

Title:

Avoid the Trap When You Consolidate Debt, part iii

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Summary:

To consolidate debt is a great idea with a trap built into it. The technique described here helps everyone in debt, but if you have an ongoing credit card debt you desperately need this article.

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Article Body:

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- * Part I Don't get into debt. Ways to avoid it.
- * Part II The big advantages of student loan consolidation
- * Part III This article

The Trap

When you consolidate your debt, will you celebrate your freedom from credit card debt by going out and buying more on your credit card? Do you really want to live your life in debt, or would you prefer to take charge of your finances?

It's too easy to consolidate debt. If it hurts to get rid of your credit card

debt you'll find it easier to resist getting into debt again.

Are you getting married? If your partner likes to live in debt, and you want to become a millionaire, who is going to give way? Most divorces are caused by money arguments. Discuss it before you marry.

You should consolidate debt if you have no ongoing credit card debt. The trouble when you consolidate debt is that the whole thing loses immediacy when you have thirty years to repay.

List your debts

Make a table showing all your debts, the amount still owing and how much you pay per month. Call the last column "Damage" and calculate it by multiplying your repayments by a hundred and dividing by the amount that you owe. The larger the damage, the more harm it is doing to your finances.

Imagine you had a fictitious list like this

Mortgage , \$100000 , \$500 , 0.5

College loan , \$50000 , \$333 , 0.66

Personal loan , \$10000 , \$100 , 1

Car loan , \$10000 , \$360 , 3.6

Visa Card , \$4000 , \$250 , 6.25

Master Card , \$2000 , \$200 , 10

You should realise if you consolidate debt then nearly all your monthly payments will be interest, so your debt won't shrink much. When you pay an extra \$100 your debt shrinks by that amount, and you won't keep paying interest on it either.

List your surplus

Using the methods in part 1 to earn and economise. Work out your surplus each month after all your expenses. Suppose you can spare an extra \$456 each month. If there are two of you working, try to use all of one income to get out of debt, because you won't always have both incomes.

See which damage figure is highest. That is the haemorrhage you must stanch first. In this example it is your Master Card.

Add your \$456 to your monthly payment (mostly interest) of \$200. You will shrink your debt by more than \$456 because of paying less interest. You'll have smashed that debt in about three months.

Now your self-discipline comes into play. Don't go out on an expensive celebration! After 3 months you'll be starting to build the financial discipline to make you a millionaire.

You've been paying \$656 per month that is now surplus, so you add it to your visa account. That makes your repayments \$906 each month. You'll get rid of your Visa debt in a little over four months.

Now you can pay princely sum of $\$906 + \$360 = \$1266$ per month on your car loan winning free in less than eight months... quite a lot less because of shrinking interest payments.

To cut a long story short, when you start to concentrate on your mortgage you'll have $\$1266 + \$100 + \$333 = \1699 to add to your mortgage repayment of \$500 per month.

When you start making repayments of \$2.2K /month your twenty year mortgage will suddenly shrink to less than four years. You'll have everything paid off before your first child is ten years old.

Is it worth the effort?

You may think that the big benefit is freedom from debt. The biggest benefit is the mindset that you've developed as you escaped from debt. You are now in

charge of your finances... not letting the loan parasites continue to leech you of all your money.

But it gets better. An Australian kid used the above method to get out of hundreds of thousands of dollars of debt, then became a millionaire while still in his twenties. He no longer needs to work, but he has a hobby of showing people how to become millionaires.

There's just one problem. He isn't interested in helping people who can't save up \$20 thousand to invest, because he says they aren't trying very hard. Now if you take your \$2.2 thousand, and start saving for \$20K that will take you less than ten months.

He says that mindset is everything. Now you have the right mindset and have saved up \$20K...