



Chip, Chip, Chip

Choosing which debts to pay first can be a little tricky. Paying off those with higher interest rates can save on total interest accrued, but choosing to tackle smaller debts, or those with lower interest rates, can lead to a greater psychological reward. Regardless, Cunningham advises you "make your minimum monthly payment on *everything*." After that, she recommends paying off the smaller debts first. "A lot of folks respond better to having a sense of accomplishment from having paid off a small debt and then moving up to the largest one," she notes.

This strategy sometimes is referred to as the snowball method; it advocates listing your debts in order of smallest to largest by amount owed, ignoring the interest rates, and paying them off in that order. Once you've paid off the smallest, you can take the money you were putting toward that debt and tackle the next on your list. Ultimately, though, you need to choose the budget that works best for your situation.

When it comes down to the nitty-gritty of debt payoff, there are a few budgeting strategies you can apply. For day-to-day items, such as groceries, gas and cleaning supplies,

R. Joseph Ritter, Jr., a certified financial planner at Zacchaeus Financial Counseling, suggests using the envelope system. Using your financial tracking details, put a set amount of "operating" cash into designated envelopes at the beginning of the month or when you get your paycheck. When you go to buy that new bottle of mouthwash or fill up at the gas station, the funds must be paid from that particular envelope. "When the cash is gone, you stop spending in that budget category until the next time you replenish the envelopes," says Ritter.

Of course, when you're calculating your envelope totals, make sure you take your actual spending into account—you don't want to run out of gas on the way to work or have to sacrifice milk in favor of eggs. Give yourself a little cushion, and if you have money left over, use it toward paying off your debt. Remember, "You don't have to wait for [the] due date to send in [bill] payments," says Tana Gildea, author of *The Graduate's Guide to Money*. "If you accumulate \$50 in your envelope [at the end of the designated period], deposit it to your account and go online and make a payment" right away.

LOANS YOU SHOULD ALWAYS AVOID

In certain circumstances, taking out a loan is inevitable—very, very few people can afford to pay for a home, auto or college education in cash. But, there are certain types of credit that you should avoid at *all* costs in order to stay financially healthy for the long term.

Advance Fee Loans An advance fee loan requires that you pay money upfront before you can receive your allowance. Typically, a lender will either take your money and run or charge you very high interest rates.

Payday Loans In order to get a payday loan, you write a check to the lender for the amount you want to borrow, plus a percentage of the total amount. The lender doesn't cash this check right away. On your next payday, you either repay the loan and get your check back, or the lender keeps your check and increases the fee. Fees upsurge with each unpaid week.

Refund Anticipation Loans Refund Anticipation Loans are high-interest loans typically offered by tax accountants. Instead of waiting for your government refund at tax time, your tax preparer offers you money upfront. Expensive fees and interest apply, so in the end, your refund will be smaller.

Rent-to-Own Loans Some stores offer rent-to-own loans on certain electronics, appliances and furniture. If you can't make the payments, however, the store will repossess the merchandise, even if you've already paid more than what it's currently worth.

Pawnshop Loans Pawnshops can loan you money after accepting personal property as collateral. They charge high interest rates and, if the loan isn't repaid in a designated period, the shop can keep and sell your property.

Overdraft Loans An overdraft loan allows you to draw money from your checking account, even if you have insufficient funds. Small overdraft fees of \$30 or \$35 apply, however, and these can add up to a significant cost over time.

