Managing Debt

Outside of fixed monthly bills such as your housing or car payment, you probably don't have a precise idea of how you spend most of your money.

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 that starts your workday or that $4 magazine you buy on a whim. This will clarify in black and white how much of your spending is fixed and how much is variable (and hence easier to curb).

Tally the expenses on the list and compare the sum to your monthly income.

How much do you bring in after taxes? How much do you have left at the end of the month after paying fixed expenses? How much do you spend on variable items like that $2 cup of coffee every morning?

Consider, too, 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.

Next, make a list of all your debt obligations and the interest you're charged for each.

Once you've done all that, you're ready to start lightening your debt load.

The basics of debt reduction are simple: Cut down on your variable spending and put the extra money toward your debt payments. 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.

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.

You might also 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.

For many people, 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.