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16 THINGS TO DO WHEN YOU'RE DEEP IN DEBT

Here are 16 tips for paying off your debt, whether you're burdened with credit card payments, student loans, car payments, all three or more.

By: Geoff Williams - July 20, 2022

What it means to be deep in debt

Americans are carrying a lot of debt. According to the Federal Reserve Bank of New York's Center for Microeconomic Data, total household debt increased by $266 billion in the first quarter of 2022, making it so that everyone owes a collective $15.84 trillion, and credit card balances were $71 billion higher than a year earlier.

What's too much debt on the individual level? Try to never let your debt-to-income ratio reach 30%, suggests Peter Casciotta, owner of Asset Management & Advisory Services of Lee County in Cape Coral, Florida. In other words, if you're making $100,000 a year, you'd want no more than $30,000 to go toward the debt (good or bad).

Don't panic if your debt-to-income ratio is higher. Some experts suggest 35% is OK. But everybody generally agrees that if 50% or more of your income is going to debt, you need to take action, now. Here are some expert-backed suggestions on what to do if you're deep in debt.

Analyze your situation.

Whether you're deep in debt, or just struggling, this is the first logical move. Take a hard look at what you owe and to whom. This is especially important if you have a family with multiple spenders in the household, says Larry Hendrickson, founder and managing partner of G&H Financial Group, a financial planning and wealth preservation firm in North Canton, Ohio.

"How does a family chisel away the debt to become debt free? The first recommendation I have is for a family to sit down to discuss the monthly budget. Without knowing how much is being spent monthly, it is a hard to determine what can be allocated towards the family debt," Hendrickson says.

"Debt is a difficult subject for many families, especially young families just out of school. With inflation at an all-time high since the early 1980s, and increased gas prices, we all are potentially racking up some additional debt," Hendrickson says.

Consider bankruptcy.

Nobody wants to hear that suggestion, but bankruptcy exists for people when there's just no feasible way to climb out of a debt hole. Yes, your credit score will be in tatters, and it may be a while before you can get the best or decent offers from credit cards and lenders. But if you're truly deep in debt, that's probably already the case.

In 2021, 413,616 Americans took the bankruptcy plunge, compared with 544,463 in 2020, when the pandemic was running rampant and ruining a lot of financial portfolios.

If you need a fresh start, a bankruptcy attorney can help you get one.

Consider going to a credit counseling service.

A credit counseling service can be useful if you believe you can pay off your debts, if only you just had a little professional help. Credit counseling agencies can help, for instance, negotiate lower interest rates with credit cards, says Amy Maliga, a financial educator with Phoenix-based Take Charge America, a nonprofit financial counseling agency.

You would want to work with a nonprofit credit counseling agency that is affiliated with the National Foundation for Credit Counseling or the Financial Counseling Association of America. The United States Department of Justice has a helpful list of approved credit counseling agencies.

"If someone is making only minimum payments on multiple cards, has reached their credit limit on one or more cards, they're missing payments entirely, and worrying about debt is affecting their physical and mental health – or some combination of these scenarios – it's time to reach out to a credit counselor," Maliga says.

Prioritize the debt you need to pay.

If you're really struggling and can't pay off each debt every month, it's important to prioritize what entities you're paying, says Andrea Williams, a Northwestern Mutual wealth management advisor based in Chicago.

"Prioritize debts secured by a house or car, necessities like utilities and debts that can't be discharged, including student loans and unpaid federal taxes. Then focus on unsecured debt, like credit cards," Williams says.

The credit card companies may not love hearing that, but if you have to choose between making payments, your home and car should come before your credit card debt.

Talk to your credit card issuers.

You don't have to work with a nonprofit to help you negotiate with credit card issuers. A candid phone call that you yourself make to your credit issuer could pay off.

"Many credit card companies offer short-term hardship programs that will temporarily lower your interest rate to allow more of your monthly payment to go toward the principal. This will help you make progress quickly and motivate you to keep going," Maliga says.

That said, understand that the moment you start talking to your credit card company about how you're struggling to pay off the debt you owe, you may see your credit limit reduced – or you might be denied any more purchases.

Pay off the debt with the higher interest first.

If you're not working with an attorney to get them discharged or a credit card counselor to get them paid off, you may want to adopt this debt elimination strategy.

The avalanche method of paying off debt works this way: Let's say you have three credit card accounts, all of them with a lot of revolving debt. With the avalanche debt-killing strategy, you would take two of those credit card accounts and make the monthly minimum payments on them. The third card, the one with the highest interest rate, you would pay off with as much money as feasibly possible (without hurting your ability to pay bills and buy food and so on).

Once that third card is paid off, you'd then take the money you were spending on the third card, and you'd put that money toward the next card with the highest interest rate. After that's paid off, you'd put the money toward the last card.

Accelerate payments.

Ron Tallou, founder and owner of Tallou Financial Services in Troy, Michigan suggests this.

This can work to bring down debt – if you have extra money that doesn't need to go to bills, food or an emergency fund. Having extra cash, of course, can be quite a hat trick when inflation is running rampant. But Tallou is correct: Accelerating payments can end your debt faster. There is no rule that says you only have to make, for instance, one monthly car payment or one house payment or one payment to a credit card balance that you're trying to whittle down.

"Try to pay at least twice a month. That way more is going toward the principal," Tallou says.

Stop creating new debt.

This strategy may require dramatic changes. "You can't dig out of debt if you continue to rely on credit cards for expenses. Stop accruing new debt and focus on a cash-only lifestyle. Lock up your credit cards or hand them over to a trusted friend or family member to hold on to them for you," Maliga advises.

"Let them know your goal is to get out of debt and ask for their encouragement and support. Sharing your goal with someone who can hold you accountable is a powerful tool to make changes that stick," she says.

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