

Have You Paid Off Your Holiday Debt Yet?

By Meghan Alard, January 2020

If you're reeling from a holiday debt hangover because you overcharged, you're not alone. Shoppers spend more in the last weekend before Christmas than they do on Black Friday. Inevitably, much of that spending ended up on credit cards, because most of us just don't have that kind of cash lying around.

The result is that you pull out the plastic to cover everything you need and make a conscious decision to just ignore your balances until next year. When you see your January statements, you feel a little lightheaded – hence the holiday debt hangover.

How much does holiday debt really cost?

If holiday purchases went on credit cards, then they end up costing more if you don't pay them off quickly.

Taking the right steps to pay off holiday debt quickly

You don't want to let holiday debt to linger for a few reasons:

1. Interest charges can double the cost of purchases (or worse, depending on your rates).
2. If you earned rewards, such as cash back, those earnings will be offset by interest charges within the next 2-3 billing cycles.
3. If your cards are near their maximum limit after the holidays, it will decrease your credit score.

You want your debt levels to be as low as possible starting the new year. That way, you have more cash flow in your budget and less risk of credit lines falling into default.

Step 1: Take stock of where you stand with your debt

If your balances were already pretty high before the holidays, chances are that they're uncomfortably high now. There's also a chance you may not know just how high they are now. Many people consciously choose to ignore their balances and how much they're spending during the holidays. You actively decide not to worry about holiday debt until after the holidays.

So, now that the holidays are done and it's time to focus on debt repayment, take stock of your balances:

1. How much do you owe, in total?
2. What's the average APR applied to your debt?
3. Is the bulk of your total balance on high-APR credit cards or low-APR credit cards?
4. Are you only able to keep up with your minimum payments or can you afford to pay more?

Answering these questions will help you get organized and identify the right way to pay off your holiday debt (and other debts, too!).

Step 2: Decide if you can pay off your holiday debt with regular payments

If you owe less than \$5,000 in total, then you may be able to eliminate your balance using traditional monthly payments. You can implement a debt reduction plan to pay off any holiday debt and your other balances quickly. Ideally, you should start with the balance that has the highest APR first, because it costs you the most money each month.

Step 3: If you owe more than \$5,000, you need a better solution

If the holidays drove your credit card debt up above \$5,000, then you will likely need a better solution. In this case, you should look at debt consolidation loans or a debt management program through a consumer credit counseling agency. These solutions make it easier to pay back everything you owe quickly so you can save your credit score.

A debt consolidation loan tends to work best if you owe less than \$25,000 total. If you owe more than that, you're might be better off going to a professional consumer credit counselor help to eliminate your balances.

No matter which debt solution you decide to use, there are some additional steps you can take to make debt elimination easier.

Tip No. 1: Avoid accumulating new debt

Now is not the time to apply for new credit cards or loans. Focus on paying off debt that you already have and avoid making new charges. If you do keep charging, you'll have a hard time getting to zero because you take one step forward and two steps back.

The only debts you should consider taking out are debts that will help you consolidate or refinance existing debt. That includes balance transfer cards, consolidation loans and loan refinancing. But even with these options, be careful! If you consolidate and zero out your balances, it may be tempting to run up new debt.

Tip No. 2: Make a list and set some priorities

If you have more than just credit card debt to repay, detail those debts as well. Write down every loan, credit card or other obligation you need to pay off this year. That may also include things like child support arrears, fines or in-store credit lines that you opened during the holidays.

You always want to focus on paying off the highest interest rate debts first. So, for most people this will be their credit cards. Then you should prioritize your other debts based on APR and other factors, such as what penalties or what negative effects you might face from any delay in repayment.

Tip No 3: Don't neglect monthly savings in your budget

If you focus all your extra cash flow on debt elimination and leave nothing for saving, you usually won't eliminate debt effectively. That's because you won't have any cash on hand to cover emergencies and unexpected expenses that inevitably pop up every month.

You need to build a budget that builds in savings. Determine how much you can afford to save every month, then set this amount as a fixed expense in your budget. Ideally, you want to save about 5-10% of your income each month, but even 1% will give you some breathing room. So, whatever amount you can afford, make that your monthly savings goal. It should effectively be treated like a bill that you pay yourself.

Tip No. 4: Start saving for the 2021 holiday season

Once you establish a cushion of savings to cover unexpected expenses, start saving for the holidays this year now. The 2021 holiday shopping season may be 11 months away, but that gives you plenty of paychecks to set money aside. If you build a holiday savings fund now, you're less likely to be right back in this situation in January 2022.

Tip No. 5: Don't be afraid to ask for help

If you're making payments, but your balances don't seem to be going down, you may need professional help. Continuing to struggle on your own just means more money wasted on interest charges.