

CHRISTIAN MONEY \$ENSE

BBC FOUNDATION • CLARKS SUMMIT, PA

Proven Strategies to Reduce Debt

Mark Robbins, CPA

Think back to when you opened your credit card statement this past month. Do you agree with the following statement? “The rich rules over the poor, and the borrower becomes the lender’s slave” (Prov 22:7).

Based upon the popular Walt Disney film, *Snow White*, I have heard some people sing a variation of one of the songs. “I owe. I owe. It’s off to work I go!” Many of us can relate to that feeling. But how do you get out of the cycle of using today’s dollars to pay for yesterday’s purchases instead of creating a financial cushion for tomorrow? In other words, how do you get out of debt?

- Figure out how much you owe – You may be hesitant to do this because you know that the amount will be larger than you are comfortable with. However, you must do this. List the institution, the amount, the interest rate, and the minimum monthly payment. Deal with specifics.
- Stop charging on your credit cards – Charging on credit cards is so easy and so deceptive. We bankrupt our financial future when we pay over time for good that don’t increase in value. When a boat is taking on water, you have to plug up the hole or you will never stop bailing water. Likewise, you must stop charging on your cards or all of your attempts to get out of debt will not work. If you need to cut up your cards, do it. Your financial future is at stake.
- Create a budget – Did you know that if you make the minimum monthly payments on a \$6,300 credit card balance at 18% it would take you almost 23 years to pay off the debt? If you begin making extra payments of \$10 per month (and keep the payment constant), you will reduce the payoff period to 4.5 years. Create a budget so you can figure out how much extra monthly income you can generate to pay off your debt more quickly.

- Focus on paying off one debt at a time – Most people have multiple debts. Don’t try to pay them all off at the same time (shotgun approach). Make minimum payments on all but one of your debts (rifle approach). You might consider the debt with the highest rate or the lowest balance. Once that debt is paid off you have created extra monthly income that can be rolled over to the next debt you want to focus on. This accelerates repayment.
- Consider consolidating your debt at a lower rate – Monthly finance charges can slow down your debt repayment plan. If possible, transfer your balances to a lower rate credit card or take out a second mortgage to consolidate your debt. One caveat, if you don’t stop spending more than you make, then taking out a second mortgage will not solve your problem. The interest may be tax deductible, but you are also reducing the equity in your home. Second mortgages should only be used in conjunction with reduced spending.
- Consider using other assets to get out of debt – Would you like a guaranteed tax-free investment return of 14% annually? That is what happens when you use other assets (cash, stock, land) to pay off your other debt. Your return on the “investment” is the rate of the debt you no longer have to pay.

Stop being a slave to your lenders. Create a plan to pay off your debt so you can use today’s dollars to create a financial cushion for tomorrow. It is worth the effort.

BBC Foundation has been ministering to churches and individuals regarding biblical stewardship since 1992. Send your questions on finances and stewardship to: BBC Foundation, 538 Venard Rd., Clarks Summit, PA 18411. Phone: (800) 451-8668, website: bbcfoundation.org; e-mail: info@bbcfoundation.org