7 Ways to Pay off Your Debt

1. Compile a household budget

In order to know how much you can afford to repay to your debts each month you need to work out your disposable income. This can be done by calculating how much net income you have coming into your household and then deducting your essential expenditures such as your mortgage/rent, utilities, transport and food and household goods. Once you have worked out how much money you have left at the end of the month after you pay your essentials you can then work out how much you can repay to your debts each month or week.

2. Maximise your income

Although it may seem difficult to increase your income there are various ways you can increase your *'disposable income'*. Your disposable income is the amount of money you have left at the end of the month or week after you pay your essential bills, you can find your disposable income by using our household budget planner. You can increase this figure by cutting back on your outgoings, there are a number of areas which you can look to save money, such as economising on your food shopping, cutting back on your clothes shopping or looking at your bills such as Sky, car insurance and home insurance to see if you could get a cheaper deal elsewhere. You may also be able to maximise your income by negotiating a pay increase, taking extra hours at work or looking at a second job. You should also review your benefit entitlements to see if you are receiving your full entitlements.

3. Pay more than your minimum payment

This is a very important point, especially if you have credit card or store card debt. If you have a disposable income you should always pay more than the minimum payment. If you only pay the minimum to your debts then it is very likely that your payment will be going towards paying the interest on the cards and only a very small amount will be coming off the balance of the debt. You would be very surprised how long it will take to pay off a credit card at the minimum payment, in a lot of cases it can take up to 25 years! If you have a loan you should check with them if you can make overpayments. If you have an overdraft you should aim for it to go a little less into the red each month, so for example, if this month the maximum it goes to is -£500 then next month you should aim for the maximum to be -£450.

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4. Use your savings to pay off your debt

It may seem like a good idea to have some savings set aside for a rainy day but if you have debt then the best use of your savings is to pay of your debts. Your savings account is probably only earning you a low rate of interest while your debts are likely to be charging you a very high rate of interest, so month on month you are losing money. If you wish to keep some savings, you should at the very least aim to clear your debts which are charging you the highest rate of interest. This is likely to be any store cards or credit cards you have, the rates on these types of debt can be anywhere up to 30% APR.

5. Pay off your debts one account at a time

If you have a disposable income then it is possible for you to maintain your minimum payments to debts and pay extra to the one account that is charging you the highest interest. Keep paying any extra you have to this account until it is paid off, once this account is paid off you can use the money you were paying to this account to pay off the next highest charging debt. Keep repeating this process until all your accounts are paid off.

6. Speak with you bank

Your bank may be able to offer you a cheaper rate of interest, for example they may be able to offer an interest free overdraft or a credit card with a low promotional rate of interest. If so, you can transfer you debt to the lower charging account and then continue to make payments higher than the minimum payment until the debt is repaid.

7. Consider a professional debt management company.

If you have tried all the other options and have found that you do not have enough disposable income to make extra payments or cannot maximise your disposable income you should consider a formal debt repayment arrangement. A debt management plan is a way of reducing your monthly payments to your creditors. Your debt management company will work out how much you can afford to pay per month and then you make one monthly payment to your debt management company and they distribute your payment to your creditors on a pro-rata basis (which is an amount based on how much you owe to each creditor). Your debt management company will also negotiate to get interest and charges either completely stopped or significantly reduced. This option will allow you to repay your debt at a level you can afford.

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