

Experts offer

Tips to be debt free

By Maggie Caldwell

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While losing weight is a traditional New Year's resolution, following the turbulent financial year, many may be resolving to reduce their debt in 2010. Much like stepping on the scale and observing problem areas in the mirror, New Canaan financial representatives say that people looking to cut their debt need to become more self-aware of how they are spending their money.

"Step one is self-discovery," said Robin Sherwood, a financial planner at HTG Investments. "People should take some time and maybe, as a New Year's resolution, figure out how you spent your money in 2009."

Self-reflection can shine a light on people's spending and shopping habits, she said. Even those who may not consider themselves compulsive spenders may realize that they spent more than they would have liked to on certain purchases.

"People will say, 'Gee, I didn't think I was spending that much money on X or Y. If I think about what my priorities in life are, that's not where I want to spend money.' It's not necessarily about spending less. It's about not piddling money away," Sherwood said.

Once one knows where his money is going, then he can begin setting priorities based on his needs and lifestyle choices. Some behavior modification may be in order.

Sherwood advises people to "pay yourself first" by focusing on saving money, not spending it.

Good debt vs. bad debt

Also of importance, experts say, is paying down depreciating assets and credit

card debt.

"People should be cautious about the idea of paying off certain kinds of debt," Sherwood said. "You really have to differentiate between good debt and bad debt. Good debt relates to an asset that may appreciate, such as a house. Bad debt is related to things that have depreciated, or that are already gone maybe, like a vacation or even a car.

"When you borrow money to own something that may appreciate in value, that is better debt. You always should pay off as much as possible the depreciating assets. Often, the interest rates for depreciating assets are higher and for good reason because they are a much greater risk to the lender."

Peter Keller, vice president of The Bank of New Canaan, advises people to pay attention to changing credit card rates and fees.

"Many card companies are raising cardholder rates across-the-board regardless of credit ratings," he said in an e-mail to the *Advertiser*. "Consider consolidating credit card balances with providers that offer the most advantageous rates and terms, including home equity lines of credit."

"Don't miss a payment deadline," he added. "Creditors can use a late payment to deny you credit or raise the rate they charge, so it's better to pay a little on time rather than none at all. And if you lose a job or face unexpected financial hardship, it's always best to contact your creditors immediately as most creditors would prefer to work with you to prevent your account from falling into default."

Knowing, understanding and then managing one's credit scores is key in lowering interest rates and speeding up credit approvals, Keller said.

Three biggest costs

Generally speaking, the three biggest costs in a person's life are houses, cars and kids, Sherwood said, adding, "I tell people, you can get by with one or two maybe, but many can't have all three."

Besides the initial cost of purchase, luxury cars require higher insurance, property taxes and often maintenance, and their value depreciates.

Sherwood said homeowners should put away one to two percent of the value of their house into yearly maintenance, including painting and simple fixes. This can keep small problems from turning into big, expensive ones over time.

For children, Sherwood said people put different values on all things.

"There is no one size fits all fix for things like paying for college," she said. "I would just say, if parents think they are going to send their children to college, they better start saving now."

Cutting costs

People may begin to look at ways to save money as well. Tried and true money-saving strategies include watching the budget for food by cooking more and dining out less, becoming energy efficient by adding insulation and weather-stripping to homes, installing water-saving devices and cutting back on the use of electrical appliances to reduce utility costs.

Also, seniors especially may find that they are overspending on insurance. Lapham Community Center recently offered counseling to seniors to help them make decisions about Medicare enrollment and choosing a prescription plan that best suits their needs.

Lyn Bond, senior center director, reported that the average savings for each person that came in was \$600.