How to Get Out of Debt: Debt Consolidation Advice (Gleaned from InCharge.com)

Mounting debts can undermine borrowers' well-being and even derail their life plans.

Yet not all debt is negative. Home mortgages usually are good debts since the value of your property tends to increase as your mortgage shrinks. Student loans should fall in this category, if you can earn a college degree and turn that into a job.

It's the other variety, bad debt, that gives the word a bad name. Credit card debt is far and away the most common. Auto loans are a close second. Gambling, vacations and weddings are three more sources of bad debt and credit cards usually get a workout in all three.

Using plastic to make purchases is so easy, and paying the minimum balance each month requires so little effort, that bad debt piles up. Before you know it, interest payments become so huge that you're spending most of your paycheck on finance charges.

What can you do about it if you get caught in the debt vice? The most important step is to figure out how much you owe and what you can do to eliminate it.

Here are five steps anyone drowning in debt should take to get out of debt:

- Accurately assess the status of your debts: amount owed, interest charges and pay off dates.
- Make a budget. Use it to guide and track spending.
- Create more income. Get a second job.
- Stop borrowing and using credit cards. Cash only.
- Change debt-enabling habits. Drastically reduce dining out, entertainment expenses.

These are all good habits that take time and discipline to put in practice, but each one is a necessary component if you're serious about eliminating debt.

Assess Your Current Debts

One of the first steps to get yourself out of debt is knowing how and why you got there.

It's important that you have a clear starting point about how much you owe and where you're spending money. List all your expenses from the previous month, add them up and compare them to your income. The goal is to make the two columns balance and eventually tilt in favor of income over expenses. If you can't pull that off, ask yourself why.

Does the spending list show a lot of trips for fast food, restaurants and specialty coffees? Medical emergencies? Divorce costs? Home repairs?

Evaluate where you are spending your hard-earned money and use this list as an opportunity to gain insight to your personal spending habits.

Make a Budget

Some of the key tips to getting out of debt are tracking spending, reducing debt load and embarking on a savings plan. All of that is a lot easier when you work off a monthly budget.

The purpose of a budget is to give your money a direction and a purpose. The budget sets spending goals for needs like rent, utilities, groceries and transportation while at the same time, accounting for spending on "wants" like clothes, dining out and entertainment.

A good budget summarizes your spending at the end of every month and helps you identify areas where money was wasted. You might be surprised where you spend the money and how much you spend on items you could easily live without.

The best budgets are flexible enough to allow you to make changes from one month but creating and sticking to a budget is one of the surest ways to help you get out of debt.

Track Your Spending

If you're not sure how much you spend on daily living expenses, such as groceries, personal items and transportation, set aside receipts for two to four weeks and review them.

Once you have some numbers to work with, calculate your net monthly income and your average spending to include mortgage or rent, insurance costs, health care, education, utilities, any loans and the minimum payments on credit cards. While the numbers may startle you, remind yourself you are taking the first step to making positive and significant change.

The best way to start tracking spending is to go over bills and simply list every item purchased. Once you have the list, code the items into a category. For example, write “Gro” next to supermarket purchases and “Din” next restaurant bills. Do the same for rent, clothes, utilities and everything else you spend money on. You might market one-time expenses like a home repair as a “Misc” for miscellaneous. After the expenses are divided by type, figure out how much you spent on each category every month.

The next step is the tough part. Figure out your average monthly expense for each category over the last three or four months and enter the amounts on a list. Once done, add up all the expenses for a total and compare it to your average monthly income. If the outflows are higher than the income, you have a problem that demands adjustments.

A budget is a model for bringing spending and income in line. Some amounts can’t be changed easily, like the rent, but others can. Set goals in those categories until you bring your outflows in line with your inflows. If you’re spending $400 a month eating out, but reducing that to $200 would bring you closer to a balanced budget, then making cutting $200 as a goal. Then figure out how many times you can dine out to meet the goal.

You might consider buying software for your computer or using an online budgeting app.

Earn More Money

There are three routes to a positive cash flow: you can spend less, earn more or do both. The easiest way to improve your finances is to add to your income, though figuring out how to do that can be a challenge.

Finding a new job that pays more is one way, but adding a second one works well too. Folks, this might not be easy. Working more hours, or even going through the motions of looking for work when you’re comfortably employed, require discipline and effort. But you can do it.

Start by asking your boss about overtime opportunities. If they aren’t available and you want to stay where you are, think about skills you have that might make extra income.

Another short-term fix is selling stuff. If you have an attic or garage filled with unused items, consider a garage sale or selling things on Craig’s List. This won’t help your long-term income, but could give you an immediate boost, money that could be used to pay off a credit card balance.

The goal here is developing an extra-income source that will help you pay down debts, avoid new debts in the future and saving enough for a cushion to cover emergencies and unforeseen setbacks like a job loss.

Change Debt-Enabling Habits

People are creatures of habit, and we can develop bad ones all the time. Overeating is a habit. So is smoking or compulsively buying lotto tickets. Sometimes bad habits damage your health, but even more frequently they attack your wallet.

If your spending exceeds your income, a bad spending habit could easily be the culprit.

Begin with your receipts. How often do you buy coffee instead of brewing it yourself? Do you have a housekeeper clean your house? Do you set your air conditioner very low and your heater high?

Next, study your credit card bills and bank statements. Often, you’ll see the patterns of habitual spending. I

Identify your biggest spending areas. Eating out, for instance, or drinks with your friends every Friday. Think about whether you could do these things less frequently, or at least less expensively. And consider the services you pay for that you could yourself, things like mowing your lawn, washing your car, changing the oil in your car.