

Strategies to Get Out of Debt

With the economy adversely affecting so many people, I have tried to run many columns this year with helpful information on how to 'survive and thrive in challenging times.' That's what we in Extension are supposed to do, since our mission is to provide research-based information and programs that enable people to improve their quality of life and economic well-being.

This week's column from Regional Extension Agent for Family and Consumer Sciences Lelia G. Wissert offers some excellent advice and resources for strategies to get out of debt.

While the current economy has admittedly affected people differently, one common theme has been that getting out of debt is now cool.

At one time, late night television junkies were the only ones exposed to all of the get-out-of-debt, late night television ads, but with the economic downturn, debt elimination ads now seemingly target everyone -- debt negotiation, foreclosure relief, debt settlement, bankruptcy relief, credit repair -- the list goes on and on. Here are some debt reduction strategies that you can put to practice quickly, easily and on your own:

Ultimately, most efforts aimed at eliminating debt can be summed up in two primary goals: (1) time (getting out of debt as quickly as possible); and (2) saving money (paying as little in interest as possible). While there are numerous ways to work on these goals, here are some simple steps that will provide dramatic results:

Level Payments-Think of this as the anti-credit card payment. Credit card companies allow you to reduce your required payment as your balance decreases. A level payment suggests that you pay your current monthly payment (whatever that is) steadily until the debt is paid off.

If you have a balance of \$5000 with a 15 percent interest rate and make the minimum payment, this payment equals 3 percent of your balance. It would take 16 years 5 months to pay this debt and you will have paid more than \$3,400 in interest. Below is an example of decreasing minimum payments.

On the other hand, if you have a balance of \$5000 with a 15 percent interest rate and make the payment of \$150 until the debt is paid off, it would take you 3 years and 8 months and you would pay \$1,500 in interest. Even though the credit card company's minimum payment would be lowered each month, you keep your payment level.

Power Payments-PowerPay is a systematic way of repaying debts that was developed more than 15 years ago by Utah State University Extension. This system of debt reduction is commonly referred to as a snowball method of repaying debt.

To use this method, make level payments on all debts and accumulate no new debts. As one debt is paid off, that money is rolled over to a new debt until all is paid in full.

A benefit of this program is the flexibility to decide how to apply the extra payments (as debts are paid off). Should you pay the highest interest rate to save the most money? Or, should you pay off the lowest balance, which may enable you to stick with your debt reduction plan better? The Power Pay program will give you each scenario, and you can choose the method that works best for you.

The time and money saved using this system of repayment is often breathtaking. Utah State has made its PowerPay calculator available for free on their Web site at <https://powerpay.org>