How I did it: Dug my way out of a five-figure debt

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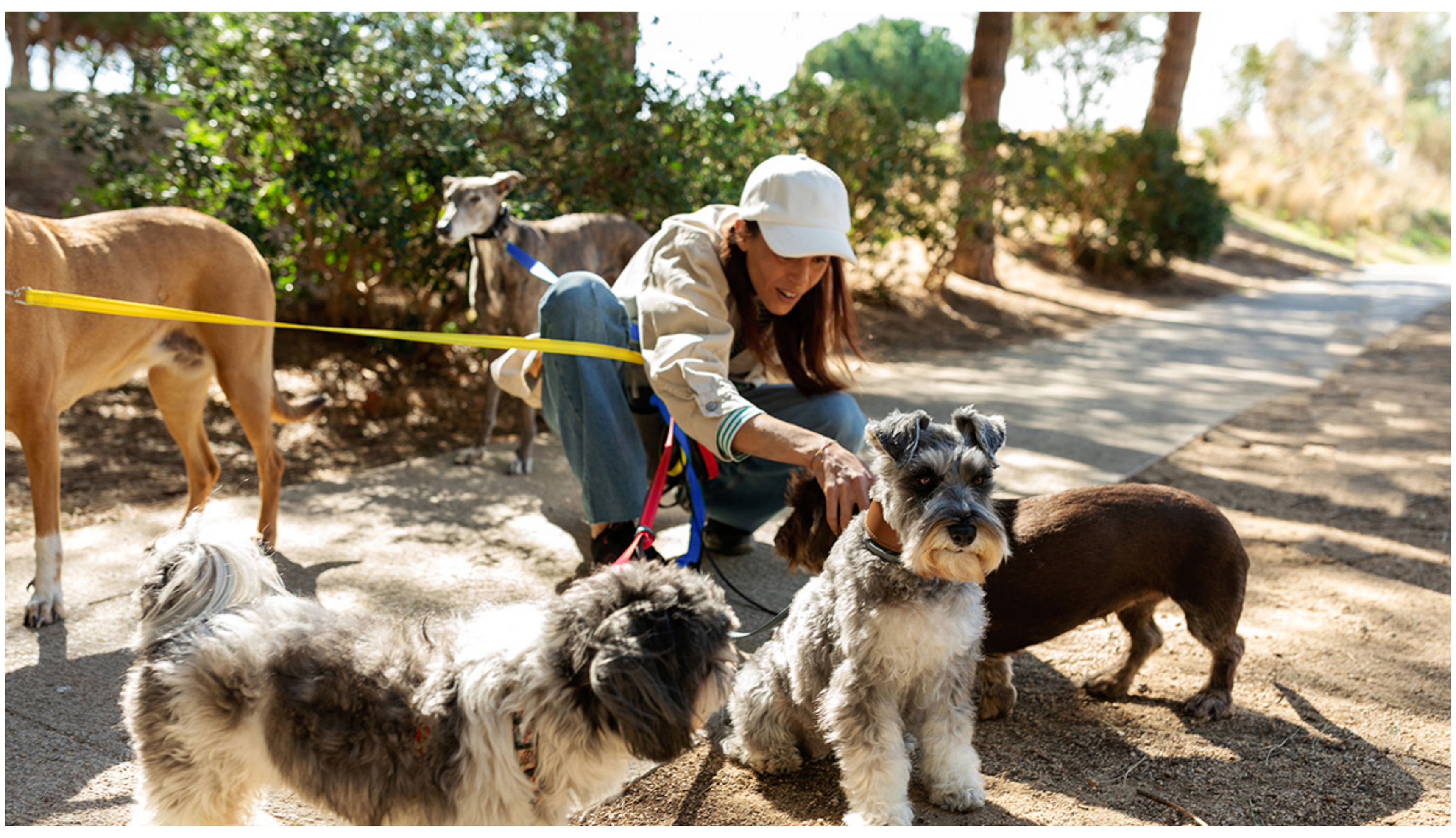

Saddled with crippling student loans and little hope of paying them off quickly, this former graduate student came up with a plan for becoming debt-free.

After graduating from New York University in 2011 with a master's degree in performance studies, Melanie Lockert found herself saddled with student loan debt. While she had already paid off about $13,000 in loans, she still owed another $68,000 that she'd borrowed for her undergraduate and graduate school years — and she had no full-time job.

Four years later, through strict cost-cutting and an unwavering focus on increasing her income, Lockert had retired that entire debt, freeing up money to save for her future and to put toward pursuits like traveling. "The best thing that debt freedom can offer you is more choices," she says. "When I was deep in debt, I felt like all the choices were made for me."

Even if you're not facing a high five-figure debt like Lockert's, you may be feeling the pinch of higher loan payments. After a three-year pause, federal student loan payments are starting up again, and credit card debt has hit a record high, surpassing more than $1 trillion in the second quarter of 2023. Meanwhile, as interest rates have continued to rise, indebted Americans are facing ever-higher loan payments.

If your debts have become tough to manage, take the following steps to get out of the red.

Take stock of what you owe — and how much it's costing you

The first step toward taking control of your debt is knowing the total balances on your loans—and the amount of interest you're paying on each of them. "When people think about debts, I think a lot of them don't think about their long-term impact," says investment strategist and coach Ange Matthews. Taking time to sit down with your credit card statements and other bills to see the whole picture can help you develop a plan of attack.

In most cases, you'll want to focus on paying down high-interest credit cards and personal loans first before moving on to auto loans and other debts with lower interest rates.

Make room in your budget for higher payments

Once you've figured out how much you owe, look for ways to free up extra cash. This could mean cutting back on discretionary purchases like dining out or vacations. Track your spending to spot potential savings. Can you manage with one fewer car, or at least fewer streaming or other subscriptions? See if you can cut your home or auto insurance premiums by opting for a higher deductible. You may also be able to take advantage of shopping deals by downloading the apps of the retailers you most frequent.

After graduation, Lockert cut as many expenses as she could. She moved from pricey New York City to lower-cost Oregon, where she shared a studio apartment with her then-partner. With no car, she rarely went out, and even went without health insurance for a bit, but she wasn't making enough progress. "At that point, I realized there was no way that I could cut back any further," Lockert says. "I didn't have a debt problem. I had an income problem."

Find ways to bring in more cash

Like Lockert, you may discover that cutting expenses isn't enough. You need to earn more money with a side hustle or a new job, or perhaps by renting out a room in your home. Lockert took on extra jobs like working as a pet sitter and writing about her experiences at her blog on DearDebt.com (which later became a book).

The full-time job she landed as an events and communications coordinator paid too little to put a meaningful dent in her debts, so she began to earn more money from her writing side hustle. Her blog became more popular, eventually leading her to become a full-time writer and double her income. By focusing on what she made, not just what she spent, Lockert dug her way out of debt and started actually saving money.

Ask for a better deal

See whether you can lower the interest rate you're paying on the money you owe. For credit cards, the first step, if you have a good record of paying your bills on time, is calling your credit card company to ask whether they'd be open to lowering your rate. One recent survey found that about three out of four people who asked their card issuer for a deal on their rate got "yes" for an answer.

Another option might be to transfer your balance to a card that offers a 0% interest introductory period, which can give you some temporary breathing room to chip away at your debt. Just make sure you can pay off that balance before the introductory period expires.

"Those 0% interest offers aren't as prevalent as they used to be, but to the extent that you can find one, that seems like the best deal going these days," says credit expert John Ulzheimer, noting that other options for consolidating debts, such as home equity lines of credit and personal loans, have gotten relatively more expensive amid recent interest-rate hikes.

Choose the paydown method that works for you

When you have multiple loans to pay off, you can approach the job one of two ways. With both methods, you should pay the minimum on all your loans every month. What differs is where you put any extra cash.

- **The snowball method**. With this strategy, you put your extra cash toward the debt with the smallest balance. Once you pay that off, take all the money that you were directing toward that loan and move on to the debt with the next-lowest balance, continuing until you've reached your last loan. With this method, you might pay more in interest over time, but you'll also eliminate individual debts more quickly, which can help keep you motivated.
- **The avalanche method.** With this strategy, you focus on the debt that carries the highest interest rate first, even if that's a large balance. It may take you longer to eliminate that debt, but you'll pay less in interest over the long run. Once you've paid off the highest-rate debt, redirect those payments to the account with the next-highest rate.

Don't fall back into old habits

The hardest part of getting out of debt may be staying out of debt. If you made cuts to your budget to free up cash for larger debt payments, consider making those lifestyle changes permanent and using that extra money to boost your savings. While it's okay to splurge once in a while, living within your means and charging only what you can pay off each month on your credit cards is the surest way to set yourself up for financial success.

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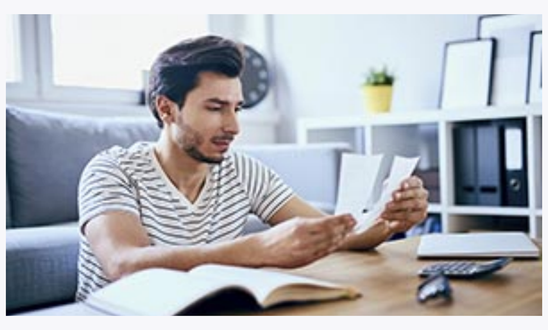

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