BY ANGIE REDMOND

spring clean...

Your Finances

With spring firmly upon us, and summer around the corner, there is no better time to spring clean your life, and spring clean your debts. Putting your finances into order will help you clear clutter and get your financial future on the right track.

Step-by-step

STEP 1

Look at all your accounts and write down the exact amounts you owe, how much interest you are paying each month and see which accounts are costing you the most.

STEP 2

Update your budget. Draw up a budget listing your monthly income and expenses and make sure your income comfortably covers expenses. If not, review your expenditure and see where you can cut down on spending.

STEP 3

Reduce your debt. Prioritise high-interest debt and pay it off first. As you manage to pay off debt, apply that money to the next highest-interest debt, until you manage to retire all your debt. Once you are debt free you will be able to save the extra money.

STEP 4

If you have any debts that you will be unable to meet, contact the company immediately and work out a payment plan - and the sooner, the better! Unpaid debt will have a negative impact on your credit rating, which can influence your ability to get credit in the future.

STEP 5

The most important part of any spring clean is to stick to it - and the same goes for your budget. Once you have a budget stick to it, and avoid unnecessary costs or more debt.

STEP 6

The reason you hear "save, save, save" so often is that it is really very important. Regular savings should be a habit. If you currently don't save anything, you should start right now to save something each and every month, no matter how small the amount is. Do not try to kid yourself into thinking that you will save "what's left over at the end of the month". More often than not you will be left with nothing to save. Set up a debit order which goes off at the beginning of each month – that way it's not something you are required to do personally each month.

IMPORTANT TIP

Make allowances for interest rate hikes! If you are planning to take out more debt (e.g. buying a new house), do the sums to check what the required repayment amount would become should the interest rates go back up, say by five percent. Interest rates are cyclical, and despite them being low at the moment, they most likely will go back up again at some stage. You don't want to be in a situation where the interest rates rise so high that you can't afford the debt repayments, and run the risk of losing your home. Ideally, you should be in a position to absorb the repayment increases into your budget as and when they occur.