

Strategies For Coping With Your Debts

Contributed by Martin Sumner
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If you're struggling with debt problems it can seem like you're trapped in a never-ending fight to keep your head above water, desperately juggling your finances around to keep your creditors happy. It can also seem like you're alone in your struggle, but this is very far from the truth. Millions of people have at one time or another been in a similar situation, and even though it might currently seem like there's no way out, millions of people have successfully left their debt worries behind.

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{bot_wrgoogle}There are thousands of sites on the internet offering help and advice, sometimes as a free service, but often as a commercial venture which you'll have to pay for in one way or another. With all this information overload, how can you even get started on deciding how to handle your debts? Read on to learn the basics of some of the most popular debt strategies, which will help you decide which strategy is right for you and is worth researching further.

Budgeting

This is the most basic way of getting your finances back in shape. By sitting down and working out all your income and expenses, you can clearly see the parts of your money management that need more attention. Often, this basic step will show up easy ways to economize, giving you a little more breathing space every month, and making it easier to pay those bills.

Debt Consolidation

If, after examining your budget, you find that you really can't make ends meet, then it's worth considering taking out a consolidation loan. The basic idea behind consolidation is to take out one big loan which you use to clear all your other debts, meaning you only have one repayment to make every month. Ideally, your new loan will be at a lower interest rate than your current debts, so your monthly repayment will be lower. You can also spread the repayments over a longer period, taking some of the financial pressure off, but this will mean you're paying more in interest in the long run.

Debt Management

Some people who have serious debt problems might not be able to arrange a consolidation loan. This might be because they've already borrowed to the hilt and no lender is willing to advance any more credit, or it may be that in the course of their debt problems their credit rating has been badly damaged. At

this point, debt management is a good option. It works by handing over the management of your debts to a specialist company or agent, who will contact your creditors on your behalf and negotiate a way forward, such as lowering interest rates, extending the repayment term, or cancelling previous fees and charges.

Entering into debt management has the great advantage of relieving the immediate stress and worry of dealing with your debts, but the disadvantage is that in most cases the management company will charge a fee, and the damage to your credit rating will be considerable.

Individual Voluntary Arrangements

This is a step further than debt management, in that the agreements you make with your creditors are legally binding. You will also have any remaining debts cleared after keeping to the arrangement over a period of five years. Should you fail to keep to the arrangement, then bankruptcy is the only remaining option.

Bankruptcy

This is the final step to take when all other attempts to handling your debts have failed. All your assets will be frozen and used to pay off your debt, and most of any income you receive during your bankruptcy period will also be taken from you. The damage to your credit rating will be almost irreparable, and even though many people have started to see bankruptcy as an easy way out of debt, the long term consequences are grave, and it should only be considered as an absolute last resort.

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