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## **Reining in Your Debt**

*Americans are spending freely again. That has a downside.*

Provided by Frank DeMaio\*

**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.<sup>1</sup>

**Now household debt is increasing once more.** The Fed found it climbing by \$78 billion (0.7%) during Q3 2014.<sup>1</sup>

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.<sup>2</sup>

**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

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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](http://news.investors.com/investing-personal-finance/010215-732937-cut-debt-and-manage-household-spending-and-budget-in-2015.htm) [1/2/15] 2  
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