How To Get Out Of Debt – The Complete Guide

Are you sick and tired of credit card bills?

Are you ready to discover how to get out of debt once and for all?

If you want a permanent debt solution then I have shocking news for you: Debt is not a financial problem. Hard to believe, but true.

Debt is actually a personal problem masquerading in financial clothing to deceive you. That is why so many people have persistent problems with debt. They look outward for financial solutions when the true solution is found by looking inward.

In this article I will clearly define the source of all your debt problems and provide a simple 3 step solution so you can get out of debt once and for all.

The Permanent Debt Solution

Defining your debt problem correctly is critical to solving it.

That is where most debtors run into trouble. They mistakenly define debt as a financial problem thus developing financial solutions. That is why their debt returns shortly after paying it off. They fail to identify the root cause of debt opening the door to repeating the vicious cycle.

A permanent debt solution requires a plan of attack based on proven principles that will actually work. Unfortunately, when you just pay off your balances you relieve the painful symptoms but the underlying condition that put you in debt in the first place still lurks under the surface like an insidious cancer ready to return.

Debt's real cause is personal life habits and attitudes that result in overspending. In other words, the true solution is personal – not financial. That is a key principle. Understanding this principle is what will make or break your success in slaying the debt monster – permanently.

Treating The Symptom Instead of The Cause

When you get a headache what is the logical response? You reach to the medicine cabinet for immediate pain relief. Unfortunately, the various pills do nothing to cure the underlying disease: they merely treat the symptom. The cause could be excessive stress, brain cancer, dehydration, eye strain, or any number of other issues. By taking a pill you've treated the symptom – not the underlying cause.

The same is true with debt. Everyone knows they need to make more and spend less to solve their debt problems. As a result they pursue financially driven solutions to relieve financial symptoms. It all seems logical on the surface.

Whether you choose to consolidate your credit card debt to lower interest rates or you choose any of the quick-payoff strategies (inheritance, gift, sell an asset, bankruptcy, home equity line of credit, or refinancing), the reality is you are treating the symptom and not creating a lasting cure. You are performing the financial equivalent of blowing your nose when you have a cold.

The only permanent solution is to change your life habits and attitudes that got you into the problem in the first place. You are the cause of your debt, and you will be the solution. Your financial problems are merely the accumulated reflection of the many small financial mistakes you are making on a daily basis – often without knowing any better.

That's why teaching a debtor to spend less and earn more is like telling someone to lose weight by eating less and exercising more. Everyone already knows that is the answer. The difficult part is not knowing what to do, but actually getting it done. The solution is your daily habits and attitudes.

How I Broke Through The Debt Barrier

I first discovered this approach to debt recovery in my work as a money coach. I started out making the same mistakes as everyone else. I thought debt problems were financial so I coached my clients to financial solutions. The lackluster results proved it was the wrong approach.

The breakthrough came when I noticed my wealthy clients were living the mirror opposite habitudes compared to my get-out-of-debt clients. For example:

* My wealthy clients viewed their financial situation from a position of self-responsibility whereas my debt clients were victims of their finances.

* My wealthy clients had strong financial awareness and paid attention to the details, but my debt clients only focused on finances when problems surfaced and preferred the whole "financial thing" would just go away.

* My wealthy clients planned their finances but my debt clients had no plan.

* My wealthy clients organized their plans around delayed gratification whereas my debt clients pursued instant gratification.

* My wealthy clients associated their self-worth with intrinsic values and my debt clients associated self-worth with extrinsic stuff.

These are just 5 examples from a long list of opposing traits. They are guidelines or tendencies that generally hold true. While there may be personal variation, on the whole the patterns were unmistakable. These mirror opposite habitudes produced mirror opposite financial results in life.

Amazingly, when I applied these principles by coaching the underlying habitudes instead of specific financial actions the debt problems solved themselves over time.

This is obvious when you think about it. Your daily financial decisions result from your habits and attitudes that drive those decisions. For example, consider the following habitude choices and their obvious financial implications:

* Do you buy fancy coffees throughout the day or do you make a pot of your favorite coffee in the morning and bring it with you?

* Do you lease a new car every few years or maintain your reliable used car?

* Do you preemptively insure against the losses you can't afford to take or are you exposed to risks that can wipe out a lifetime of hard work?

* Do you dine out frequently or cook healthy meals at home?

* Are you a minimalist or do you desire the latest designer fashions?

* Do you shop to get what you need or do you shop for pleasure and recreation?

When you focus on financial solutions you treat the symptom instead of the cause. When you focus on the habitude, you focus on the underlying cause so that the symptom takes care of itself automatically and without any self-discipline.

Let me be clear – this isn't a quick fix. The results you produce from this approach will occur gradually over time. Just as it took time to accumulate the debt it takes time to unwind it when you work with root causes.

However, the solutions are as permanent as the new habitudes you adopt – and that makes all the difference.

The Habitudes That Cause Your Debt

Debt problems are emotional, not rational.

That's why you keep buying things you can't afford and spending more than you earn.

Everyone knows the first law of finance is to spend less than you make, but it is easier said than done for many. How do you overcome the emotional barriers that keep you mired in debt?

The easiest path is to adopt the key financial habits that close the gap between knowing what to do and actually getting it done so that you put your debt freedom on auto-pilot. These new habits result in new decisions that produce new financial results: it is simple cause and effect.

The good news is this means you have the power to improve your financial situation no matter where you are at today. You created your habits, and your habits produce your long term financial results. That means you're in charge and have the power to make positive changes.

Consider the following 7 financial habitudes that can take you to debt or wealth. The habits you choose will literally determine your financial success or failure.

1: Emotional Spending - Here is a simple test to determine if you're an emotional spender:

* Do you use shopping to relieve stress or escape boredom?

* Do you use shopping as a pick-me-up or entertainment?

* Do you celebrate by shopping for a treat?

* Do you ever shop as a form of "retail therapy"?

* Do you use shopping for social connection?

* Do you have clothes in the closet with the tags still attached?

* Do you have more than one of the same item?

* Is your credit card bill so large that you can't afford to pay it off at the end of the month?

* Do you ever feel an endorphin rush when making a purchase?

* Do you experience anxiety, guilt, or remorse after shopping?

* Do you ever hide purchases from friends or loved ones?

If you answered “yes” to one or more of these questions then you might have an emotional spending problem.

Emotional shoppers become addicted to the temporary endorphin high that comes from buying. You’re genetically programmed to pursue what makes you feel good but that can turn spending into a physiological habit like a drug. That’s why excessive spending is about the emotional experience from buying stuff and not the stuff itself. The purchase brings temporary yet immediate gratification (even if it causes debt).

The wealthy habit is to spend based on needs – not wants – and to plan purchases rather than buy spontaneously. A good habit for breaking emotional spending is to force a two day cool off period for all non-planned purchases so your emotions can settle down. If you still want it after two days then it may actually be worth buying.

2: Addiction - Closely related to emotional spending is addiction, but this can be an addiction of any kind – not just shopping. Gambling, drugs, and sex addictions are highly destructive – both financial and otherwise. The ensuing debt spiral may be the least of your worries but is often a consequence.

The wealthy habit is to avoid all forms of addictive behavior and live in balance – admittedly easier said than done. If you face addiction issues the solutions are beyond the scope of this article. Seek professional help and consider one of the 12 step “Anonymous” programs tailored to your specific addiction.

3: Entitlement - Entitlement thinking is the belief that you magically deserve all the good things in life regardless of what your financial statement says. After all, why shouldn’t you have designer clothes, a big screen TV, pedicures, and a new car? Everyone else does, right?

The wealthy habit is to only purchase what you can afford to immediately pay for. The wealthy attitude is you are only entitled to what the balance in your savings account shows you’ve earned.

4: Instant Gratification - Closely related to entitlement is a debtor’s tendency toward instant gratification. You want everything now and are willing to pay on credit thus multiplying the cost of the item.

The wealthy habit is to pursue delayed gratification from a 10-20 year time horizon instead of immediate gratification today. That means paying cash for all purchases to lower the cost. This isn't a sacrifice to the wealthy mindset because you are choosing long-term freedom over immediate lifestyle by investing for tomorrow instead of spending today. It could also include career training or night school instead of watching television so that you can improve job skills and earning capacity.

5: Self-Worth Connected To Stuff - Advertising tries to manipulate you into believing products will make you more attractive, smarter, happier, or live longer. The debtor buys into this false belief system by connecting happiness to more-better-different stuff.

The wealthy habit is to separate your spending from your feelings of worth. You are not defined by your possessions. Ask yourself why you spend? Are you satisfying a genuine need or a contrived want? Your things do not determine your worth as a human being.

6: No Plan – Debtors tend to disconnect spending, saving, and earning from each other. There is no budget, no plan for retirement, no tracking of numbers, and no strategy for increasing earnings. In short, the debtor lives month to month because there is no plan to do anything different. Many questions are never considered such as how to handle a job loss or medical emergency. The default answer is often debt because there was no better plan.

The wealthy habit is to run your personal finances like a business with plans and actions steps designed to produce a financially secure result. Develop reserves for the inevitable rainy day and insure those risks you can't afford to lose. Save monthly from earnings for retirement. Planning is a wealthy financial habit.

7: Complacency - Nothing accelerates a debt spiral like complacency. The debtor attitude might be "I'm already in debt, so what's the big deal if I spend a little more?" Complacency is a dangerous spiral because the pleasant feelings you experience when buying are disconnected from the painful feelings you experience when the credit card bill arrives. The problem is that a series of small impulse purchases, even when minor, will eventually add up to serious debt. You can get away with it for one day or one month, but over a period of years the compounded effect can mean foreclosure or bankruptcy.

The wealthy habit is to respond proactively to any warning signs of impending financial problems. Living paycheck to paycheck, using credit to pay for living expenses, and stressing over money are all warning signs that you need to take action. One solution is to only spend cash because credit cards encourage complacency since they don't feel like real money.

Bonus: View Credit As Money - The debtors habit is to use credit to extend purchasing power as if it was real money. That works in the short term but has the opposite effect in the long term because the added interest costs make everything more expensive. Buying on time impoverishes you and makes the banks rich.

The wealthy habit is to earn interest instead of paying it. This may decrease short term purchasing power but increases long term purchasing power resulting in greater wealth over your lifetime.

But It's Not My Fault!

I can already hear the objections.

"But Todd, this habit stuff is all fine and good for most people but my debt is different. It was caused by medical emergency, unexpected layoff, divorce, student loans, (add your reason here). I didn't accumulate my debt through bad habits like you talk about."

Are you ready for some tough love? You are the cause of all your debt problems including debt resulting from unexpected events. You are solely responsible.

For some, this is a bitter pill to swallow. Facing this truth can be uncomfortable, but you must see the cause of your financial problems looking back in the mirror or you may never get out of this vicious cycle of debt.

Taking responsibility is difficult: It means you have to give up the victim role. But it is the only way you can empower yourself, take charge of your life, and permanently solve your financial difficulties.

When you are a victim to debt you give away all your power to solve it: After all, it is someone else's fault. It is outside of your control. There is nothing you can do about it.

However, when you own responsibility you take back your power. The fact that you caused your debt means you have the power to cure it and never let it happen again, and that is a good thing.

The surprising reality is it doesn't matter whether you are truly a victim to your debt or not – the result is the same.

Maybe you lost your job because of an economic downturn, or you ran into unexpected medical expenses, or a sudden and desperate family problem came up. These are all very common paths to debt and they all imply the debt was not your fault. After all, the circumstances that caused it were beyond your control. How could it possibly be your fault?

Why Debt is Always Your Responsibility Even When the Problem That Caused It Is Not

The sad truth is misfortune is one of the leading causes of debt because it happens so frequently, and that is the key point. Misfortunes are not unexpected: they happen frequently. While it might be true that the unfortunate circumstances were beyond your control, the fact that they resulted in debt is fully within your control and 100% your responsibility.

Owning responsibility can be uncomfortable. However, the goal is to get out of debt and self-responsibility is the most practical and efficient path to achieving that goal. This is about practical solutions – not about feeling good. Being a victim to your debt only keeps you stuck in the pattern: self-responsibility is what opens the door to freedom.

When you take responsibility you recognize how the seemingly unpredictable circumstances of your life are actually predictable when viewed over your lifetime. The chance of any one financial calamity occurring in any one year is small, but over your lifetime you should absolutely expect and plan to experience one (or more) of these setbacks. You must plan for them with proper insurance and an emergency fund to carry you through those inevitable difficult times or debt will be the result.

In other words, the probabilities are extremely high that you will experience at least one job loss, unexpected illness, devastating lawsuit, horrific medical expense, divorce, identity theft, or other financial emergency in your lifetime. If you don't plan accordingly it can throw you into sudden "unexpected" debt and wipe out a lifetime of financial progress – even though it is totally unexpected.

That's why you are responsible. Even though you may be a victim of the specific event, you are fully responsible for improper planning given that nearly all lives are touched by one or more of these events at some point. That means the financial outcome is your responsibility even if the actual event that caused it is not.

How Risk Management Prevents Debt

Risk management planning is the wealthy alternative to unexpected debt.

Financially successful people know that bad things happen to good people and manage those risks with appropriate insurance and reserve funds. The rule is simple: always insure those losses you can't afford to take. For example:

* Adequate life insurance to provide replacement income if the primary breadwinner passes.

* Disability insurance to protect against major injury causing loss of income.

* Fire insurance to protect against fire destroying your home and possessions.

* Liability insurance to protect against a devastating lawsuit that could wipe out an entire lifetime of savings with just a single mistake.

* Health insurance to protect against the high cost of getting sick.

* Emergency reserves to help pay unexpected expenses when the car suddenly dies, you're temporarily laid off, or serious illness strikes.

When you plan for unpredictable (but inevitable) adversity then you are prepared so that the inconvenience of a temporary setback doesn't result in financial calamity. Proper insurance and emergency reserves are a normal and necessary budget item similar to food and utilities. If you don't think you can afford insurance then look for ways to reduce your spending so that you can. It's not optional because eventual debt is the likely alternative.

The truth is nobody looks forward to adversity. But when you are prepared the consequences are temporary and manageable. When you don't prepare the financial results can be devastating.

How To Get Out of Debt In 3 Simple Steps

Okay, enough of the responsibility stuff. The fact is you are in debt so what are you going to do to solve it?

I like to keep things simple so let's use an analogy to illustrate how eliminating debt problems works so you never have to experience this pain again.

Imagine you have a flat tire. You can reflate the tire for a quick fix to get you down the road, but unless you find the source of the leak and fix it first the tire will flatten again.

Permanently repairing a flat tire requires 3 action steps:

1. Identify the source of the leak. Why is air getting out? It could be a nail in the tire, bad valve stem, or any number of other causes. You must first identify the root cause so you can permanently fix the problem.

2. Then you must take action by repairing the cause of the leak. Until you do whatever is necessary to fix the root because the tire will just flatten again and again no matter how many times you reflate it.

3. Once you've completed steps 1 and 2 then it makes sense to reflate the tire – not before.

Debt works the exact same way. You must plug the holes in your budget by fixing the cause of the debt before actually pursuing financial solutions (reflation) to pay the debt off.

Unfortunately, most people do just the opposite. They mistakenly go straight to step 3 by hiring a debt consolidation company, or transferring balances to a HELOC or a 0% credit card, or they try a quick fix by selling assets such as a house, boat, or car.

Unfortunately, all of these methods are the financial equivalent of reflating the tire without ever finding the huge nail that caused the leak in the first place. That is why so many debtors repeat the cycle over and over again – paying off credit cards only to run them up again. The source of the leak never got fixed so the tire just goes flat again.

Below are 3 steps to identify and repair you budget leaks so that you can permanently solve your debt problems.

Step 1: Identify the Cause:

As stated above, the cause is you. More specifically, your debt is caused by your habits and attitudes that determine hundreds of daily financial decisions. Literally, your financial situation is a matter of habit. You must own this truth to focus your efforts on the appropriate cure.

Step 2: Implement the Cure:

Once you've identified the habits that cause you to get into debt the next step is to adopt new habits that move you toward wealth.

With this step you literally engineer your life to create wealth one habit at a time. This means stopping all the slow leak habits and replacing them with wealth building alternatives. Below are 3 questions to consider:

* What behaviors got me into debt in the first place?

* Are there specific situations that brought about my current debt problems?

* Why didn't I stop accumulating debt when it started?

* What has previously kept me from solving my debt issues?

Once you identify the habits and attitudes that started your debt problems and kept you from solving them, then it is time to apply whatever strategies might be helpful from the list below to plug the leaks in your financial flat tire:

* Make a realistic budget with spending limits for each category. Start by adding up and categorizing all spending from the prior 12 months to create a benchmark budget, then shave what is unnecessary until your planned spending is less than your income.

* Track your daily spending. Now that you have a budget the next step is to stick to it – tracking will help you do that. Another reason to track all your spending is it raises your consciousness around each expenditure to create further saving. The way it works is you ask yourself two questions for each expense: "Is this getting me the highest and best value for my money?", and "Is this taking me toward my goals or away from my goals". These questions align your spending with your values and goals by directing all spending toward getting you want you want out of life.

* Learn how to curb emotional spending. Another way to stay on budget is to prepare a shopping list before leaving the house so that you only buy what is on the list and within budget.

* Set a shopping schedule that you don't deviate from to eliminate "retail therapy" and shopping as entertainment.

* Forced Wait Times: When facing any unplanned buying decision always require a "cooling" period of a day or more. No unplanned, emotional buying allowed. Force yourself to wait 24-48 hours and then reconsider if you really need the item.

* Identify which emotions you attempt to satisfy through the shopping habit then find alternatives that bring greater enjoyment to your life. Activities such as exercising, listening to music, or enjoying nature cost little and can be a healthy and economical alternative.

* Leave your credit cards at home. Consider freezing your cards in a big block of ice so that it requires time and inconvenience to use them. By spending only real cash you are more connected to the cost of things and less likely to overspend.

* Identify and avoid shopping situations that cause excessive spending. For some people this might be shopping alone, and for others it might be a social situation with friends who encourage you to pleasure shop. Whatever situations encourage you to spend should be avoided.

* Create accountability by telling all your friends and family about your planned habit changes. Ask them to ruthlessly support you by calling you out if you backslide into old patterns.

FREE Accountability Support – The Debt Movement is helping people pay down $10 million in debt through education, accountability, and support. Hope this resource helps you.

* Cure shopping shame by always showing your family and friends what you buy. Do not hide any purchases except gifts (temporarily).

* Join a debt support group in your community or online.

* Develop other habits besides shopping that make you happy and replace the shopping habit with these more productive alternatives.

* Reduce your exposure to advertising – particularly for the products you're most vulnerable to wanting. If you have a passion for fashion then drop those magazine subscriptions. Unsubscribe to internet marketing letters that prompt your desire for their products. Record your favorite television shows and fast-forward through the ads. Don't allow Madison Avenue to dictate your values.

* Remember the other side of the coin – increasing income. Can you temporarily work overtime to get your debt under control? Is there seasonal or freelance work available, or can you convert a hobby into income?

* Finally, remember to adequately insure those risks you can't afford to take. Yes, it costs money and adds expense to your budget, but you don't want one of life's unpredictable yet totally expected hiccups to send you back into debt. Be prepared with reserve funds and proper insurance.

Each of these strategies has one objective – to plug all the habitual ways you leak money so that you never go into debt again. You must persist in plugging these leaks until you are spending less than you earn. That is the bottom line. You are not complete with Step 2 until you are in compliance with this foundational law of personal finance – spend less than you earn. That is the sole criteria for completing Step 2.

It may take you months to achieve this objective. That's okay. The key is to not go into overwhelm. Just pick one debt producing habit and start living the wealth producing alternative until it is comfortable and then pick another. Most people overestimate what they can accomplish in one month and way underestimate what they can accomplish in 3 years of dedicated effort. Be persistent. One habit at a time will get you to the goal with minimal pain.

Finally, set proper expectations by realizing this isn't a quick fix solution. It's about long term financial management and permanent habits that convert your debt into wealth. It is a permanent solution that addresses the root cause of the problem and is worth the effort.

Remember, the goal for this step is to spend less than you earn. When you reach this point you will have the monthly savings necessary to begin paying down your debt in

Step 3: Treat the Symptom

Now that your financial life is positive cash flow, it is time to pay off all your debt in the most reliable, efficient way possible. This step is broken into 3 sub-steps to make it easy to complete. Staying with our flat tire analogy, you've fixed the hole in the tire so now it is time to reflate.

1. Begin by organizing all your debts to minimize the monthly bleeding. Consider which consolidation and refinancing strategies can help you lower interest costs and eliminate penalties and fees. Contact your existing creditor and try to negotiate special terms. Every dollar saved in interest and penalties is one less dollar you need to pay off.

2. Sell your stuff for a quick payoff. Do you have jewelry, an extra car, R.V, furs, or a boat that is seldom used? What things can you sell to make a quick dent in your debt and accelerate the payoff process?

3. Once your interest costs are minimized and quick payoff strategies are implemented then organize your remaining debts according to either the debt avalanche or debt snowball methods using this free calculator. Structure your debts using the rollover method so that as soon as the first debt is paid off then the freed-up payment amount is used to pay down the next debt even faster. Continue the process of paying off debts (building like a snowball) until you are completely debt free. It is the most cost effective and emotionally satisfying way to get out of debt.

* Debt Avalanche: This creates the fastest payoff by ordering your debts from highest interest rate to lowest interest rate. By concentrating your payments toward your most expensive debt first you lower the total interest cost and payoff the debt faster. The downside is if you have a large debt at a high interest rate it could feel slow to start.

* Debt Snowball: This is the most emotionally satisfying payoff strategy because debts are ordered from lowest balance to largest balance so you can see results faster. This gives greater odds of staying the course to completion because of the emotional reward of watching entire debts get wiped out rapidly.

The key is to have a clear plan and execute your payoff strategy with discipline. Start by minimizing interest and expenses on your debt to stem the bleeding. Then figure what stuff you could sell to make a quick dent in your debt. Finally, structure the remaining debts into a disciplined payoff strategy. This is the fastest, most reliable path to debt freedom.

When you follow these three steps you may be surprised how fast you can get out of debt. The key is to take it one step at a time and be persistent.

Conclusion

There are many ways to get into debt, but there is one simple 3 step process to eliminate your debt problems permanently.

It begins by taking responsibility and recognizing your habits and attitudes are what caused your financial debt symptoms to appear. Your debt is a personal problem masquerading as a financial problem. The cause of your debt is within you – not outside of you.

Your first task is to replace debt producing, personal habits with wealth producing alternatives. This requires you to take full responsibility for your debt which can be difficult. It means you have to give up the victim role. However, it is also empowers you to redirect your life from debt to wealth.

Once you've righted your financial ship it means you are spending less than you earn. This allows you to use those freed up savings to pay off your debt following the structured 3 step process above: stem the bleeding, sell unused stuff for a quick payoff, and then accelerate your remaining debt payoff with the debt snowball/debt avalanche.

The key is to adopt the right attitude. Reducing your spending and paying off your debt does not have to be a sacrifice. It's about getting what you want out of life. It is about getting rid of the dark cloud of debt, the wasteful interest expense, and about taking control of your life and redirecting your resources toward what you find most fulfilling.

Your goal is much bigger than just getting out of debt. This 3 step process sets the foundation that can literally translate your debt into wealth and transform your financial situation for a lifetime.

I hope it helps you. Please let me know what you think in the comments below…

Here’s Some Handy Calculators To Make The Math of Getting Out of Debt Easy!

* Debt Snowball/Avalanche Calculator: How fast can I get out of debt using the rollover method?

* Credit Card Payoff Calculator: How long will it take me to get out of debt using a variety of repayment strategies?

* Debt Reduction Calculator: How fast can I get out of debt by adding a fixed amount to each monthly payment?

* Debt Repayment Calculator: How fast can I get out of debt by selling my stuff and making a single, lump-sum additional payment?

Filed Under: Financial Advice Tagged With: credit card bills, debt, debt monster, excessive stress, life habits, payoff debt

First Name:

Primary Email:

Subscriber Counter

If this page helped you then please let your friends know about it also with a like, tweet, or +1. Thanks for sharing...

- See more at:

http://financialmentor.com/financial-advice/how-to-get-out-of-debt/9458#sthash.sBIddQ6z.dpuf