

## **How to Get Out of Credit Card Debt**

Credit card debt is a major problem in this country. While not everyone has a credit card, those that do, typically carry a balance. The interest rate on a credit card balance is usually between 10-30% APR. These high interest rates make it difficult for people to pay down their debt -- especially if [only making the minimum payment](#). In fact, just making minimum payments can make even the smallest balance over a decade to pay off and thousands of dollars in finance charges. It's no wonder getting out of debt seems so hard.

Fortunately, you can get out of debt. If you follow a few basic steps and put a plan in place, you can work to pay off your debt sooner, with less interest, and [improve your credit score](#) in the process.

1. First, list each of your credit cards. You'll want to include the outstanding balance, interest rate, and minimum payment. This information can easily be found on your last monthly statement.
2. Order the cards on the list so that the credit card with the highest interest rate is at the top, and the lowest is at the bottom.
3. Total the minimum payments.
4. The total monthly minimum is your absolute lowest monthly payment, but remember, we want to pay more than the minimum in order to repay the debt quickly. So, [take a look at your budget](#) and see how much extra you can come up with each month in addition to the minimum. Whether it's an extra \$20 a month or \$100, every little bit helps.
5. As your payments come due, pay the minimum on each card except for the one at the top of your list. Remember, that one has the highest interest rate and it costing you the most money by maintaining a balance. So whatever additional money you budgeted in the previous step, apply that to that card.
6. Continue this process until the first card is paid off. When that card is paid off, continue with the minimum payments on the other cards, but now take the amount you were paying on the first card in addition to the minimum payment and apply it to the second card on your list.
7. Repeat this process until all cards are paid off.

## **Why This Works**

To understand why a relatively simple process works it's important to understand how minimum payments work. Minimum payments are [calculated as a percentage of the outstanding balance](#). That means as your card balance slowly decreases, so does your minimum payment. This is why it can take ten years or more to pay off even a small balance if you only make the minimum payment each month.

With this system, your monthly payment is remaining constant regardless of your balance. So each month your required minimum payment may go down, but you're ignoring that and by doing so you apply more and more money to your principal as time goes on, thus accelerating your debt repayment.

Starting with the highest interest rate ensures you're targeting the most costly credit up front to minimize the total amount of interest you pay.

## A Few More Tips

While this payment strategy will help you get out of debt, you can potentially make things go even faster with a few other tips. First, [call your credit card company](#) and ask about getting your rate lowered. This won't always work, but if you have been on time with your payments and a decent credit score, they may be willing to work with you. It doesn't hurt to try and it doesn't cost anything. The worst they can do is say no.

Don't forget about balance transfers. Again, it isn't always easy to get credit and the balance transfer deal may not be the best, but if you can find a way to transfer the balance from a card with a 25% APR to a card with an 18% APR, that's still something. There may be some special 0% offers as well, but they are harder to come by these days and the hidden fees may outweigh the benefit.

Finally, keep in mind that this process still takes time. There is no magic method of paying off debt, so realize that it will still take months or even a few years to become completely debt-free. But what we're doing is putting a process in place to make sure that you can get out of debt as soon as possible. You can speed up the process if you continue to pay even more money towards your debt as your budget allows.

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