The Mt. Everest Guide To Getting Out Of Debt

If you owe a significant amount of money and are struggling to pay it back, help is at hand.

In all probability, you are reading this because you realize that you've spent *more* than what you have. You may have been unprepared for unexpected circumstances such as medical emergencies, or your lack of control over your impulses may be to blame. Either way, you are under so much debt that now it has become impossible to get by.

You have debt, and it needs to be eradicated.

The good news is that you are not alone.

Stats show that more than 189 million Americans have a credit card, and each card holding household is $8,398 in debt.

Living with debt has detrimental effects on your mental health and financial stability. And this is why you need to pay off your mortgage, loans, and credit cards before they start to take a toll on your life.

There's no need to abandon all hopes of never getting rid of your ever-increasing debt, yet.

While the journey to a debt-free life won't be an easy one, it will be exhilarating and rewarding. That's a promise!

So let's start the trek.

The Dream

Living a debt-free life. Does it sound like an impossible dream?

Unfortunately, for many of us, it is an unattainable fantasy that they'll never be able to turn into a reality. They think that debt repayments mean putting your life on hold until all loans and credit cards are paid off.

So, of course, it seems impossible because getting out of debt is hard.

It takes discipline to maintain your finances over a long period of time. It demands lifestyle changes and living under your means. And many of us succumb under pressure and give up the dream of a debt-free life.

To truly get out of debt, it has to be your burning passion.

If you know that this arduous journey will last years, and still all you can think about is the sweet, debt-free life at the end of it, then you can succeed.

Don't let yourself be sidetracked by instant gratification, instead think of what you can do with your money once you no longer have to make debt payments. Pursue your dreams, buy a house, take vacations, or send your kids to college – the sky is the limit to what you can achieve.

The decision to get out of debt alone has the potential to turn your life around. But you must be willing to commit to the process.

Do you have the dream?

Do you have what it takes to control your finances and achieve your goals?

The Starting Point

When you start crafting a debt payment strategy, you may come across some personal finance terminologies and jargon. Don't let it throw you off the path, instead take some time to learn the language of the pros so you can beat them at their own game.

This is also important because navigating the process of debt consolidation without financial literacy can inhibit you from making the right decisions about your debt payment strategy.

To offer extra clarity on all the important personal finance terms that you might come across, we have put together a comprehensive glossary.

Adjusted Gross Family Income

The adjusted gross family income is the sum of your entire income after deducting certain elements such as student-loan interest, alimony payments, or anything specified by the federal income tax return.

Adverse Credit History

It is the track record of bad repayment history on your credit report, including bankruptcies or foreclosures. This affects your credit score when you are applying for a loan.

Amortization

It is a financial technique that reduces your amount due on loan with time. In the process of debt repayment, it is paid through principal and interest payments.

Accrued Interest

It refers to the amount of interest collected on a loan that has not been paid yet. You can determine your accrued interest by identifying the unpaid payments of your loan.

Annual Percentage Rate (APR)

The annual percentage rate of a loan is the interest rate for an entire year that is applied on a loan or credit card payment etc. These rates include additional fees than the interest charges, which are converted to an annual fee.

Annual Percentage Yield

It is the interest rate charged for earning money over a year. This helps you decide the best bank and the account type you should open to increase your interest payments.

Arbitration

It is the process of solving disputes that arise due to unpaid debt. A third party is involved in resolving the conflict between two or more people.

Asset

An asset is anything that holds an exchange value such as funds gathered in your savings accounts, trading accounts, or real estate.

Appreciation
It is the increase in an asset's value over time. This mainly occurs due to any changes in the interest rates or an increase in the asset's demand.

Bankruptcy
It is a legal process that involves a person who is unable to repay his/her outstanding payments. Bankruptcy is declared when the debtor files a petition. All the assets of the debtor can be used in repayments of a portion of the debt.

Bonds
Bonds are debt securities where the bond issuer is indebted to the holder until the maturity date.

Budget
A budget is a financial plan that is crafted by taking your income into account and dedicating it towards expenses, savings, or any debt payments. To plan an effective budget, consider your past spending patterns and the chargeable amount.

Balloon Mortgage
It is a loan that has low or no initial monthly payments, but at the end of the loan duration, the borrower has to pay the full balance in a lump sum amount. Even if any monthly payments are incurred, they are based on low interest-only payments.

Chapter 7 Bankruptcy
Chapter 7 in the U.S. Bankruptcy Code deals with asset liquidation in which a trustee appointed by the United States Trustee is tasked to liquidate assets to pay the creditors.

Chapter 13 Bankruptcy
Under this bankruptcy code, you can resolve your debts in 3-5 years by developing an effective repayment plan.

Collateral
Collateral is any asset that a debt borrower assures as a backup in exchange for a loan. In case of failure to repay the debt, the contract states that the lender can take over the asset.

Credit Score
The credit score depicts the eligibility of a person to pay back a debt. This three-digit number is used by lenders to determine the risk of failure in making debt repayments by the person.

Credit Counseling
Credit counseling helps a person to improve their financial conditions through efficient budgeting techniques or better debt handling. It offers effective solutions to all the challenges that a person faces in maintaining their personal finances.

Credit History
Credit history shows the record of debt repayments made by the borrower over a certain time. It can be collected from several resources, including banks and credit card companies.

Debt-To-Income Ratio (DTI)

The number you get after dividing your monthly debt payments with your gross monthly income. This ratio helps the money lenders figure out if you have the money resources to repay what you intend to borrow.

Debt Consolidation

Debt consolidation means taking one loan to pay off other debts. The loan possesses a favorable repayment structure, such as low-interest rates or a convenient duration of the term.

Debt Management Plan

A debt management plan allows you to repay your debts at feasible monthly rates. This is the perfect plan for non-priority debts that include credit cards, personal loans, income tax, and much more.

Debt Settlement

Your lender might let you get out of making payment for the next 10 years, if you can pay them a lump sum amount (which is less than what you owe) now. This is debt settlement.

This practice is mostly carried out by third parties who craft a negotiation between you and the creditor to reduce your debt.

Deferment Period

It is the time period during which the borrower is not required to pay the interest or principal on loan. During this period, the creditor cannot take any action against you for failure to repay the debt.

Discretionary Income

This is the amount of income left after paying all the taxes and basic survival goods, such as food and clothing. Discretionary income can be spent on buying non-essential products.

Equity

Equity is obtained by deducting liabilities from the value of an asset. If the asset gains value, the equity holder reaps the benefit, but if it loses value, the holder has to bear a portion of the loss in the owned asset share.

Expense

It is a certain amount of money out of your budget plan that is spent on necessary expenditure. If your expenses go higher than your income, your financial situation will lose its stability.

Fair Credit Reporting Act

It is a federal law that passes regulations on accessing the consumer's credit card reports and other essential information.

Fair Debt Collection Practices Act

It is also a federal law that forbids unjust or abusive debt collection practices.

FICO Score
It is a credit score drafted by the Fair Isaac Corporation. Lenders assess the borrowers' FICO scores to determine the credit risk and whether they should extend the credit. It is accounted for by evaluating the payment history, level of indebtedness, credit type, credit history, and any new credit accounts.

Forbearance
It is a temporary delay offered by the debt lender if the borrower is going through some financial hardships. The interest gathered during the forbearance period is accrued and added to the final owned amount of debt.

Foreclosure
In the case of failure to repay the debt, the lender becomes eligible to take possession of any mortgaged asset.

Gross Income
It is the total income of an individual calculated before taxes or any other deductions. Gross income is not limited to cash, but it can also include property or services offered by the employer.

Home Equity Loan
The home equity loan is also known as a second mortgage. It allows the owners to loan money equal to the amount determined after subtracting the house's current value from the due mortgage balance.

Lien
It is the legal right of a lender to seize the asset if the debt is not paid in due time.

Liquidation
It is the process of converting assets into cash or distributing the assets when the person is not able to repay the debts.

Mortgage
A loan you apply for to buy a property while setting it as collateral. Failure to make the payments can lead to the confiscation of your property by the mortgage lender.

Net Income
It is the total amount of income left after making all the necessary deductions.

Net Value
Net value is the cumulative value of your assets, including income, investments, and property. It does not include the amount of debt you owe.

Personal Loan
This type of loan is dedicated to personal use only and possesses no ties to any property. To apply for a personal loan, a person must possess good credit scores.

Prime Rate
This is the interest rate offered by banks and money lenders to borrowers who have good credit scores.

Personal Finance Management
Includes online finance management platform and mobile apps that allow you to streamline your everyday finances. They also help you in managing multiple accounts in one place.

Rebalancing
It is the act of buying and selling assets to realign your portfolio of assets.

Refinance
Replacing an existing loan with a different one that offers a better interest rate or other favorable payment terms.

Standard Deduction
A portion of your income that is not subject to taxation. You can only take the standard deduction if you have not itemized your deductions.

Securities
They are monetary assets that are issued by companies or governments to the buyers who intend to make a profit through them.

Unsecured Loan
This is the type of loan that does not require any form of collateral.

Laying The Groundwork

Now that you are familiar with the basic terms used in personal finance, it's time to create a solid plan to overcome your debt challenges.

And for that, you need to lay down the groundwork.

Here's what you need to do:

Determine Your Debts

Firstly, make a list of your debts and assess how much you owe.

Next, get your credit report from your local agencies that are associated with credit card companies, mortgage companies, or any other loan providers out there.

The credit report shows you the brutal truth about your debt situation since it displays the charged-off accounts and open accounts. Focus on the open accounts to calculate your total debts.

Once you have the list of debt balances on all accounts, including credit cards, mortgages, and personal loans, you get the total figure of your dues.

Estimate The Interest Rates

Interest is an additional fee that you need to pay for borrowing someone's money. These should've been communicated to you while setting the loan terms.

When you start to create your debt payoff list, you need to calculate the interest rate of each debt and include it in the final figure.

Now, the interest rates on your debts can vary. For example, credit card companies charge a high interest rate while student loans come with a comparatively lower interest rate.

Make a list of all the interest rates you owe on each loan and arrange them from the highest to the lowest rate.

The debt with the highest rate will have to go first.

Assess Your Income

Before you set out on the journey to overcome your debts, calculate the amount of income you are bringing in.

This will help you in evaluating your debt to income ratio. It compares your total amount of debt to your gross income to give you a realistic idea of what you'll be spending on debt payments.

Do this by adding up the outflow, i.e., credit card payments, loans, and other household expenses. Divide the figure with your gross income to get the ratio.

A low debt to income ratio means that you'll be able to pay your debt and manage your finances responsibly.

Evaluate Your Expenses

Tracking your expenses is another important element of creating an effective debt payoff strategy.

When you are aware of your expenses, it's possible to come up with a more efficient plan to repay the debts. If you are a non-tech-savvy person, just write down the expenses in a notebook and compare them with your budget.

But if you require a more modern solution, you can track your expenses through money tracking software or a mobile app.

This will help you strategize your payments and control them – take out more money from your gross income that you can set aside to repay debts.

Equip Yourself With The Necessary Tools

You cannot climb to the top of the debt mountain without the right tools to ensure that the ascent is successful.

Similarly, to reach your financial goals, you require the best personal finance tools. There are several noteworthy budgeting apps out there that can be leveraged according to your individual goals and preferences.

We suggest the following:

Mint

Mint is a free budgeting and personal finance app that syncs your bank accounts, and any credit cards in your name – think of it as your financial dashboard.

The app updates your transactions automatically and tracks the amount of money you are receiving and spending. Once you sign up with Mint, you can even have the app remind you of upcoming expenses such as bill and credit card payments, etc.

Not only this, but the app can also track loans and investments that you have made. It helps you keep an eye on all the transactions that you make and categorize them according to the type of expense.

The budgeting feature of this app allows you to track your funds based on your transaction data. It enables you to set your budget by week, month, or any period of time you prefer.

Additionally, it also offers financial deals and even a free credit score evaluation to help you stay on track.

You Need A Budget

This app syncs directly to your financial accounts to access balances and any other information it deems important.

Not only does it track your spending, but it also helps you design a personalized budget and stick to it. The user-friendly layout lets you easily navigate through the budget and expenditure sections.

It also allows you to set your financial objectives – so let it know that you want to repay your debts, and a transparent plan will let you stay on track.

You'll also get offers free tutorials, podcasts, and courses on managing your finances effectively.

Quicken

Quicken is another popular personal finance tool that connects with all types of accounts, including investments, credit cards, and a lot more.

If you don't want to connect it to your bank accounts, enter the transactions manually through the mobile app or desktop version.

Plan your budget by categorizing your spending, and the app will help you look for opportunities to save money. Also, it scans your transactions to create a personalized budget that is customized according to your lifestyle.

Quicken allows you to stay on top of your expenditures to make informed money decisions and create a successful budget plan. You can also get alerts on any outstanding balances that you might have.

Personal Capital

This app has the most easy-to-navigate dashboard that connects to your accounts as it tracks your expenses, investments, and creates an efficient retirement plan.

If you want to save money to pay off your debts, enter your income and assets to monitor the amount of money you can set aside.

Additionally, Personal Capital also offers advice on personal finance management and budgeting techniques to help you plan effectively.

Moreover, with this app, you can craft a 50-30-20 budget – it'll make sure that 50% of your income is spent on basic needs, 30% on non-essential items and 20% goes into savings. This should help you prioritize the areas where you should be spending or saving.

The Right People

Not surprisingly, you'll also need to have some great people on your side so they can keep pushing and cheering you on until you conquer your debt. They include:

Your Sherpa

The right financial coach or mentor will be invaluable as they can guide you at every step of your debt summiting journey.

Financial mentors direct you towards the right path by leveraging your time and offering expertise that clears your confusion.

They also help you build a strategic debt management plan as they find ways to harness your skills and resources to create a wealth-building plan that works to your advantage.

But they know that designing the perfect action plan is only half the journey. Consistently making efforts and moving towards the goals and stabilizing your financial situation is the key to success.

An experienced financial mentor can teach you techniques and strategies that make the journey easier on you so you can avoid mistakes that can cost you a fortune. They work with you to recognize the root causes of your financial problems and give you the tools you need to make a lasting change.

Not only will you be successful in gaining financial stability, but you will also feel improvements in your emotional health. Setting aside all your worries about tackling your debt and working with a mentor to get rid of them effectively will surely enrich your personal and financial condition.

Fellow Climbers

Sometimes the journey to financial independence can be solitary. But you don't need to be alone as you navigate your finances, craft the perfect debt management strategy, or get in touch with the right personal finance coach.

Working with people who are in the same boat as you can offer you support throughout this gruesome journey.

There are several communities out there that you can join to share your financial issues and learn from others. But know that debt can be a highly sensitive topic for some people, especially if it starts to affect their personal lives.

We are all frustrated about our financial conditions and confused about what we need to do to. But interacting with people who share the same problems as you can relieve stress and even inspire you to improve your financial condition.

You can search for a money support group either in your community or online. For example, social media networks are home to many communities that can help you release your burdens and share your insights with others as well.

Survival Rules

Now, paying your debt is a challenging task that can go on for years at end. This is why many people are tempted to look for shortcuts to speed up the process.

One wrong move, and you are destined to encounter a major pitfall that can jeopardize your entire debt payoff journey. Not only does it cost you precious time, but it also requires additional amount of money than you planned to spend.

Now, as you make your way to relieving your life from the burden of debt, you must avoid the following mistakes.

Not Having A Debt Management Plan

Setting out on a debt payment journey without a clear action plan is a recipe for disaster. It is highly recommended to have a specific plan in order to deal with this challenging endeavor.

For starters, acknowledge that you have a monumental problem at your hands and then pay off the debts that you want to pay off as early as possible.

You can also employ the debt snowball method that suggests you start your debt payoff process with the lowest debt balance and then move on to a higher one.

Also, you will need to evaluate the amount of money you owe and determine the people you owe it to.

Continuing To Spend Money

Credit cards might be the reason why you have landed in an ever-growing amount of debt. If that's the case, you are not aware of the right way to use a credit card properly.

To repay your debts, you must stop using your credit cards right now. Even if you need to use them, you have to devise a clear payment plan. To prevent the accumulation of debt, you must pay the credit card bills as soon as they arrive.

But if you are still tempted to make unnecessary purchases, throw away your credit cards or keep them as far away from you as possible.

Not Setting Up An Emergency Fund

Survey suggests that 36% of Americans borrow money from their family or friends, take a loan or use credit cards in case of a $1000 emergency.

That's a $1000 you should have in your emergency fund.

Don't leave yourself vulnerable and build up an emergency fund that can come in handy during unexpected situations.

Falling Prey To A Debt Payment Scam

People and businesses out there who will unabashedly boast about their ability to reduce your debts. They may seem like the answer to all your prayers but beware.

While many companies offer trustworthy debt relief and financial counseling services, several of them are just after your money.

Then some companies actually reduce your debt, but they leave you in a position where you are late in paying your bills. This impacts your credit score in the long run.

To detect such scams, you need to be wary of any business that asks for your money upfront. Also, you must beware of any service providers that guarantee a specific result as nobody knows what your creditors are thinking.

The Basecamp

Now that you are familiar with the workings of debt payoff, you need to take care of some things before you set out for the final climb.

Start Collecting Your Debt Information

Start gathering all the information on your debts, including credit card payments, medical bills, mortgage, student loans, or any other personal loans.

Make a list of all the debts you owe and the interest payments on them. Calculate the total amount and monitor how each monthly payment is lowering the number.

Get Your Credit Reports

These will give you a better view of your debt situation. Ask for credit card reports that will inform you about any missed loan payments or your upcoming credit limit.

These reports are essential for getting your credit score, which determines your financial situation in the future.

Assess The Reason Behind Your Piling Debts

Even if you create the perfect debt repayment plan, you will still land in debts if you are not able to understand the reason behind them.

Some people face huge debts due to student or car loans, while others are unable to hold back on their credit card purchases, which adds to their pile of debt.

Regardless of this, it is essential to understand the reason behind its accumulation.

Once you have determined the reason, you need to take charge of your financial situation and reform your habits to avoid falling into the trap again.

Devise A Budget Plan

Making a budget is the hardest part as we usually make a plan for what we want to spend rather than how we should spend money.

Clarify your aspirations and design a comprehensive budget that helps you manage your finances. You can also leverage online personal finance tools and software to budget more efficiently.

Remain Consistent

Debt repayment requires consistent efforts throughout the entire plan. You need to be relentless in your journey towards the summit of debt payoff.

Also, once you have gotten rid of all your debt, you must remain focused on never allowing it to accumulate again.

Take The Help Of A Personal Finance Tool

Leverage the budgeting mobile apps and software to maintain and track your debt payoff plan. They are not only able to manage essential data on your debt payments, but they can also help you identify the debt you need to pay off first.

Also, these apps allow you to monitor the progress and the improvements that you are making.

The Climb

Now that you have the basic elements of the perfect debt repayment strategy in place, you need to start the climb.

Get Extra Money To Repay Your Debts

Before starting to make payoffs, you need to get monthly access to extra money that you can dedicate to the debt.

For that, you are required to cut back on spending money on non-essential items. If you stick to your monthly budget plan, you will be able to collect extra money.

But you must keep in mind that you do not have to contribute all the extra money that you acquire through bonuses or tax returns to pay off the debt quickly.

Start Paying Your Debt

It's time to start implementing your debt payment plan. Gaining access to extra money and setting up your emergency fund account sets you off on the path to debt repayments.

Start from the debt you want to pay off first. Once you have paid off your first debt, you can focus on the second one.

Continuing this pattern will make you eliminate all your debts more quickly than focusing on all the debts at once.

Reduce Your Expenses

To speed your debt repayments, you need to cut down on your expenses as much as possible. You can either resort to budgeting apps or live on essential items only until you've paid off all liability.

Now, an expenditure budget can be different for everybody, but it should be devoid of any extra expenses such as going out for dinner or a TV cable subscription.

Although, this budgeting strategy is temporary, make sure you continue to spend moderately avoiding loans even after the credits have been paid off.

Increase Your Monthly Income

It is evident that the less amount of debt payments you make each month, the longer it will take to finish your debts. Not to mention the interest rates that start increasing as your timeline expands.

This means you need to increase your monthly income to earn some extra cash. Apart from your full-time job, you can also look for part-time or seasonal jobs if you are willing to put in the extra effort.

Negotiate For Low-Interest Rates On Credit Card Payments

If the interest rates on your credit cards are high, ask your card issuer for negotiations. You can further benefit from this if you have an impeccable history of credit card payments.

This saves money that you can allocate towards other debt payments that you need to make.

Monitor Your Progress

Once you have started paying off your debts, you need to keep track of your progress to not lose your sight from important milestones that might come your way.

Sign up for a personal finance software or keep a manual check over your monthly debt payments and the money you have collected to pay off the debt.

The Summit And New Beginnings

Congratulations! You are well on your way to conquering the Mount Everest of debt. Once you are liability-free and standing atop the summit, you'll see the world in a whole new light.

I promise you haven't experienced freedom like you'll do that day.

Each step along the way has made you wiser for the future and prepared you for any unfortunate incident that might land you in debt.

Now, it's time to celebrate the end of your debts and all the worries associated with it. You were meticulous in executing each strategy to climb this challenging mountain, and now you are all set for the future.

But beware. Even though you have reached the peak, one wrong move can lead to a spiral down the mountain where you might land in more debt.

Being debt-free doesn't mean that you can start spending your money the way you used to.

So, from here-on, you'll need to start working on a wealth-building plan that perfectly aligns with your budgeting strategy.