the loan outweigh the benefits of a lower interest rate, as some of the establishment fees can be high.

Another trap is when the debt consolidation loan turns out to be repaid over a longer period than the original debt!

Ideally, you should keep the length of the debt repayment programme the same as the original plan.

I would strongly recommend that you get an accountability partner for this journey.

Do you have a friend or a workmate that is good with money, and who will growl you if you fall off the wagon?

Make a time to catch up with them every 2 -3 months with your spreadsheet of debt so that you can show them the progress that you are making.

There is absolutely no doubt that it is much, much harder to get out of debt than it was to get into it.

There is also absolutely no doubt that high levels of debt contributes significantly to stress and relationship issues.

Choose to make today the day that you start on the road to financial freedom and take control of your finances to demolish your debt.

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