# **Debt: Paying off debt**

## The basics of debt reduction are simple: Cut down on your variable spending and put the extra money toward your debt payments. But outside of fixed monthly bills such as housing or car payments, you probably don't have a precise idea of how you spend most of your money.

**1. Figure out where your money goes.** If you want to get your debt under control, start by figuring out your spending patterns and identifying unnecessary expenses. For one month, write down every cent you spend, including that $2 cup of coffee or a $4 magazine. That will clarify how much of your spending is fixed and how much is variable (and hence easier to curb).

**2. Cut out the extras.** Tally the expenses on the list and compare the sum to your monthly income. If it's less than what you earn, use the extra money as your debt payment. If it exceeds your income, you need to cut back on the variables.

**3. Lower your fixed expenses.**Reining in discretionary spending for a few months goes a long way toward tackling debt. But if that's not enough, try to reduce your fixed expenses. Take steps to lower your household bills; refinance your mortgage to get a lower interest rate; or, if you have a good payment history, ask your credit card company to lower the interest rate you're charged.

**4. Try to boost your income.** Consider whether there's any way to boost your take-home pay. If you get a big tax refund every year, that means you're having too much withheld from your paycheck. If that's the case, you can reduce your withholding by changing your W-4 at work.

**5. Make a list of your debt.**Next, make a list of all your debt obligations and the interest you're charged for each. Put them in order of interest rate, from highest to lowest.

**6. Transfer high-interest balances.**You might consider moving some of your high-interest credit-card balances to a card with a lower interest rate. But read the fine print on any invitation to transfer balances. Sometimes such low-interest-rate offers are only in effect for short periods of time, after which the rate skyrockets. What's more, consolidating your debt on one card may lower your credit score if your debt-to-available-credit ratio worsens.

**7. Pay off the highest rate first.** Once you determine the maximum amount you can pay off each month, pay down the debt with the highest interest rate first -- that usually means your credit-card balance -- while paying at least the minimum monthly amount due on all other revolving bills.

**8. Move down the list.** Once the debt with the highest rate is wiped out, put your money toward paying the debt with the next-highest rate. One exception: If you have a credit card with a low teaser rate that will go up after a fixed amount of time, strive to eliminate that balance before the low rate expires.