

Develop A Smart Strategy To Pay Back Different Types Of Debt

There's no single answer for dealing with debt.



Depending on how much you owe, how high the interests are, what kind of loan it is, and your repayment history, your strategy for getting out of debt may change.

If you've fallen behind on payments, the situation may be more urgent. If interest rates are high, paying it off is more pressing to your financial health. When you develop a strategy for getting out of debt, it has to align with your unique financial situation.

Negotiating With Credit Card Companies

Let's start with credit card debt, one of the most common financial challenges in North America. When you're carrying a high credit card balance, interest rates hold you back. With interest rates able to reach the 30 percent mark and 20 percent APR being common, it's a remarkably expensive way to borrow money.

One of the best ways to deal with credit card debt is reducing those charges, which you can do through [credit debt counselling](#). A certified Credit Counsellor from a non-profit credit counselling agency works with you to create a plan to pay back what you owe. That plan includes negotiating with the credit card companies for lower interest rates.

Dealing With Debt Collectors

If you're being contacted by debt collectors, the situation is urgent. Not only will you be getting calls at home and at work, but your credit rating has already taken a hit. If you're dealing with debt collectors, try these tips:

- Learn about local rules about how and when they can contact you;
- Find out where the debt originally came from;
- Get all of the information about your debt in writing;
- Talk to a certified Credit Counsellor before negotiating with the collector.

What Happens When You Owe Taxes?

Government revenue agencies have many tools at their disposal to collect funds that they are owed. They can:

- Place a garnishment on your paycheck, collecting a percentage of your wages directly;
- Seize assets directly, taking money out of your bank account;
- Charge late penalties and interest on any funds you owe.

Even if you don't file your taxes, if you owe them money, the revenue agency will retroactively apply penalties once they learn how much you owe them.

Ignoring the problem is not helpful. Your best strategy for dealing with tax debt is approaching the revenue agency and working out a repayment plan. A credit counsellor from a non-profit Credit Counselling agency can help you budget your payment plan.

Low-Interest Debt

Low-interest debt is often seen as part of everyday life. It usually comes in the form of a mortgage, an auto loan, or a line of credit or HELOC (Home Equity Line of Credit). Many see these as non-urgent loans, and if you can invest for a higher return than the interest charges, you may want to prioritise saving over paying them down.

However, the lifetime cost of interest on a mortgage is sizeable, and it's not to be ignored. The true cost depends on how much you borrowed and the interest rate, but if you borrowed \$500,000 at an average of 3 percent over 25 years, you would pay over \$210,000 in interest rates alone.

Even low-interest loans are worth paying off as quickly as possible, if not at the expense of high-interest loans.



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