

# Take control of debt

## A successful four-step formula

Over the last decade, Canada has become addicted to debt. According to a March 2004 report issued by Statistics Canada, for every \$100 in disposable income, Canadian households owed an average of \$102.90 in debt including consumer credit and mortgages.

Obviously, owing more than your income is rarely a good way to achieve financial independence. So if you find yourself having difficulty staying ahead of your bills, take heart. There are ways to reduce your debt and take back control of your finances. Here are four simple steps to help get you started.

### 1. Assess your situation

The first step to getting out of debt is to assess your current situation. Answer the following questions for yourself: What debts do I owe? When are they due? At what rate of interest? After you've compiled a catalogue of your obligations, ask yourself how much you can reasonably put toward each of those debts each month. Writing this information down will put your situation into perspective, and provide you with a roadmap for regaining control of your finances.

### 2. Control spending

It's hard to reduce your debt without setting limits on your spending. Give yourself a specific amount of money to spend each week on essentials as well as miscellaneous expenses. Withdraw this amount in cash at the beginning of the week—do not use credit cards! Once you've spent your allowance, you're done for the week. This "get tough" approach will slowly wean you off of credit.

### 3. Track your spending

To prevent yourself from sliding into debt again, you must understand how you got into trouble in the first place. You can do this by tracking your expenses for a specific time period—say, one month. Keep a small notepad with you and make a note of every dollar that leaves your wallet. Once you see how you're spending your money, you'll be in a better position to change spending habits and trim unnecessary expenses.

### 4. Consider a consolidation loan

If your debts are substantial, consider a consolidation loan. By lumping smaller debts into a single, large debt, you can keep better track of your progress. More importantly, consolidation loans are often available at lower rates of interest than credit cards and other loans. That could help you shave months off your payment schedule.

**Staying debt-free over the long term**

Understand that financial freedom isn't a one-time event. Rather, it is an ongoing process that requires patience and discipline. In the end, whether you're successful or not at reducing your debt depends largely on making a lifelong commitment to being responsible with your money.