THE STEPHENSON National Bank & Trust

Financial Solutions from Advisors You Trust

Three Strategies for Paying Down Debt

Have debt? You're not alone. The average U.S. household has over $15,000 in credit card debt, and that doesn't take into account mortgages and student loans. However, just because you owe money now doesn't mean you'll never be debt-free. First and foremost, always pay more than the minimum payment every month (even if it's only by a few dollars), and pay on time. Second, create a monthly budget so you know how much you can afford to put toward paying off debt. After that, there are several strategies you can use to pay off your debt in manageable increments. Here's a look at three of the most effective options:

- **Tackle the Highest Interest Rate First:** One strategy is to identify the debt that has the highest interest rate and work to pay that off first. This strategy is effective because it gives you the most bang for your buck. The higher the interest rate, the more expensive the debt is and the more it will cost you in the long run. For example, if you owe $5,000 on a 20% interest credit card and $10,000 on a 6% car loan, this strategy advises paying off the credit card debt first because it will have a bigger long-term impact than paying the car loan.

- **Sort Debts by Principle Size:** Another possible strategy is to sort your debt by the principle size (the amount you still owe, not including interest). One school of thought says to pay off the largest principle first, because it typically has the largest monthly payment. Therefore, once that debt is paid off, you'll have more money left each month to apply to other debts. On the other hand, some think that paying off the smallest principal first works better. That strategy is most effective if you've experienced a financial windfall and are able to completely eliminate one of your debts. For example, if you've been carrying $2,500 on a credit card that you don't use anymore, using your tax return to completely pay off the card and then cancel it will be more beneficial than spreading that money around to all of your debts and then continuing to make just the minimum payment on that credit card.

- **Consolidate:** Another strategy that works very well for some people is to consolidate your debts. Sometimes done by taking out a home equity loan or a personal loan, consolidation is an effective way to combine all of your individual debts into one loan with one payment, ideally at a better interest rate than what you were paying. This is a common tactic for student loan debt and credit card debt held on multiple cards with similar interest rates. If you are able to consolidate, it may feel like you've just eliminated a lot of debt, but be sure to control your spending to avoid piling more debt on top of what you already owe.

Finally, if none of these strategies seem to be working, or you feel that you need help selecting the best plan for your circumstances, speak to a professional. Your banker will be able to assess your situation and recommend a plan of action that you can achieve successfully.