

Your Money

by Cheryl Hanson Simpson



Debt Distress

I am engaged to be married to a great guy. Problem is, he doesn't know that I'm up to my ears in debt. I was made redundant two years ago, and I had to max out three credit cards and take out two credit union loans to survive. Now that I'm working, my salary can barely pay the minimum required to pay off these debts. I'm too ashamed to tell my fiancé, as he may think I'm not financially stable and reconsider our wedding. -Distressed

Don't be so hard on yourself. Being without a job for an extended period can send practically anyone into debt overdrive. Give thanks that you're back into the world of a steady paycheck! However, your past financial woes are not going to disappear by pretending that they never existed. As with any other problem in life, you have to be honest and face up the issue if you're going to solve it.

What's your debt picture?

The first step is to assess all of your debt. You need to identify all the different types of debt, the interest being charged and the balances owed. Call each lender to see what your true position is. Fill out the debt sheet below so that you can see your overall debt picture.

LENDER	BALANCE OWED	INTEREST RATE	MONTHLY PAYMENT (min)	TIME LEFT TO REPAY LOAN
Credit Card				
Credit Union				
Payroll Loan				
Student Loan				
Car Loan				
Mortgage				
Hire Purchase				
Personal				

Do you OWE more than your OWN?

Make a list of all your assets – your bank accounts, car, house, shares etc., and give them an approximate value. Some of these assets could be securing your loans. For example, a credit union loan requires that part of the monthly payments be saved in your share account. Your home could be valued much more than the mortgage you have against it.

It's important to establish if what you OWN is actually greater than what you OWE. Although you're in debt, if you're lucky and you have fewer liabilities than assets, you have a stronger hand to find ways to cut your debt. If you have excess debt, there are still ways to turnaround your finances.

Cut that interest rate!

Identify the debt with the highest interest cost and try to reduce the rate. Visit your financial institution and enquire about lower interest rate loan programmes. Tell them you're thinking of moving your loan to another company with a lower finance cost. You might be surprised at the result! You may have to consolidate your debt under one institution that can pay off the higher debt and give you one lower rate. Let's say that you have credit card debt of \$40,000 at 55% p.a. interest rate. Your credit union may allow you to borrow three times your share value to substitute the expensive credit card debt, at a lower rate of 22% p.a.

Deciding how best to juggle your loans will be easier with the guidance of a financial professional who can look at your debt and asset picture and give you honest and practical advice.

"Down With Debt!"

You've worked all the figures and you're convinced that you're paying the lowest possible interest cost. Now you need a strategy to pay off the debt quickly. Here's a tactic to destroy debt faster: never pay only the required monthly payment if possible. Pay extra on the highest interest debt first. As soon as you've finished paying off one loan, don't start spending the money that's freed up; use it to increase the loan payments on the next highest interest debt.

Your budget can help to identify some expense items to cut back on. If you can reduce spending on phone cards by just \$100 per day, it will give you over \$35,000 for the year to reduce your debt! Remember- don't miss the payment dates, as this will cause you to rack up late interest fees and penalties.

Now that we've looked at ways to reduce your debt, let's examine your fear of revealing your true financial picture. By hiding your debt concerns from your fiancé, you may be missing out on an opportunity to get his help to find solutions. You're assuming that he will think less of you because of your past. Remember that your debt was incurred because of circumstances outside of your control. Start working immediately on my 'Down with Debt' action plan, and get his support in your quest to be debt-free.

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