Thought of the Month

Beating the Christmas Credit Card Crunch

The holiday season is likely to have left many people with a larger than expected credit card debt.

Credit cards are great in that they allow you to buy things you may not have the cash for. This becomes dangerous during the holiday season as we all get tempted to buy bigger and more expensive presents or splurge during a holiday. But with high interest rates and the difficulty to pay off balances, credit card debt can become a big problem.

Unfortunately there are no quick fixes, you need to look at your debts and find something which will motivate you to pay it down. Before embarking on a plan to repay your debt, it is important to determine why this has happened and implementing a budget is a great place to start. So, what are your options?

Pay off the smallest debt first

One method of dealing with debt is to pay off the smallest debt and then move onto the next largest debt. This works if you have multiple credit cards and personal loans, this method of debt reduction is also called the “snowball” method. The order you pay off the debt should be irrespective of the interest rate, instead it works by giving you quick wins, keeping you motivated to do it again.

One thing to be aware of when paying off the smallest debt first is to make sure that there are no major legal downsides to not paying off one of the larger debts. For example, if you owe the Australian Tax Office money, it might be wisest to pay them off first and then start paying off the small debts.

Pay off the most damaging debt first

If you are motivated by numbers and shudder at the thought of high interest rates, then you should look to pay off the debt which is doing the most damage. Credit cards with high interest rates such as 15-20 per cent should be paid before personal loans where rates are lower at under 10 per cent.

Transfer your balance to a lower interest rate

There are a lot of credit cards and banks out there offering low interest products that are designed for balance transfers. This can be a great way to move from those damaging, high interest rate credit cards. But before you do anything, you need to get your calculator out and crunch the numbers.

Credit cards often offer a very low rate for a period of time, but then they jump up to a higher interest rate. You need to be sure you will be able to pay off the debt before the higher interest rates kick in. To see if you can afford it, simply divide the total amount owing by the number of months that the low interest rate is offered for, this roughly becomes your monthly payment. Can you afford it?

Also you need to fight the temptation that the old credit card presents. Now that the balance is back to zero, cancel it before you start filling it up again.

Use your savings to reduce debt

You could dip into your savings to help pay off your debt. Savings often have a lower interest rate than credit cards or personal loans, so it might be wise to move some of your money around so that you pay off some of your debt. But don’t bleed your savings dry, you need to have enough put aside in case of emergencies.

Start saving

After you have paid off your debt, you can start saving. Your first priority should be to build an emergency fund which can cover up to six months of expenses.

If you have any queries relating to the above, please contact People’s Choice on (08) 9489 2700 or by email on **corpsuper@peopleschoicecu.com.au**.

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