

# 5 STEPS TO LIVING CREDIT CARD DEBT FREE



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with all  
the biz  
a Ms.  
needs  
to know in  
personal  
finances  
and in  
life.*

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## 1. Create an Avalanche Effect

Write down all of your credit card balances and the interest rate you are paying for each. Pay close attention to the one with the lowest interest rate and the one with the lowest balance. These are the two we will focus on first.

Look at the credit card with the lowest interest rate; is it maxed out or do you have credit availability still open to you? If so, consider moving your higher interest rate balances to this card. The savings you will create by moving from a 19.5% interest rate to a 16.2% interest rate will allow you to make larger payments each month on the remaining card(s).

Now look at your card with the lowest balance. This is the one that will set-off the avalanche effect we are looking for and where we will focus our attention. By paying the minimum on all of your other cards, funnel the most monetary resources possible into paying this one card off. When the balance on that card reaches zero, move to the next card with that same zeal making payments that included the minimum payment you've been paying all along, plus the new cash available from the card you just paid off. This creates our avalanche. Card after card, one at a time, you will begin to feel the power of the avalanche move you to a debt free life. And as your debt decreases, the amount of money you have available increases.

## 2. Cash out Your Savings

Cash out that savings account, leaving only two months of foundation savings. No bank is paying your investments more interest than you are paying on your credit cards. So take that cash and put it to work for you through debt repayment. Even if you have an unbelievably low debt interest of 12%, your investments would have to pay more than 18% before federal taxes equal your outflow of financial resources. By paying the debt first you are in essence giving yourself an 18% return on your investment – that makes debt repayment a smart investment every time.

## 3. Take out a Home Equity Loan

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If you own your home and have accumulated equity in it, now is the time to cash in and put your greatest investment to work for you. Consider a home equity loan (HEL) line of credit for the maximum amount possible.

This creates savings in two different ways. Immediately, you see a drastic drop from your high interest rate credit cards at 18% and above, to a low 6-8% loan. Next, when you itemize your deductions at the close of the year, you again benefit from this deductible item. In a 25% marginal tax bracket, the HEL loan will have an effective rate of 4.5%! That is the cheapest interest rate you'll see on personal indebtedness.

#### **4. Borrow from your 401(k) or 403(b)**

Do you participate in a 401(k) or 403(b) qualified retirement plan? Most plans have a feature that will allow you to borrow up to 50% of the value in the account, or \$50,000, whichever is smaller. Featuring interest rates a mere point or two above prime, you have at your disposal a credit line at the lowest interest rate available in the credit market. The best part is you not only have a low interest rate, you are borrowing money from yourself which means in turn, you are paying yourself the interest owed. Now that's smart banking. However, there are other considerations when borrowing against your 401(k) or 403(b) including consequences for non-payment. Please speak with your financial advisor to discuss your options before taking any action.

#### **5. Get a Second Job**

If you are living beyond your means, taking all of the actions above still may not put you in the clear financially. Now is not the time to relax or decrease your efforts. Take a second job, even if only temporarily until all your debts are paid. The short-term discomfort will bring long-term results in a debt free lifestyle that places you back in control of your life.

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