Singing a Holiday Tune or a Debt Dirge?

The Motley Fool
By Mary Dalrymple

For many people, the season of giving is also the season of guilt. It's a miserable feeling to be shopping for holiday gifts with a credit card that already has a big balance hanging over your head. It's a helpless feeling of drowning, with the shore nowhere in sight. One good way to start shedding that feeling is to take control — of your finances and that nagging, costly debt. It will sting a little, but, like the dentist says, you'll feel much better when it's finished.

One good way to start shedding that feeling is to take control - of your finances and that nagging, costly debt. It will sting a little, but, like the dentist says, you'll feel much better when it's finished.

Start by determining which debts must go. The word debt carries all sorts of bad associations, but debts come in various types, shapes, and sizes. (We're going to assume, for the sake of this exercise, that you carry no debt that a character from *The Sopranos* will come to your door to collect, by any means necessary.) For the most part, mortgages and college loans can be classified as "good" debts. Both represent investments in assets - a home or an education - that will grow in value over time. Set those debts aside.

At the top of the list of bad debts we have credit cards. Why are credit cards so bad? Let me count the ways. In fact, let me count as high as the interest rate on your most costly card, and I could be counting all the way to 30. But your list of bad debts may also include a home equity line of credit, a car loan, or any other consumer debt that you're buckling under.

After you tease out your good debts from your bad debts, it's time for the moment of reckoning. Get a pencil and paper, or a spreadsheet, or a stone tablet and chisel. Your first exercise will be to list all of your debts, the amount owed, and the interest rate. This exercise alone may cause you to want to reform your spendthrift ways. It may also cause you to want to burn this piece of paper and hide under the bed. Although painful, this is the first step to conquering those terrible numbers.

Now, list all those debts in order from highest interest rate to lowest. This is the order in which to start attacking your debts. You'll also need to put the credit cards away. If you keep charging, all the work you're about to do will be unraveled as your debts climb faster than your ability to attack them.

At this point, you can pause and try to make some demands of these credit cards that are driving you bonkers. Try calling each company and asking it to reduce your interest rate. Channel some of that frustration into being persistent. If you've recently received offers for lower-rate cards (and I'm sure that you'll find some if you just look in your mailbox or that pile of accumulated junk mail), tell the company you're considering switching unless it can match another one's low, low rate.

Continued on back

Once you've gotten your rates down and reordered your cards from the highest interest rate to the lowest, it's time to start attacking. If you have only one credit card that's out of control, this is a pretty easy exercise. If you have more than one, it gets a little more complicated.

In a perfect world, you could tell all your creditors to just hold back while you attacked one debt a time. In the real world, you'll need to keep paying all the required minimums on your consumer debt, along with your mortgage, student loans, car loans, and other obligations. So, after taking all your necessary spending into account, figure out how much extra money you have each month to throw at your debts.

This is not necessarily easy, and it can be a constant work in progress. Just ask the fine souls who hang out on the Credit Cards and Consumer Debt discussion board and have made this task both an art and a science. Many with high debts who use the boards for support and encouragement engage in an almost perpetual hunt for budget-trimming ideas to pay down that debt as fast as possible. If you're just getting started, don't panic. Anything extra you can pay toward your debt will help.

Once you have a number in mind, commit to paying that extra money toward your debt with the highest interest rate every month. Keep doing that (while paying the minimums on everything else) until that debt is gone. Then take all the money you were paying monthly toward that first debt and apply it to the next debt on the list, in addition to the minimum payment you'd been making all along.

Serious debt mavens call this process a "snowball." Your debt payments grow with each step down the interest rate ladder, and you start seeing faster and faster progress. One day, you'll find yourself making the last payment on the last debt, and you'll finally be free of that drowning feeling.

I've blown through this quickly to show you it can be done. For some more help working through these debt calculations and an in-depth explanation of the best strategies, check out The Motley Fool's free how-to guide for getting out of debt.

Check in with the Credit Cards and Consumer Debt discussion board to hear inspiring stories from Fools who have successfully attacked mountains of debt and now share their wisdom, encouragement, and tough love with newcomers. Start with this item, voted Post of the Day last winter, if you doubt you can really accomplish this feat.

There's also a whole Get Out of Debt section in the Fool's Credit Center, which also makes for an interesting education about the workings of the credit industry. You'll have a happier holiday once you realize that all you have to do is seize the reindeer by the horns to regain some control.

For related Foolishness:

Debt-Reduction Tricks

What's So Bad About Credit Card Debt?

Some Debt Is OK

A Debt Turning Point

How can the Fool boost your prospects for the new year? Visit GreenLight*, our personal finance service, for a free trial.*

Fool contributor Mary Dalrymple welcomes your feedback. The Motley Fool has a full disclosure policy*.*