



Borrowers: Debt-reducing Tips

Canadians are spending and borrowing like never before. According to Stats Canada, Canadians debt-to-income ratio hit a record high of 145% in December 2009, meaning that consumers are borrowing more than they earn. For example, if a Canadian household earned \$100,000 annually, the net debt for that household would be about \$145,000. In addition, the Ontario Association of Credit Counselling Services reports the amount of individual debt for those seeking debt counselling is rising.

As an individual's debt load rises, more interest accumulates adding to that debt. Furthermore, more household dollars need to be dedicated to paying the debt, often leading to a shortfall, that leads to the use of more credit that leads to increased debt. It all sounds daunting, however, says MOSAIC Credit Counselling Manager Heather Cudmore, you can establish a plan of attack to beat back that rising debt.

1. Focus on a plan to reduce your debt. Develop a family budget and begin by designating a specific amount monthly toward reducing the debt.
2. Start planning and putting aside dollars where you would normally use credit. Don't rely on credit for daily living expenses. Look at your expenses and decide whether or not you really need credit. If you are always using your credit card for car repair then you need a car repair fund in your budget. Cash is a great way to get spending under control – if you don't have the cash, you don't spend it. If you find you must use credit, you still need to make provisions for that in your budget.
3. If you must use a credit card, limit the number of cards you own. Cut up all but one card. One credit card can help you manage spending better. It is easier to keep track of one amount and one due date, and also reduces the stress of being overwhelmed by a multitude of bills.
4. Consolidate your debt. Consider a low interest rate line of credit or transfer the balance from several credit cards to one low interest credit card. Then destroy each credit card as you get rid of its balance. Before transferring funds from



one credit card to another, however, make sure you read the fine print. Many cards increase the interest rate down the road or the low interest rate applies only to the funds you transfer, not new purchases. Use the savings you generate from the lower interest rate to pay down your debt.

5. Put your debts in a debt triangle with high interest rates at the top and low interest rates at the bottom. For example, your store cards with interest rates upwards of 30% would be at the top, where, your MasterCard or Visa, between 9 – 18%, would be closer to the bottom. When you are paying down your debt, make minimum payments to those at the bottom of the triangle and put as much as you can to the high interest debts at the top.
6. Try to pay more than just the minimal payments on your cards; otherwise you will never get ahead. Many credit cards have lowered their minimal payment requirements to 3% because they don't want you reducing your debt, as that is how they make their money. The more debt, the happier your credit card company. Also, try not to use your credit card as long as there is an outstanding balance.
7. Look at your monthly expenses and make reductions where you can. Put that money toward your debt.
8. Consider liquidating some assets – selling that second car or having a garage sale with the proceeds dedicated to paying down your debt. There is also an argument for cashing in your RRSP if it's earning 3% profit and you're paying 18% interest on your debts. However, look at this carefully as this does increase your income, thereby increasing your taxes.
9. Over the short-term, look at increasing your income to help pay down the debt by picking up an extra part-time job. This should only be a temporary consideration dedicated to reducing your debt load. And, don't fall into the trap of spending more because you're making more.
10. Be realistic in your plans to dispose of your debt. If you owe \$20,000, you will not be able to get rid of that debt in 6 months. Don't set goals that are unattainable.
11. Concentrate on long-term goals instead of short-term spending. Get in the habit of planning ahead and putting money aside for what you want to do. Decide on a twelve month plan for saving for that \$5,000 trip next year instead of doing it now and paying for it later. Author Gail Vaz-Oxlade wisely said, "You can do everything you want. You just can't want everything."
12. Don't procrastinate. There is no time like the present. The longer you have your debt, the more interest you will pay.



By following Heather's debt-reducing pointers you should be able to see some gains down the road. "Reward yourself when you see those gains," says Heather. "A lot comes down to being motivated. When you have no debt, it feels great – it is so liberating when you are debt-free."