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Managing Debt:

Don't Go It A-Loan

Loans can be a convenient source of financing when you don't have cash to spare. If you're in your 20s or early 30s, odds are you may be juggling several different types of loans. This might include student loan debt, a car loan, a mortgage, or credit card debt.

If you fall into any of these categories and are conflicted about whether you are managing your debt effectively, there's no need to panic. Here are two practical ways to manage your debt so that you can build a brighter financial future.

TIP

Your credit utilization ratio—meaning how much of your available credit you're using—is one factor that affects your credit score. If you're interested in improving your score and you're close to maxing out your credit cards, you may want to focus on paying those debts down first.

TIP

Be cautious about closing down old accounts. According to myFICO, doing so can raise your credit utilization ratio, which could negatively affect your credit score.

Prioritize Your Loans

When paying off multiple loans, it helps to have a targeted plan of attack. List out all of your various loans and credit cards, including the total balance owed, the monthly payment, and the interest rate. Then, rank your debts in the order you'd like to pay them off. You could rank them by interest rate, balance, monthly payment, or according to which one you find most irksome.

You could also rank your debts based on whether they're "good" or "bad." Good debt usually has lower interest rates and is tied to an investment of some kind, like a mortgage or student loans. Bad debt is typically more expensive. Think credit cards. If it's a choice between good or bad debt, you may want to give bad debt the boot first.

Focus on paying as much as you can afford each month toward the loan at the top of the list and make the minimum payments on the rest. Once you pay off that first debt, roll its payment over to the next debt on the list. Continue doing that until all your loans are zeroed out.

Make Your Loans Less Expensive If Possible

Paying off loans can be challenging when you're stuck with a high interest rate. Reducing your rates could help you wipe out your debt faster. For example, you may be able to:

- Transfer your credit card debt to a new card with a lower annual percentage rate
- Consolidate or refinance your student loans at a lower rate
- Refinance your auto loan
- Consolidate personal loans

Deferring your student loan payments temporarily may also be an option. **Deferment** allows you to postpone payments for a set period of time. If you have federal loans, the lender may pay the interest charges for you, depending on the type of loan. This strategy could free up money that you could then use to pay off another of your debts.

Before you transfer a balance, consolidate or refinance any of your loans, be sure to consider the cost. Credit card companies typically charge a fee for balance transfers and depending on the lender, refinancing or consolidating may mean paying a loan origination fee. Also, take time to shop around for the best interest rates.

Learning how to manage debt while keeping your financial goals in sight can be challenging, but you don't have to go at it alone.
If you need help or have questions, please contact us today.