Title:
9 Steps To Get Out Of Debt - Part 4

Word Count:
811

Summary:
Step 4 - Reducing Your Interest

If you have read the previous articles, so far you have learned how wide spread of a problem debt is, the true impact it can have on your life, and how to determine exactly how much debt you have and how much it will actually cost you. The next step is to attempt to reduce your interest rate. There are several ways you can accomplish this.

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Keywords:
debt relief, debt, get out of debt, refinance, credit card

Article Body:
Step 4 - Reducing Your Interest

If you have read the previous articles, so far you have learned how wide spread of a problem debt is, the true impact it can have on your life, and how to determine exactly how much debt you have and how much it will actually cost you. The next step is to attempt to reduce your interest rate. There are several ways you can accomplish this.

We’ll start by looking at what are typically known as the highest-interest debt, credit cards. Believe it or not, one of the easiest ways to do this is to simply call your credit card issuer and ask them to reduce your rate. This sounds laughable at first, but quite often it actually works. Credit card issuers typically charge customers much higher interest rates for the money they loan than what they pay to borrow it from others. This leads to huge profit margins, which means they really want to keep you as a customer, especially if you regularly pay your bill on time. They know you have plenty of options available, and are likely to switch to another credit card issuer if you feel you can get a better deal, so they’re happy to make a slightly smaller profit and keep you as a customer by lowering your rate.

If that doesn’t work, a second option is to find a lower-rate credit card and roll your balance over to it. You may be tempted to go with a card that has a 0% introductory rate. This is probably not your best option though, unless you plan on paying off the card within six months. What you want to look for is a card with a low permanent rate. There are several sites available to where you can compare credit cards from multiple issuers such as Creditor Web, http://www.creditorweb.com/.

There are also several broader options available for credit cards and other types of debt. One of which is to look into refinancing any loans you have. Interest rates go up and down over time, and it’s quite possible the rate you can get now is lower than what it was at the time you originally financed the loans. Often there will be a refinancing fee involved, so use the amortization calculator from the previous article to make sure the amount you are going to save is greater than the amount you will have to pay.

You can also get a debt consolidation loan. You need to be careful when considering this option though, because although there are several legitimate companies offering debt consolidation loans, there are also several companies trying to make a quick buck at the expense of others. I highly recommend checking out any company you consider getting a loan through with the Better Business Bureau, especially if it’s not a reputable bank you are familiar with. In addition, once again use the amortization calculator to make sure you are actually saving money with the loan. Just because your monthly payments are lower doesn’t mean you’re saving money. $300 per month for 10 years is going to cost you more than $500 a month for 5 years.

The last option I want to suggest is for those of you who own a home. There are actually two options here, you can take out a second mortgage, or refinance your home for its current value and some additional funds, to pay off other debt. As with the one before, this can be both good and bad. It can be good because these loans typically offer the lowest interest rate because they are relatively safe loans for banks. That is also the same reason they are bad; if you do not pay them off, the bank can repossess your house. The other built-in benefit is by refinancing, you can often get a lower interest rate on your house, which can save you a bundle. As with the previous option, there’s often a refinancing fee, so use the amortization calculator, http://www.destroydebt.com/calculators/AmortizationCalculatorJs.aspx to make sure you are saving money by doing this.

With all of these methods let me stress that you should be very careful not to fall into the same trap many others have. Too often families will take out a second mortgage or debt consolidation loan to pay off their credit cards, but instead of using this is a means to reduce their debt, they charge up all the credit cards again and end up in a worse situation than they were before. Don’t let this happen to you. Once you have refinanced to eliminate any credit card debt, close those accounts. Just keep one open for emergency use only until you get to a later step in this guide where you can destroy that one, as well.