Famiglia Wealth
Jason M. Geisz, CFP®
40900 Woodward Ave, Suite 302
Bloomfield Hills, MI 48304
Office: (248) 341-0600
jason@famigliawealth.net
https://www.famigliawealth.net/

SIMPLE GUIDELINES FOR Managing Debt

Paying off debt as quickly as possible should be every investor's goal. By following some simple debt management guidelines, you can repay your debt sooner, raise your credit score and get your finances in order. Many people work hard to pay off their debts but can't get ahead of them. With a bit of knowledge and the right strategy, they stand a better chance.

THE SECRET: Get rid of the debt carrying the highest rates first.

Don't Listen to the Radio Ads

How many times have you heard a radio ad promising to teach listeners how to pay down their debt, no matter how big, with only the money they already make? This is simply impossible. Some people do owe more than they can ever possibly repay.

The radio-touted system starts off in exactly the right place: First, stop the bleeding. Then lay out a budget, use coupons, even cancel or downgrade services like your phone and cable. The materials teach the wrong message, however, about the order in which you should pay debts.They usually recommend that you pay off the smallest debt first. Once this is done, apply that monthly payment to the next smallest debt and so on until they are all paid off.

But research from the University of Michigan's Ross School of Business[1] suggests that strategy actually makes digging out of debt harder.

People like to eliminate their smaller debts first because of what psychologists call debt account aversion. When an account is paid off, you feel a sense of accomplishment. Just like when you look at your to-do list and do the easiest items first. The problem is that this tactic does not take into account issues like interest rates. Paying the debt with the highest rate first, regardless of size of the principal, will cost you the least amount of money. And it will allow you to pay off the total debt the fastest.

SIMPLE GUIDELINES FOR

Managing Debt

Apply Math to the Problem

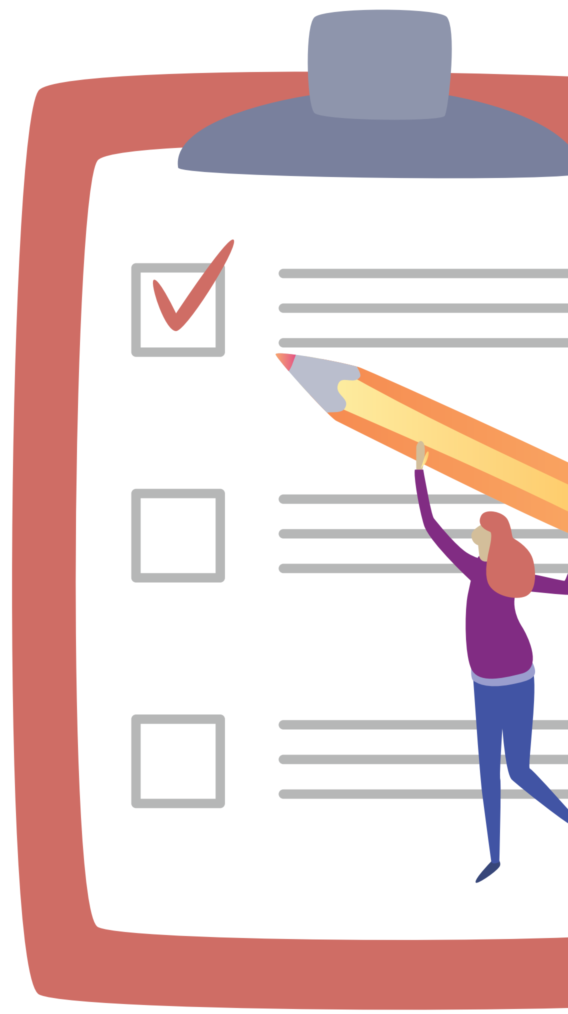
Consider Lilly, who has three credit cards.

CARD A	CARD B	CARD C
$1,000 Balance AT **6% Interest**	**$2,000 Balance** AT **18% Interest**	**$5,000 Balance** AT **28% Interest**

Her minimum payments are 3% of the balance, and she has $400 to apply to her debts each month.

1. By paying off Card A, the card with the lowest interest first, she will make her final payment in month 28 at a total cost of $10,668.60.
2. If she pays off the card with the highest interest first, Card C, her last payment will be in month 23, costing a total of $8,919.95.

By tackling Card C first, because it has the highest interest rate, Lilly will pay off her debt five months faster and save more than $1,600.



Credit Steps to Take

Some people try to pay off a little extra to each of their creditors each month in order to save on interest payments over time. While this will save you money in comparison to just paying the minimum on all of your bills, it will still cost you more than focusing on the highest rate debt first.

Start by putting your debt reduction plan on paper, even though it may be painful to look at all your debt in one place. Most people hate to do this, but it can help you stay on track with payments and tackle your debt as efficiently as possible.

Over time as you pay off more, keep in contact with your creditors. Ask them to lower your rates. The worst they can do is say no. Sometimes, they say yes. As the amount of debt you owe decreases, your credit score will increase, and they will do more to keep you as a paying customer.

Debt can be a useful thing in some situations, like when buying a house or a car, but it is not the way to pay for your daily expenses. Make sure you take on debt responsibly.

[1]https://news.umich.edu/new-research-debunks-popular-method-of-paying-off-debt/