

Audio transcript

5 things to help manage existing debt

Hi, I'm Paul Stroud, Senior Financial Wellbeing Consultant at HSBC UK.

We've been listening to our customers, and many of you are unsure of the best way to manage your existing debt. So if you're worried about your debt or simply want to manage it more effectively, I've pulled together five things that you could do right now that can help you take control.

1. Work out how much you owe

Write down a list of all your debts along with their annual percentage rate, or APR for short. Be sure to include all debts on your list, even those with friends, as only then you'll know exactly how much you owe.

2. Pay off the most expensive debt first

Typically, the most cost effective option is to repay the debt with the highest APR, as it's charging you the most to borrow the money. The APR figure takes into account your rate of interest, which is how much you're paying on top of the amount you borrowed and any additional charges your lender has added to your credit agreement.

This can be a great help. But remember, only do this once you've paid your minimum payments and all your priority debts, such as mortgage instalments and utility bills.

3. Consider consolidating your debt

If you're finding juggling multiple debts too stressful, a debt consolidation loan can simplify your payments and provide you with one clear and focused goal. Reach out to your lender and see if you're eligible for a personal loan.

This may give you enough funds to clear all your existing debts and consolidate them to one single monthly repayment. However, the rate of interest and the length of time that you have to repay the new loan may be different. This could mean that you end up paying more in the long run. So be sure to clarify this with your lender. Other costs and charges may apply when repaying your existing debts.

4. The 50:30:20 rule

Setting yourself a clear budget can really help you deal with your debt. For instance, the 50:30:20 rule is a simple plan that can help you put more money aside each month. Ideally, fifty percent of your income should be based on needs. Thirty percent is for your wants, and that final twenty percent is on saving or paying debt.

If possible, when it comes to debts try and pay above the minimum payment. Don't worry if you can't do this every month but the more that you can pay off, the less that you'll have to pay in the long run. And don't forget, even the smallest contribution will still help to reduce your debt.

5. Ask for help

If you're in financial difficulty, you don't have to struggle alone. Reach out to the lenders that you owe money to and ask them for help. They may be able to offer you payment holidays, or make adjustments to your repayment plan to help alleviate the pressure.

Don't be afraid to let them know your situation. Being honest and open about where you're at is just another way to take control. And don't forget, they're here to help.

So just to recap:

1. Work out how much you owe.
2. Pay off the most expensive debt first.
3. Consider consolidating your debt.
4. The 50:30:20 rule.
5. Ask for help.

Thanks for taking the time to watch this. If you'd like to learn more about other financial topics, please subscribe to our channel or visit our website.