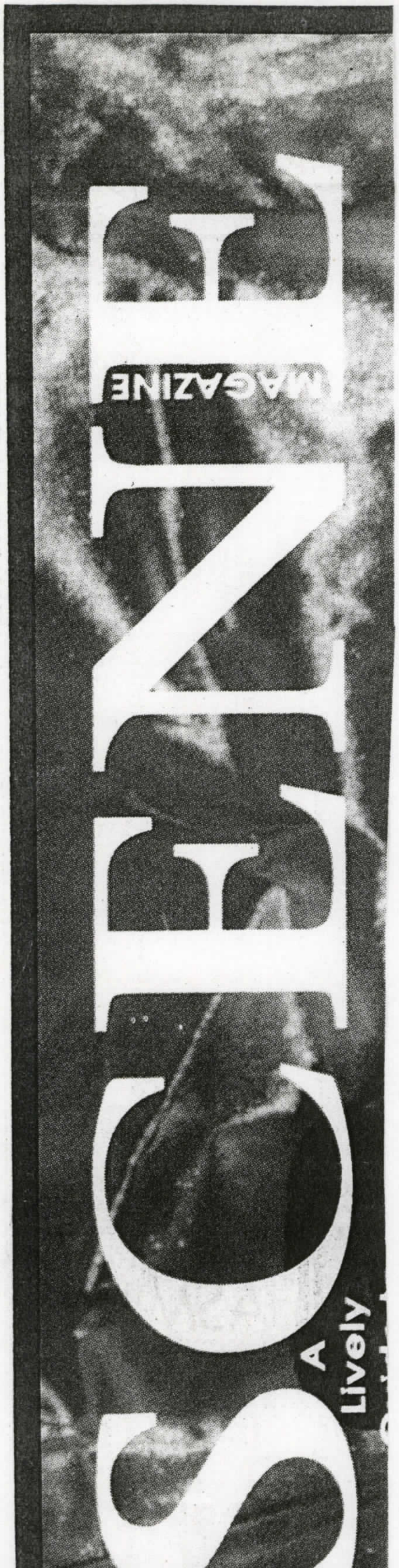

SCENE for DECEMBER

Conquering Your Holiday Debt

by Dixie Butler, CFP, EA

The good news is that in recent years Americans reduced their debt burden, as a percentage of household income, from 18.6 percent, according to the Federal Reserve Board. The bad news is that Americans continue to charge instead of paying cash. Credit card debt continues to be the major hitch in Americans achieving financial security.

Many people who use credit cards unpaid from month to month. If your unpaid balance is $2,500, compounded monthly at an 18 percentage rate you are effectively paying an interest rate of 19.56 percent, or $489 in annual interest charges. If you paid off the $2,500 balance, you would earn, in effect, a 19.56 percent "return" on your money.

So how do you get out of the credit card debt that you put yourself into?

Cut up the cards. Debt experts find that people who pay in cash instead of charging not only eliminate expensive interest charges, they typically spend 25 to 30 percent less. Taking cash from your wallet has a much bigger impact on your spending habits than charging.

Pay off your debts as quickly as possible. Save money by paying off the highest interest debt first. Also, free yourself quickly from some of your debt by paying off the cards with the lowest balance. The gradual elimination of credit cards from your overall debt will encourage you to move forward.

Consider consolidating your debt into a home equity loan or into one or two low interest credit cards. Home equity loans often have reasonable interest rates and are usually tax deductible. Before consolidating into one or two cards, call the credit card company and "negotiate the rate." Practically everything in life is negotiable and credit card rates are no different.

For most people, some debt is necessary. But keep it to a minimum. Reducing debt is one of the best avenues to financial independence. «