

Overcoming Personal Debt

Some aspects of finances cannot be controlled by an individual. The stock market is one example of a personal financial aspect that an individual has no control over. It may affect that individual but he or she cannot control it. However, some aspects are completely controllable. Debt is a good example of a controllable part of personal finances. It is also one of the most important aspects. By making a few smart decisions and staying disciplined, it's possible to keep debt under control.

It's easy for people to abuse debt. However, not all debt is bad. For example, obtaining a loan to purchase a home is a good thing. As the borrower pays down the mortgage balance, equity in the home is gained. In addition to this, mortgage interest may be deductible on income taxes. On the opposite side of the spectrum, heavy reliance on credit card debt to maintain a certain lifestyle is a detrimental practice. While most people are aware that fees and interest come with using credit cards, the reality of how those charges compound can be more confusing than it seems.

Instant gratification is enjoyed by people who use a credit card to buy something they can't afford. Since interest rates are usually about 15 percent or higher, this kind of lifestyle will result in debt that piles up fast, erodes abilities to save money and costs the credit card holder more than they imagined in the long run. For example, if a person borrows \$1,000 with an APR of 15 percent to purchase something, it would take close to five years to pay off the debt by making minimum payments. At the end of the loan's life, it would actually cost \$1,375 instead of \$1,000. In addition to this, the individual who obtained the loan lost the chance to gain a positive return on their money by investing or saving it instead. While credit can be a tempting way to get desired things, there are much smarter solutions for building money.

It's easy to end this detrimental behavior by living below individual means. For example, skip the \$5 cup of coffee each morning, bring a sack lunch to work or dine out only on special occasions. There are plenty of other ways to live below individual means. It's also crucial to create a detailed budget plan that will help end the debt. This idea is similar to people who diet and keep a log of their daily food consumption. In a similar way to how they lose more weight than those who don't keep a log, people who keep a budget are more likely to end risky spending habits than those who don't keep a budget. Another step that is closely related to keeping a budget is saving. The best way to do this is to set up an automated direct-deposit each month to a bank account or investment company. If the money is directly diverted into such an account before it reaches the hands of the individual, it's much easier to avoid spending it. It's also a good idea to create a safety net account that has enough money to cover up to a year of living expenses. This money should be easily accessible in case of an emergency. These steps will help bring about financial recovery.

Individuals who have credit card debt can break free from it. There are several ways to do this. For example, transferring the balances of several cards to one new card with no interest for an introductory period is a smart idea. However, it's important to pay off the amount during that time. It's also possible to pay more than the minimum payment amount toward the card with the highest balance. After this, pay off the card with the next highest balance by doing the same thing. While paying down cards, it's imperative to avoid using them. Those who can't make these

suggestions work should consider debt counseling. It's important to discuss this option with an agent to learn which debt counseling companies are reputable. After recovering from debt, it's important to adopt habits of saving instead of spending.