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## TACKLING DEBT

It's time to tackle one of the scariest yet most important aspects of money management. Take a breath and remember all the money mindset lessons we talked about in Chapter 1, because now we're going to talk about debt. Listen, I know that talking about debt is really hard. It can keep you awake at night, particularly if the debt you have to pay back seems like an insurmountable sum. Perhaps your finances are already stretched, or maybe you've spent the past few months or weeks burying your head in the sand. I know what that's like. Being in debt can create feelings of intense shame, anxiety and stress. It's no fun at all, so let's take this chapter easy. I'm with you every step of the way.

One of the first calls I received after I launched Black Girl Finance was from a woman in floods of tears,

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overwhelmed by her debt. It can't have been easy to make that phone call and open up to me about struggling with debt, especially as she had been unable to discuss it with her friends and family. Her story really affected me because, as you know, my own experience of debt was similarly overwhelming and lonely. One of the main reasons I created Black Girl Finance was to help other women who were in the same situation I had been. I look back at being in debt, too embarrassed to speak to even my twin sister about it. I felt like I had failed.

The first thing I want you to recognise is, **you're not alone**. So many of us fall on hard times, and a mind-bogglingly huge number of people in the UK are in debt. In 2020, 4.6 million British citizens collectively owed at least £6 billion in private debt, and more than one in eight people who have been furloughed had defaulted on a payment.\* The pandemic has been cruel to everyone, but it's worth noting that a report published by the Fawcett Society† found that BAME women were more likely to feel forced into debt and be worried about covering basic living costs.

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\* <https://www.theguardian.com/commentisfree/2020/aug/05/uk-private-debt-crisis-recession-coronavirus>

† <https://www.fawcettsociety.org.uk/coronavirus-impact-on-bame-women>

This demonstrates how deep structural inequality can be. While we have a lot to be angry about, please remember that you're not alone, and that getting into debt doesn't reflect badly on you as a person. The second thing I want you to know is that it is possible to get out of debt, and your current circumstances do not have to be your future reality.

It's important to tackle debt, because prioritising paying it off makes real, data-driven, number-crunching sense. When you look at how much interest is charged on debt compared to how much interest is paid out on savings and even on investments, getting on top of debt is a no-brainer. The average credit card interest rate is around 20%, whereas the average savings account interest rate is 0.05%. How does this translate to actual money? Well, if you have £1,000 of debt with an annual interest rate of 20%, you will end up paying £200 in interest for the year. If you put that same £1,000 in a savings account, you will end up earning interest of 50p. So you're better off prioritising paying off your debt rather than saving money.

Often, we put off tackling our debt because we don't have a clear debt repayment strategy in mind. That's how it was for me, anyway. When I first got into debt, I had no idea how I'd pay it off. Don't get me wrong; I didn't plan to max out my credit card or regularly increase my credit

limit. I just told myself I would use only a little bit each month then pay it back straight away. This happened at first, but gradually, over a number of months, I fell into the trap of spending more money than I had on my credit card – particularly when I was out with friends and wanted to be generous by paying for drinks, or if I was feeling down or bored and ended up going shopping. The temptation to spend was so high that I lost control and was only able to make minimum payments for a while, before panicking and making no payments at all. I tuned out and hit rock bottom.

So, if you're like I was, please don't worry. It's possible to get things back on track. We all need a wake-up call sometimes, and once you hit the bottom there's only one way to go. That's why I'm going to explain two clear strategies for paying off debt. It's never too late! Before I get into the different repayment strategies, I should say that if your debts are so high that you are in danger of losing your home or you have bailiffs visiting, seek urgent, free advice from agencies such as the Money Advice Service or Citizens Advice, which can provide the guidance you need. Also, in this current period of economic uncertainty, it's important to know what financial help and support is available to you through government schemes. I've added some links in the 'Helpful websites' section of the book.

As I mentioned at the beginning of this chapter, it can be extremely painful knowing that you accumulated debt what feels like a lifetime ago; now you have to pay it back, but you don't know where to start. That's why you need to start handling your money like the brand-new person you are. You've got plans to achieve, and being dragged down by past debt is not part of the plan. So, let's get to work.

The first thing you will need to do is make a list of your debts, so you know exactly what you owe and to which company. This part should be straightforward, because you should already have listed your liabilities when you calculated your net worth. Make sure you list your debts in order (from the highest to the lowest amount), and include any minimum payments you need to make.

Here's an example of a list of debts:

<b>Car loan:</b>	£10,000
<b>Mastercard:</b>	£5,000
<b>American Express:</b>	£2,000
<b>Barclaycard:</b>	£1,900
<b>Debit card overdraft:</b>	£1,500
<b>Total:</b>	<b>£20,400</b>

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Now write yours.

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Whatever your list looks like, I hope that, at this stage of the book, you're not beating yourself up. What's happened is in the past, and this is your new start.

Next, you need to work out the best strategy for you. There are two schools of thought when it comes to paying off debt, and the best approach for you depends on what motivates you. The first approach, the debt avalanche, allows you to attack your debt by focusing on the largest amount or the amount with the highest interest rate (which makes financial sense, because you will also be getting rid of the high associated costs). If we apply this strategy to the example above, that means tackling the car loan first. This might make the most sense, but it will take longer to pay off and get that first win (at which stage you can give

yourself a massive pat on the back), which might make it a less motivating way to approach your debt. It's worth thinking about this, because some of us are less likely to stick with a strategy if it takes a long time to get to that first big win.

The alternative approach, the debt snowball, starts with repaying smaller debts first, so you get a win sooner, which may keep you motivated to stick with the strategy. While both options will help you to repay your debts, think about which approach best suits you and your personality. Before we get into the dos and don'ts of the avalanche and the snowball strategies, it's important that you commit to not using your credit cards, overdrafts, store cards, etc. from this point onwards. There is no point working hard to pay off debt in one area while raking up more debt somewhere else. Okay? Right, let's get into it.

### The snowball method

You already know you need to list your debts in order, from the smallest to the largest. Next, you need to work out the minimum monthly payments for all your debts and start paying those amounts. (The exception is if your

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smallest debt is your overdraft, in which case you should try to pay as much as you possibly can: this is because if you only make the minimum payments, you will only be paying off the interest charges, rather than chipping away at the actual amount you have borrowed.) Do this consistently each month, and if you find yourself with any extra income, use it to pay a bit more off your lowest debt. It doesn't matter how small the amount is – every £5 helps. The goal is to pay towards all debt simultaneously in a manageable way, rather than trying to make over-payments on all debts all at once, overstretching yourself and giving up.

Once you've paid the first debt, stop and acknowledge your triumph: you can pay off debt! You are back in control! This will feel great. Give yourself a high five but don't stop there – oh no, you're on a roll. Now, you're going to snowball the money you used to pay off the first debt to pay off the second-smallest debt. In the example above, that would be the Barclaycard debt of £1,900. The money you were paying towards the first debt now goes towards the second debt, in addition to the original minimum payment you were making towards the second debt. Once the second debt is paid off, you do the same again: snowball this payment and add it to the minimum



payment of the third debt, and so on until all debts have been paid.

## The avalanche method

Again, start by listing your debts in the order of highest to lowest. In our example above, the highest is the car finance of £10,000, with a minimum repayment of £179 per month. You pay off what you can afford above this amount, i.e. you pay £210 per month instead. Next, just as with the snowball method, you make the minimum payments each month on all your debts except the largest. For the car finance debt, you pay as much as you can over the minimum payment amount each month.

Once you've paid off the car finance debt, you move on to the next highest debt, which would be the £5,000 on Mastercard, which has a monthly minimum repayment of £120. You avalanche and add the amount you repaid towards the car finance to the minimum payment of the Mastercard, which means you pay  $£210 + £120 = £330$  per month towards the Mastercard debt.

As I said before, when I was struggling with debt, I hadn't heard of either of these methods. I winged it, simply

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making a lump sum payment to whatever debt was most urgent at the time if I happened to earn extra money or if I borrowed from family. It was all very disorganised, which meant that, although the immediate stress and pressure was off because I'd repaid some money, my finances for the coming month were thrown off. I was constantly short somewhere else, so would resort to spending on a credit card or going into my overdraft. This became a revolving cycle of financial chaos. With no emergency fund, budget, or debt repayment strategy, I lived from payday to stressful payday, without making any headway towards paying off my debt. Finally, I set up a repayment plan for my credit card debt: £100 per month for eighteen months, before I made that balloon payment. As for my overdraft, I was able to pay that off once I sold my home.

## **CASE STUDY: REPAYING DEBT (1)**

### **Client: Ellie**

I clearly remember Ellie's first call because she was sobbing down the phone, such was her distress about the debt she was in. She managed to explain that she was already seeking debt advice through Step Change, the debt charity, which was looking into setting up a debt management plan for her. I praised her for taking such a bold and positive step and advised her to stay engaged with their services. I also mentioned that there were other organisations she could speak to, such as Citizens Advice.

I have included this case study to show that it's okay to seek advice – particularly at this time, with the Covid-19-related job uncertainty and redundancies. Everyone should feel free to explore all options without feeling embarrassed. No one will judge you for getting into debt. However, there are ways to get out of debt, and organisations to help. Which takes me on to my next case study, where I helped Yinka to devise a clear strategy.

**CASE STUDY: REPAYING DEBT (2)**

**Client: Yinka**

Yinka had got in touch due to her mounting debt. She was not yet at a stage where she was unable to pay her essential bills, but her finances were stretched and she was painfully aware that it was time to get to grips with her debt. It was almost £6,000, and she lacked a strategy to repay it.

I worked with her to figure out the best strategy. During our call we discussed the pros and cons of the debt snowball and the debt avalanche strategies. She chose the debt snowball to start with, to get some quick wins under her belt, and said she would move on to the avalanche method after some time.

A year after our initial call, Yinka has managed to pay off half her debt. She is on track to pay off the remainder in the next twelve months. All she needed was a clear strategy to follow, and I'm happy I could provide this for her.

I know several women who have paid off significant amounts of debt using one of these methods – in fact, a podcast guest of mine paid off £36,000 of debt using the snowball method. They are tried-and-tested strategies, and

they work. I've included both methods, so you can choose which suits you best. Whatever you do, pick a method – and start.

Does it take time? Yes.

Does it take patience? Yes.

Does it take focus? Yes.

Does it take commitment? Yes.

Is it worth it? 100% yes.

I cannot stress enough how important it is to have a clear debt repayment strategy. Most of the time we talk about paying off debt simply by making repayments, without looking at the method behind it. Maybe you agree a repayment of what you can afford with your creditor, without considering the knock-on effect on your other debts or whether this will mean you need to rack up debt elsewhere. I understand these decisions are often made in a knee-jerk way while under pressure; you want to do something to get rid of your debt fast, but this may not give the best results.

With the methods outlined in this chapter, you will be able to relax, knowing that you are still making minimum repayments, so your debts aren't increasing and

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your creditors will be satisfied. Another benefit is, when you put in all this hard work, you won't want to sabotage your efforts by reverting to your old spending habits. Even if there is a time when you need to leverage some form of credit, in future you will have a clear strategy to pay off any debt.

The goal is to make real strides towards increasing your net worth. Every day you're in debt means money being directed out of your pocket. I'm not saying you shouldn't get on the property ladder using a mortgage, or take out a student loan to study, or get a business loan (if I said this, I'd be a hypocrite!), but I would make it a priority to pay off any debts that have a high interest rate as quickly as possible. Having a debt repayment strategy built into your monthly budget is gold-standard money management, so look at ways in which you can reduce your spending in certain areas and commit to prioritising your debt repayment. I can't emphasise enough how proud of yourself you will be.