

Reining in Your Debt

Americans are spending freely again. That has a downside.

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As the Great Recession faded, American household debt gradually decreased. In fact, it declined by \$1 trillion between mid-2008 and mid-2014, according to the Federal Reserve.¹

Now household debt is increasing once more. The Fed found it climbing by \$78 billion (0.7%) during Q3 2014.¹

On the macroeconomic level, that can be interpreted as a positive: it hints at greater consumer spending, easier credit, and more lending taking place to accommodate consumer borrowers. On a microeconomic level, it is more troublesome. It may mean a change in perception, with debt not seeming as onerous as it once did.

If households really are looking at debt through rosier-colored glasses, they might do well to remember an inescapable fact. When they use a credit card or take out a consumer loan, they are borrowing money they do not have for things they do not absolutely need. The average indebted U.S. household was carrying \$15,611 in credit card debt alone in December, the Fed notes. Even if Mom or Dad is a business owner or self-employed entrepreneur, that is an awful lot of revolving debt for a couple or family.²

There are only two ways to reduce debt. One is spending less, the other paying it down. The first tactic requires a change in habits; the second usually requires more income.

How about not buying 20% of what you want? Or alternately, paying for everything in cash? Either strategy might reduce your household debt significantly in a given month.

Where can you find more income? Life may allow you to take on an additional, part-time job – or a higher-paying one. Most people do not have either option at their disposal, so they must look for additional short-term or recurring income derived from consumer savings: they stop eating out or drinking lattes, they stop subscribing to cable or keeping up health club memberships they seldom use, they elect not to buy any clothing for a few months, vacation locally or drive the same car for a decade. All that can put more money in a family's pockets.

Most households lack budgets. Rather than being old-fashioned or bothersome, they are instrumental in determining spending patterns and opportunities for savings. What is mysterious about your personal finances can clear up with a budget, and you get the sense of being on top of your financial life.

Debt can be managed. When you look at your spending habits, ideas to reduce it, control it and defeat it will surface.

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Citations.

- 1 - news.investors.com/investing-personal-finance/010215-732937-cut-debt-and-manage-household-spending-and-budget-in-2015.htm [1/2/15]
- 2 - nerdwallet.com/blog/credit-card-data/average-credit-card-debt-household/ [3/19/15]