

Creating a Debt Reduction Plan

The key to getting out of debt is to either increase income or reduce expenses so that you are earning more than you spend.

Use the remaining money to pay off debt, starting with the highest interest rate debt first.

Step 1: Estimate Income

The first step to reducing debt is to understand exactly how much money you are making. Our monthly budget calculator provides an easy way to do this if you receive a regular paycheck.

But some students may not "earn" money, since they are supported by student loans, savings, or other sources of aid that come in lump sums rather than in regular pay periods. If you fit this description, you should average your income over several months in order to get a monthly figure income figure you can work with.

After totaling your income you need to find whether there is a way to earn more. Depending on your situation, you could consider some of the following options:

- Get a part-time job or increase your hours at a job you may already have.
- Make sure you have the right amount of tax withheld from your paycheck (a sign of having too much withheld is regularly getting a large refund on Federal or State taxes).
- Liquidate possessions such as CDs, clothes, collections, or anything else you have of value.
- Apply for scholarships, a work study program, or consider service program options such as reserve military service.
- Explore additional low interest student loans or low interest consolidation loans. Discuss any loan options with a financial aid officer before taking on additional debt.
- Seek help from your family.

The options listed above are obviously not for everyone, and discussing your situation with an aid officer or financial counselor before making any major decisions is encouraged. For example, earning extra money by increasing part-time work hours may be a good idea, but not if you are already having difficulty in school because of your work schedule.

The worst possible situation is to accumulate student loan and credit card debt in pursuit of a degree, only to

fail to finish the degree and be stuck with debt that you cannot repay.

Step 2: Reduce Expenses

Increasing income can be difficult for a student. In fact, some students are prohibited from working or from working more than a certain amount because of a scholarship or other condition of enrollment. The good news is that just about everyone can, with some discipline, reduce their expenses:

- Reduce discretionary spending. Things like meals out and new clothes can be cut.
- Consolidate or eliminate services. Do you have both a cell phone and landline?
- Eliminate cable television.
- Cancel recurring charges. Unused health club memberships and unread magazine subscriptions may be a source of savings.
- Reduce energy consumption and drive less.
- Make gifts rather than purchasing them.
- Consider lower cost housing or a roommate.
- Explore local assistance options. Food pantries, food stamps, and thrift stores can be effective ways of saving.
- Contact your creditors. Explaining your financial situation to lenders can be a great way to get interest rate reductions and to develop a payment plan that will work.

There are hundreds of ways to potentially save money, but not all will apply to your current situation. Use the monthly budget calculator to see where and what you currently spend and where you could save.

Step 3: Review Cash Flow

After taking all the steps in your power to raise your income and reduce your expenses, how much is left at the end of the month? If your income exceeds your expenses (including debt payments), you have positive cash flow. Make at least the minimum payments on all accounts, and take any extra money and apply it to the highest interest rate debt first until that debt is eliminated.

If your income is not enough to pay your expenses, you have negative cash flow. Review your earning and spending estimates again to see if any opportunities were missed.

If you still have negative cash flow, it's time to seek additional help.