

GETTING OUT OF DEBT

Let's be clear right from the start. There's no big and clever secret to getting out of debt. Anyone who knows about it will tell you the same three basic things. It all boils down to spending less, earning more and putting any money you have left over into paying off your debts. In fact it's rather like dieting:

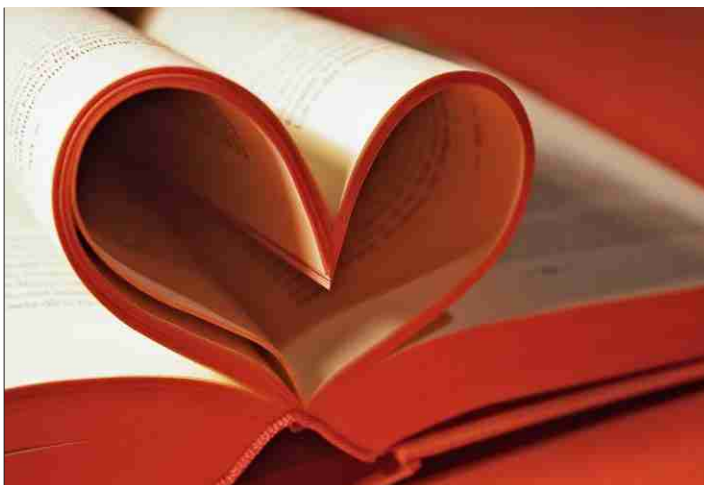
■ With dieting you need to eat less and exercise more. To keep the weight off you need to change the amount you eat and exercise for good.

■ In order to get out of debt you need to spend less and, ideally, earn more. To keep out of debt and keep making money instead of constantly losing it you need to change the way you deal with money for good.

As with dieting, there are various companies out there which will try to make money out of your problem but will offer no lasting solution. Debt management companies, debt consolidation offers, IVA companies and bankruptcy practitioners range from the perfectly decent to the downright dodgy so you have to beware. The important thing to know is that you can get out of debt yourself. There are loads of free advice agencies to help and lots of free help and support on moneymagpie.com.

Here are our 7 steps to getting out of debt:

- 1 STATEMENT OF AFFAIRS
- 2 CUT ALL YOUR COSTS
- 3 SNOWBALL YOUR DEBTS
- 4 KEEP A SPENDING DIARY
- 5 DEAL WITH CREDITORS
- 6 EARN MORE
- 7 CHANGE YOUR THINKING



“Do a statement of affairs – that's money, not all your lovers”

Start with all the free support you can get

(contact details are at the end of this guide). National Debtline, your local Citizen's Advice Centre and the Consumer Credit Counselling Service (CCCS) offer free advice to everyone on how to get out of debt. They are all massively over-subscribed and you might have to wait a long time to get help. However, they all have very useful websites.

It's also very helpful to have a 'debt-busting buddy' in much the same way as it helps to exercise with a friend so that you egg each other on. Try to get a friend who's in debt, or needing to save, to work with you and generally make the whole process pleasanter and, probably, quicker.

STEP 1

DO A 'STATEMENT OF AFFAIRS'

(That's money, not all your lovers.) This is essentially a list of your incomings and outgoings so that you can see what your situation really is. You

can do it with pen and paper or use an online calculator.

What you will need to list:

■ Your monthly incomings – salary, income from investments, alimony, benefits etc – in one column.

■ Your monthly outgoings in the other. In the outgoings start with the debts – the total amount owed to each creditor, the interest rate you're paying and how much you are actually paying each month.

Then put in your essential outgoings – rent or mortgage, utility bills, phone, investments and so on.

This will show you how much money you have left over each month to go into shifting the debt. Even if your 'outgoings' list adds up to more than your incomings, don't panic. This is just a starting point.

While you're at it:

■ Switch your outgoings (like electricity, mobile phone and so on) to cheaper versions – have a look at [Moneymagpie](http://Moneymagpie.com) for better rates.

■ Be honest with yourself. This is for your benefit and no one

GETTING OUT OF DEBT

else's, so don't pretend you spend less than you do.

■ If you really don't know what you spend on things, keep a spending diary – write down everything you spend over a month or so.

Debt advisers always say that the most important bills to pay when you're in debt are the ones that keep the roof over your head. So, firstly you should divide your debts into 'essential' and 'less important' payments.

Essential**You must pay:**

- Your rent or mortgage
- Your utility bills
- Your Council Tax (if not, they can send you to prison!)
- Child support
- Any hire purchase debt.

Although:

■ It is sometimes possible to renegotiate mortgage payments, sometimes you can even get a 'payment holiday'.

■ You may also be able to pay less child support. Contact the CSA (www.csa.gov.uk).

Less important**Once you've paid the above, you need to consider other lenders:**

- Banks
- Loan companies
- Credit card companies.

“Keep a spending diary, ideally one that will fit in your handbag, man bag or back pocket”

**STEP 2****CUT ALL YOUR COSTS**

There are two main ways to reduce your outgoings:

- Buy some things cheaper
- Don't buy other things at all

Go to the moneymagpie.com comparison pages for cheaper loans and utilities. You'll be surprised at how much you can save by switching.

For example:

- Switch your mortgage to a cheaper deal and you can save thousands each year.
- Switch your gas, electricity, phone, mobile phone, internet package, insurances and bank accounts.
- Buy cheaper versions of the same things, such as own-brand goods.

The more painful way – and don't whinge, because if you're in debt you don't deserve these anyway – is to cut out some things altogether, until you can afford them again.

Things that you should not buy until you are solvent again include:

- Meals or even just drinks out in restaurants, cafes, hotels or coffee shops – unless someone else is paying or it's a freebie.
- Any clothes you don't absolutely need.
- Holidays, unnecessary travel or any entertainment you have to pay for.
- Gadgets, CDs, DVDs, ornaments or furniture.
- Any services that you can do for yourself (cleaning, ironing, gardening, car-washing etc).

You don't have to do without totally though.

For example:

- Go through your wardrobe and see what you can alter, dye, cut down or mend.
- Barter with friends to get services done that you don't like doing yourself. For example,

offer an evening's babysitting in exchange for 2 hours of ironing from a friend who enjoys doing it.

■ Call in favours and loans from family members and friends. Most people understand what it's like to be up against it financially.

“No more clothes you don't absolutely need”

**STEP 3****SNOWBALL YOUR DEBTS**

The quickest and cheapest way to get your debts paid off is to 'snowball' them. Snowballing is paying your debts by starting with the most expensive – the ones with the highest APR or Annual Percentage Rate – to get rid of them faster. The more you pay off, the faster the process will go – like a rolling snowball!

How to snowball:

1. Move as many of your expensive credit and store card debts to 0% credit cards. These are cards which cost nothing for a few months, i.e. they don't charge you any interest. Or just switch to cheaper cards. You can do it on moneymagpie.com.
2. When you can't get your debt any cheaper (without taking out a nasty consolidation loan), list them from the most expensive (that is, the highest interest rate) downwards.

GETTING OUT OF DEBT

3. Pay as much as you can of the top one.
4. Pay the minimum on all the other debts.
5. Once the top one is paid off do the same to the next most expensive debt and so on, until they are all paid off.

STEP 4

KEEP A SPENDING DIARY

Moneymagpie's top tip to keep out of debt is to live within your means. Genius huh?

How to keep a spending diary

■ Get a small notebook – ideally one that will fit in your handbag, man bag or back pocket. Carry the notebook around with you and jot down everything you buy throughout the day from your morning paper to your late night DVD. Don't forget to add that quick coffee on the way to work or sneaky Friday takeaways.

Other things you can do

- Walk or cycle – which is great for your fitness and also good for the environment.
- Look at your mobile use regularly. Monthly mobile plans involve a bit of commitment, but they can work out cheaper over the long run.
- Make lunch at home instead of buying it.
- Avoid pre-prepared meals and takeaways.
- Don't go shopping without a shopping list.
- Leave your card at home.
- Quit smoking.
- Think carefully about presents.

STEP 5

DEAL WITH CREDITORS

Nasty calls, letters and visits from irate creditors and bailiffs are one of the most miserable aspects of being seriously in debt. A lot of people turn to debt management companies just to make the 'nasty men go away'.

But why pay money to do something that you could do? It's just a question of knowing how to deal with these people.

Be active

■ Credit card companies, banks and loan companies can do very little to harm you. What they're good at is making your life miserable by threatening you.

■ Don't ignore creditors. It may be horrible, even terrifying, but the best way to deal with them is to keep communicating.

■ Contact your creditors before they contact you. Write explaining your situation and showing how much you are doing to pay off your various debts.

■ Remember, some debts are more important than others – mortgage, rent, council tax, and utilities. Pay these first and in small amounts over a year or two if necessary.

■ Don't be intimidated by demands for payments that you can't afford or threats to send the bailiffs round. They can't do

anything without a court order and that includes coming into your home to take away your possessions.

■ You have a right (established by the Office of Fair Trading) to be treated fairly. If they get really nasty you could mention that they're not treating you fairly according to the OFT's rules. That'll shut them up for a bit.

STEP 6

EARN MORE

Now that you're in debt, it's time to think of ways to boost your income. This is so that you can get more cash in to pay off your debts quicker – that's where any extra money goes once you've got it in.

How to earn more

- De-junk your life. Gather up anything you don't want and sell it on eBay, Amazon or at a car boot sale.
- Get a pay rise. Think about it seriously because it could be



“ Walk or cycle – which is great for your fitness and also for the environment ”

GETTING OUT OF DEBT

that you're owed a pay rise and haven't had it because you haven't asked. Don't just ask for a raise 'because I really need the money at the moment,' though. That's not your employer's problem. It's yours. Only ask for one if you think you deserve it and could realistically get it.

■ **Do overtime.** Even if it means you have less free time, it's worth it in the long run – if it doesn't put your health or your family life under too much pressure.

■ **Recognise and learn more skills.** If you can see gaps in your training or areas where you could learn more to boost your income, take up free training at work or at a local adult education centre.

■ **Do the same job for more money.** Every year or so, take a look at job adverts or speak to contacts in your industry to see what kind of money you can earn. Once you have an idea of the skills in demand, you can see what you can charge more for.

■ **On top of money earned working in a career job,** there are a whole range of ways to fill your pocket. Look at Moneymagpie's Being a Business section for hundreds of ideas on how to make some extra cash.

“ Learn more skills in areas where you could learn more to boost your income ”



“ Do overtime. Even if it means you have less free time, it's worth it in the long run ”

STEP 7

CHANGE YOUR THINKING

To pay off your debt, you really need to change your whole attitude to spending... and probably to life generally. Like over-eating, there's often more going on underneath the problem than we're aware of. Over-spending, like over-eating, drink, drugs and casual sex, tends to happen because we feel an emptiness inside that needs to be filled.

Psychologists at Sussex University have carried out quite a bit of research into why people resort to 'retail therapy'. They say that we shop in order to plug the gap between our actual and ideal selves. The more materialistic we are, the more likely it is that we're going to be big spenders as it can make us feel more like the person we'd like to be.

It's worth doing some work on your own thinking, your own sense of life and yourself. That way you can fill that apparent gap with something substantial

– like thinking of others, getting a satisfying project going, working on your relationships etc – while you take the practical steps towards getting out of debt. That way, you really will be a winner in the long run!

This is the way to get out of debt, stay out of debt and start bringing genuine riches into your life. Do it!

INFO

FREE DEBT ADVICE

Try the following organisations for more help and advice on dealing with debt:

■ National Debtline

www.nationaldebtline.co.uk
0808 808 4000

■ Citizen's Advice Bureau

www.citizensadvice.org.uk
or check Yellow Pages
www.yell.com for your nearest centre

■ Consumer Credit

Counselling Service (CCCS)
www.cccs.co.uk, 0800 138 1111

■ Credit Action

(money advice charity)
www.creditaction.org.uk
01522 699777