

No Credit Needed
Debt Reduction Guide

For more information about debt reduction visit:

[No Credit Needed](#)

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Section One: Getting Started

Tools: pen / paper / calculator / most recent bank statements / loan documents / credit card statements

Calculate Total Starting Balance:

* List all of your debts - Create columns to list creditors, balances, due dates, minimum payments, and interest rates.

* Add up all balances - This amount is your total starting balance.

Determine Debt Reduction Method:

Now that you have your total starting balance, you no longer have 'debts', you have your 'debt'. Your new goal is to eliminate your total starting balance, not just a part of it. With that in mind, there are two debt reduction methods that work really well. They both share the same basic principals - making minimum payments to all accounts and making extra payments to one account at a time.

* If your goal is to pay the absolute lowest amount of interest, over the time that you are reducing your debt, list your debts by interest rates, starting with the highest interest rate first.

* If your goal is to rapidly reduce the number of accounts that have balances, list your debts by balances, starting with the lowest balance first.

It has been my experience, after writing about debt reduction for more than three years, that the latter method seems to work best for most people, especially when they first get started. I used this method, commonly referred to as the 'debt snowball' and it worked very well for me.

Begin To Make Extra Payments:

1. Make minimum payments to all accounts on your list. Be sure that all payments arrive on time. Never miss a minimum payment, or you will have to pay penalties and late fees - and, your creditor may raise your interest rate.
2. Send an extra payment to the first account on your list. While you may choose to simply add this extra payment to your minimum payment, and write one check, I prefer to send two checks, one for the minimum payment and one marked 'apply to principal'. If you use free online bill pay from your bank, sending two 'checks' should be a relatively simple thing to do.
3. Continue repeating steps 1 and 2 until you have paid off the first account on your list.

Roll Payments Into Next Account:

And now we come to the most important step in the debt reduction process. Now that the first account on your list has been paid off - you have some 'freed up money' - the minimum and the extra that you had been sending to the first account.

1. Continue to make minimum payments to all remaining accounts.
2. Send the 'freed up money' - the old minimum plus the old extra - that you had been sending to the first account - and send it to the second account on your list.
3. Continue repeating steps 1 and 2 until you have paid off the second account on your list, then repeat for the third account, the fourth account, etc. until you are completely debt free. Remember, once an account has been eliminated, take the total amount you had been sending to that account - the minimum plus the extra - and send that amount to the next account on the list.

By repeating this process - eliminating an account balance and rolling payments to the next account - you can and will rapidly reduce your debt. Remember, your goal is to eliminate your entire total starting balance.

Section Two: Moving Beyond The Basics

Reduce Monthly Interest Charges:

- * Send minimum payments and extra payments as early in the payment cycle as you possibly can. This reduces your average daily balance which reduces the amount of interest charged.
- * Call credit card companies, regularly, and ask for reduced interest rates.

Transfer Balances Carefully:

Consider transferring debt from one creditor to another, but be smart. If you move credit card debt from one card to another, understand the terms of the balance transfer. Many cards charge a balance transfer fee. Many companies charge balance transfer fees. Also, keep in mind that most cards offer low rates for a limited time, only. Will you be able to completely pay off the transferred balance, before the low rate goes away? If not, be prepared to pay a much higher interest rate once the teaser rate ends. At that time, you may need to consider another balance transfer.

Using equity in your house to 'pay off' debt can be dangerous - and must be accompanied by radical behavioral change. I would never suggest using a home equity loan or line of credit to pay off unsecured credit card debt.

Make Multiple Extra Payments:

As you work your way through the month, consider sending more than one extra payment to the account on the top of your list. If you receive unexpected income or a gift of cash, use it to reduce your debt. By using micro-payments, you can reduce your debts even more rapidly than your initial debt reduction plan might suggest. Also, if you underspend in a particular budget category, use this 'found money' to reduce your debt. Look for ideas to save money that can then be used for debt reduction.

Section Three: Preparing For Freedom

Build A Substantial Emergency Fund:

After getting out of debt, your next goal will be to stay out of debt. To that end, consider creating and funding a substantial emergency fund. The exact amount that you will want to keep in your emergency fund will vary, according to the number of people in your family, but a good rule of thumb is to try to maintain an account with enough money to cover three to six months of expenses.

* Open an account - online or at your local bank - for your emergency fund. Personally, I prefer an online savings account, but you could choose a money market account through your local bank or just a simple interest bearing checking account. The primary purpose for this account is to 'hold' your money, in a safe place, until it is needed. Money inside your emergency fund should be set aside for emergencies and should not be invested in stocks or mutual funds.

* Use the same techniques that you used for debt reduction, only use them to pay yourself. Send as many payments as you can, as soon as you can send them, to your savings account and rapidly build your emergency fund. Use online transfers to automate the process.

Fund Various Retirement Accounts:

There are so many different types of retirement accounts. Most employers offer 401k plans or 403b plans, many government employees are eligible for pension plans, and most wage earners are eligible to invest in Roth IRAs or Traditional IRAs. Research is your friend. Find out which types of accounts are available to you and your spouse and then begin to fund them. The suggestions for what percentage of income to invest in retirement vary. Personally, I invest maximum amounts in my 403b, Roth IRA, and SEP-IRA. My wife invests maximum amounts in her pension plan and a Roth IRA. Our contributions amount to a substantial portion of our gross incomes, but our long-term goal is to live debt free and without borrowing money.

Section Four: Staying The Course

Look For Opportunities To Earn Extra Income:

As you move forward, you'll begin to get excited about getting out of debt. Now is the time to look for ways to supplement your income. Consider getting a part-time job. Look through your closets for items you can sell on eBay or Craigslist. Have a yard sale (or two). Take advantage of you talents and look for new ways to use them.

Learn To Celebrate Your Victories:

When you pay off your first credit account, take some time to savor the moment. If you are married, schedule a special dinner with your spouse. You don't have to spend money in order to celebrate! Simply take an afternoon off and read your favorite book or spend some time listening to your favorite album. If you have an accountability partner or good friend, share your news with them. Getting out of debt is a big deal, and you should feel good about your progress.

Start Over:

Have you stopped following your debt reduction plan? Are you discouraged? Have you had emergencies or unplanned expenses, which have hampered your progress? We all face challenges and obstacles. Take a few deep breaths, gather your thoughts, and start over. Take a look at your calendar and block out a few hours for yourself. Sit down, reevaluate your plan, and get ready to move forward. Remember, it took time to get into debt and it's going to take time to get out.

Section Five: Planning For The Future

Budget For Future Purchases:

Now that you are debt free, put a plan into place so that you can stay that way.

- * Create budget categories for future major purchases. I have categories labeled 'automobile replacement', 'new furniture', and 'new electronics' .

- * Commit to paying cash (or using cash equivalents) for all future purchases. If you do choose to use a credit card, plan to pay it off, in full, each month. I would strongly urge you to live without a credit card, at least for a few months, until you have changed your old spending/borrowing/purchasing habits.

Maximize Retirement And College Savings:

In Section Three, you began to investigate the various retirement accounts for which you are eligible. Now is the time to focus your energy and to fund them in earnest. Personally, I make maximum contributions to my 403(b), a Roth IRA, and Education Savings Accounts for my children.

Inspire Others And Enjoy Giving:

Find someone with whom you can share your story. Celebrate your freedom. Now that you have taken control of your finances, be sure to share you blessings with others who might be in need. When you don't have to worry about debt payments, giving money away can be really, really fun.

A Note From NCN

I hope that you will find the information in this ebook to be informative and helpful. Please note, I am not a financial professional (nor do I play one on the web). Before making any financial decisions, I strongly suggest that you seek the counsel of a qualified financial professional. My only goal with this ebook is to encourage people to think about getting out of debt.

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