Making a Plan to be Debt Free

With information from the Financial Consumer Agency of Canada

Step 1: Identify your debts

Start with identifying what you owe. Create a list of all your debts.
For each one, list:

1) the type of debt
2) total amount you owe
3) the minimum monthly payment
4) the interest rate

Your list may include:

- mortgages
- car loans
- credit card balances
- line of credit balances
- payday loans
- taxes owing
- buy now, pay later balances
- unpaid utility bills (cell phone, hydro, cable, etc.)
- student loans
- loans from friends and family
- spousal support and/or child support owing

Type of Debt	Total Amount Owing	Minimum Monthly Payment	Interest Rate

Step 2: Decide on a repayment strategy

Once you have created a list of all your current debts, begin your plan. The types of debt and the amount of debt you owe will affect your strategy for paying them off. Depending on the type of debts you owe, it may be best to pay off certain debts first.

Debts with high interest rates

By paying off the debts with the highest interest first, you'll pay less interest. This will help you become debt-free sooner.
For example, payday loans often carry the highest interest rates of any debts you may owe, followed by credit cards.

Debts with the lowest balance

You may find it's easier to start with your debt with the lowest balance. You'll feel the accomplishment of paying off a debt sooner which will keep you motivated to maintain your goal of becoming debt-free. However, this option may cost you more in interest over time.

Regardless of which strategy you choose, start by making the minimum payments on all your debts then use any extra money to pay down the debt with the highest interest rate or the lowest balance. Making the minimum payments on your debts will avoid added interest charges and damaging your credit score. If making the minimum payments is difficult, see 'work directly with your creditors and your financial institutions' for ideas for making your payments more manageable.

Step 3: Commit to a timeframe
Set a payment timeframe that is reasonable, yet still affordable.
If your timeframe is too long, you may lose focus due to a lack of progress. You'll also end up paying more money in interest.
If your timeframe is too short, you may not be able to keep up with your payments. You may start to feel it's unrealistic to continue.
Keep in mind, if interest rates rise, your monthly payments may increase.

Step 4: Close accounts on debts you have paid off
Once a debt is paid, consider closing that account. Only keep what you need and can manage responsibly. However, you should keep an older account open as your credit score is based partially on how long you have had credit, also known as your credit history. Closing all of your older credit accounts can make your credit history seem shorter than it actually is and can hurt your credit score.

<u>**Tips for Success**</u>
Make a plan to pay back your family or friends
If you have a personal loan with family or friends, talk to them about the money you owe.
Commit to a payment schedule that works for you and the person who lent you money.
You may want to consider writing post-dated cheques or setting up automatic money transfers in order to stick to the payment plan. This will also show that you're committed to repaying them.

Work directly with your creditors and your financial institution
Contact your creditors to discuss your financial situation with them directly. Your creditors are the companies you owe money to.
They may offer:

- a lower interest rate on your debt
- to extend your payments over a longer period of time and reduce your minimum monthly payment
- to consolidate your debts into one loan

Type of Debt	Total Amount Owing	Minimum Monthly Payment	Interest Rate	Priority	Repayment Date Goal