

David Bach The Automatic Millionaire



Five Steps for Ditching Credit Card Debt

by *David Bach*

Posted on Monday, July 30, 2007, 12:00AM

I've spent a lot of time teaching Americans how to get out debt. From television appearances to books to speeches, I've tried to proactively address [how to fight the credit card companies at their own game](#).

[CardTrak.com](#) reports that the median amount of [credit card debt](#) carried by a typical American is about \$6,600. But 13 percent of participants in a recent online poll reported balances higher than a staggering \$25,000.

Many of these families now have over nine credit cards per household. That's not hard to believe considering that the average college student now graduates with three credit cards.

Kill Off Your [Credit Card Debt](#)

The question for many of these people is, "How do I know which of these cards to pay off first?"

To that end, I developed a system that helps consumers prioritize their debt payment plans for my book "[The Finish Rich Workbook](#)." It's called DOLP, which stands for Dead On Last Payment, and DOLPing your way out of debt is all about building momentum as you systematically pay off each card, one by one.

Back in [a February column](#), I introduced you to Dan and Sally Eggleston, with whom I've been working over the past two years. We met on "Oprah" while taping [the Debt Diet series](#), and the Egglestons have made amazing progress toward wiping out their debt.

Using the DOLP method, they've gone from 13 credit cards down to 4; in 90 days they'll be down to 3. They've reduced their \$72,000 in credit card debt by over \$25,000 so far, and by doing so they've also increased their [credit score](#) by over 100 points.

Do the DOLP

This same system can help you, too. Like Dan and Sally, you can get a true handle on how much you owe and how to put a payment plan into action in a matter of minutes. Here's what you need to do get DOLPing:

1. Make a list of the current outstanding balances on each of your credit card accounts.
2. Divide each balance by the minimum payment that particular card company wants you to make. The result is that account's DOLP number.

For example, say your outstanding Visa balance is \$500 and the minimum payment due is \$50. Dividing the total debt (\$500) by the minimum payment (\$50) gives you a DOLP

Make

YAHOO!

number of 10.

3. Once you've figured out the DOLP number for each account, rank them in reverse order, putting the account with the lowest number first, the one with the second-lowest number second, and so on.

You now know the most efficient order in which you should pay off your various credit card balances.

4. Pay as much as you can each month toward the card with the lowest DOLP number. For each of your other cards, make only the minimum payment.

5. Once a card is paid off, cut it up -- but don't close the account! Leave the account open so you have credit you aren't using, which will help improve your credit score.

Now move the next card up on your list and repeat the process until all your cards are paid off.

Track Your Progress

I had Dan and Sally create a DOLP chart that was big enough to hang in their kitchen. This is a great way for the whole family to keep track of where they are in the process of wiping out their debt, and it serves as a reminder of their ultimate goal and helps them stay focused.

Tracking which cards have been paid off is a huge emotional boost, and propels you toward future progress. Here's a template you can use to create your own DOLP chart:

Account	Outstanding Balance	Monthly Minimum Payment	DOLP Number	DOLP Ranking
Visa	\$500	\$50	10	1
MasterCard	\$775	\$65	12	2
Sears Card	\$1,150	\$35	39	3

Negotiate Interest Rates

Other experts will suggest that you pay off your cards in an order based on the interest rate each card charges. I disagree with this method simply because you should be negotiating a lower interest rate with each credit card company from the very beginning. (See my column "[Credit Card Hazards and How to Avoid Them](#)" for details.)

Once you've asked for a lower rate, you may end up with pretty much the same interest rate on all your accounts. In Dan and Sally's case, they were able to lower most of their cards below a 5 percent interest rate -- and many of them had been as high as 29 percent.

Breaking a Vicious Circle

Being in debt can be depressing and overwhelming. The more credit cards you have the more bills you have to worry about paying on time, and just trying to stay on top of all those bills inevitably leads to mistakes like late payments.

Late payments can cost you upward of \$30 a month, higher interest rates of up to 30 percent, over-limit fees of up to \$35 a month -- and more stress. DOLPing your debt helps you break this cycle.

For instance, Dan and Sally went from 13 cards to 6 in less than 6 months. It was a huge relief for them, and also a huge motivator because they could see the progress they made so fast.

Patience, Persistence, and Progress

Although the DOLP method is simple, getting out of debt isn't. It may take months or even years to pay off all your credit card debt. My experience is that it can take twice as long to get out of debt as it took to get in it. But you can do it, and it's worth the effort.

Today, Dan and Sally's DOLP chart still hangs in their kitchen, serving as a constant reminder of their progress as well as the work they still have left to do. I'm really proud of what they've accomplished to date, and they serve as a great example of how patience and persistence can pay off on the road to financial freedom.

I hope this tool helps you. If you have other [debt-management](#) methods you'd like to share, please leave a comment below.

26 COMMENTS

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Holly 44 - Tuesday, July 31, 2007, 12:27PM ET

Overall:

This is great advice. And for the one commenter - he did say to cut up the cards...just don't officially close the accounts.

Jalihakik - Tuesday, July 31, 2007, 11:28AM ET

Overall:

My only problem is your advice to keep the credit cards. HELLO! Anyone in deep caca with these predators should do some kind of system to pay them off but more importantly change the behavior that got them there in the 1st place. CHOP EM UP!!

dedbare - Tuesday, July 31, 2007, 11:19AM ET

Overall:

Yes, Make sure to call and negotiate your rate. After you have that done rank them in order of interest rate. Highest gets paid first period. It is the quickest way to get rid of the debt. While negotiating you may even transfer debt to different "free" 0% interest cards. Pay them last. I can't believe how many people in this country cannot do math including the fellow that wrote the article. It is stupid to pay the higher interest rate debt first just because you have a lower outstanding balance. Math 101 folks.

nerikhmer - Tuesday, July 31, 2007, 11:08AM ET

Overall:

This is really a great tool for people. Some people get out of control that they lose focus and not work toward the goal. And who knew that you can negotiate an interest rate reduction, that's great advice. Sometimes, you really just need someone to remind you and to motivate you. I will try to use that DOLP template. Thanks.

GP - Tuesday, July 31, 2007, 11:06AM ET

Overall:

Good article overall. A couple points. First: the most important thing is to stop spending so much money. Cancel phones, cable, don't go out, set your heater to 55 degrees in the winter and so forth. Look for extra income opportunities. I mowed a couple yards when I was trying to dig myself out. Stop buying more clothes (unless absolutely necessary for work) and so forth. Heck, sell that flat screen TV (or return it if you can). Some one out there coined the term "sell so much stuff that your kids think they are next." You can live without most of those items (though don't sell your kids). Just

like losing weight is only accomplished by eating less than your body burns, getting out of debt is about spending less than you earn (way less, so you can save for times you cannot work). Second: to all those who insist on paying off the highest interest rate first, your hearts are in the right place, but you are still off a bit. By paying cards off completely, you reduce the minimum payment in the event that you have a financial crisis. This is more important than saving a few dollars in interest. Third: don't close cards; just stop using them. FICO score should not be your main concern, but you might as well improve your score while paying off debt. You can close a couple (not the older ones) later once you've paid most of your debt. The key is to stop charging more. Don't carry more than \$20 on your person. If there is something you think you need, few things are better at making you think twice than having to go back home, take cash out of the month's/week's budget envelope and return to the store. I promise that will reduce your spending.

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