10 Tips to Avoid the Debt Trap
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Have you ever thought about why so many of the people you know are struggling with debt? Do you ever wonder why banks keep lending to certain individuals, even when they are falling behind on their payments? Why are payday advance options so prevalent? Did you know that debt problems are a leading cause of major societal problems, such as stress, divorce and alcoholism?

When it comes to extending credit to Americans, there are big winners and big losers on each end of the transaction. The largest banking companies in America earn major profits from the big appetites that consumers have for unsecured debt. At the same time, many individuals lack adequate savings, and this makes them particularly vulnerable to leaning on those banks as a last resort to make ends meet. The story that unfolds is often likened to David versus Goliath, except Goliath never loses.

Debt is like a disease that starts small and can quickly spread through one’s entire life. For many people that are living paycheck-to-paycheck and lack an adequate savings plan, just one bump in the road can cause a complete breakdown. Unfortunately, most consumers do not have adequate knowledge about managing their money, as financial planning is not a subject that is typically taught in schools or at home. Too often we discover the perils of our financial decisions (or lack of decisioning) when it is too late. A bit of homework on personal debt management and preparing a financial plan for the future can go a long way.

When it comes to credit decisions, it is important to understand that not all debt is bad, and there are situations where certain types of debt are necessary and helpful. An example of good debt is taking out a mortgage for the purchase of a family home, or buying equipment to help an entrepreneur grow their business. On the other hand, bad debt is generally used to finance one’s ongoing spending and lifestyle habits. This includes credit cards, personal loans or even payday loans, all of which usually carry high interest rates and associated costs. A good way to distinguish between the two is:

1. good debt brings long term satisfaction
2. bad debt often brings immediate gratification.

Still, everyday victims emerge from poor money management and start on a journey to financial independence. To help prevent a dependence on bad debt, here are 10 tips for avoiding the debt trap:
1. **Spend Less**: Don’t buy something unless you can afford it. While that is easy to say, it can be a tough rule to live by. We are creatures of instant gratification and often want to have things now without fully considering the cost. Create a challenge for yourself to see how many areas of your spending you can cut back on, without compromising your needs and personal happiness.

2. **Share Budget Goals with the Family**: Accountability always helps success. Anyone trying to fulfill savings goals should have a budget and share it with the whole family or a close friend. Break down the budget into categories, such as food, utilities, allowances and entertainment. If the family unit is all working together to meet mutual goals, then sacrifices can be shared and understood on everyone’s part. For example, make a challenge out of grocery shopping, by only taking a set amount of money into the store, forcing frugal choices. The more creativity you can put behind staying on a budget, the better!

3. **Buy Items on Sale**: These days most prices are negotiable, so wake up the bargainer inside of you. Great deals and coupons are everywhere, if you take the extra time to look for them. In a recession, the stores need your money a lot more than you need their goods. The internet is an amazing tool to score the best deals and prices on significant purchases.

4. **Ignore Credit Card Offers**: Credit cards should only be used for emergencies. If you are using them for convenience or to build rewards points, only spend what you can pay off in full every month. Recently, when purchasing items at a department store, the cashier offered to give me 5% off my purchase for applying for their credit card. When I asked her the interest rate on the credit card she didn’t know, but looked it up. She discovered the interest rate was 22.9%. Getting 5% off a purchase for a credit card with a 22.9% interest rate doesn’t sound like a good deal to me. Even using debit cards can make it challenging to track whether you are spending more than you can afford. It’s best to pay cash when you can, and if you don’t have the money, think hard on whether you need the item in question.

5. **Pursue Economical Hobbies**: Look for hobbies that are fun, but more importantly that are also economical. Inexpensive recreation is abundant, and just requires you to get your creative juices flowing. Having ample hobbies and activities in your schedule can also help keep you from otherwise being on the spending circuit. Make sure to always leave enough room in your budget for those activities you enjoy most – they are priceless.

6. **Pay Off Credit Cards**: If you have balances sitting on credit cards, pay them down as fast as possible. Pay more than the minimum payment if possible, as that payment is meant to keep you in debt for a very long time. Even on a zero interest rate credit card, work to pay off the debt in the three to six month time frame before the offer ends.

7. **Avoid Eating Out**: Cook at home, and if you don’t cook, take some time to learn how. The average price of a meal out costs far more than if you were to cook at home and is often healthier for you. The savings will add up fast if you are used to eating out 1-2 meals a
day. In addition, home cooking is usually a lot lower in saturated fats, calories and sodium. There are multiple benefits to staying home for a meal.

8. **Window Shoppers Beware:** Reconsider the habit of window-shopping, trying things on, flipping through magazines or catalogs, or browsing eBay on the internet. These practices can stir up desires for items you really don't need. Instead, keep a shopping list of the products you need or want, and shop with discipline when you head to the store.

9. **Establish an Exercise Schedule:** There is no substitute for a good workout. Not only will you feel better, your fitness is a healthy alternative to spending money. Good exercise only requires your setting aside some time, and generally that time is returned to you from the extra energy boost in your day. Even if you are not a regular at the gym, you can meet with friends for a run, dust off your bike or take your dog on a long walk (my personal favorite).

10. **Savings is Critical:** If you don't already have one, make sure to set up an emergency fund right away. Allocate a set amount every month to continue building that fund over time. Most people get into debt simply because they have no savings to hold them over when rough patches come along. If you have a family, this may be the most important item on the list.

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