UBS

Do you own your debt, or does it own you?

Having a strategy can help you stay in control.

Chances are you have some debt. And that's okay.

Debt is just a part of life. You may have it from student loans, a mortgage, credit cards or other sources. Debt can be helpful. Borrowing money can help you accomplish major goals that you might not be able to pay for out of pocket. And regular, responsible use of debt could help you build a strong credit history so that you can borrow again in the future.

Your debt may come with a variety of terms, such as a fixed or variable interest rate, a short- or long-term payment period and varying fee structures. It's important to understand your debt and not let it control you. Paying it down in the most effective way can help reduce your debt load faster and relieve financial stress.

How do you feel about your debt?

Do you have the resources to manage your debt but wish you were making faster progress? Or are you struggling? The right payment strategy depends on how you're feeling and your situation:

Avalanche method: Pay off high-interest debt first

- Can lower the total interest you pay.
- Consider if you have high-rate balances.

Snowball method: Pay off smaller balances first

- Closing accounts can help build momentum.
- May make sense if you have many accounts.

Refinancing: Reduce your mortgage payments

- A new mortgage at a better rate or shorter term may help you pay off your home faster.
- Consider if potential savings from refinancing outweigh any associated costs or fees.

Transfer balances: Pay less in credit card interest

- Transferring a balance to a card with a 0% rate can reduce the total interest you pay.
- These rates are often temporary, so consider if you can pay off the card before the rate jumps.

Consolidation: Lower your total monthly payments

- Combining debts into one loan can simplify your payments and may reduce the interest you pay.
- Consider if you have multiple high-rate debts.

Negotiation: Secure better terms

- A lower monthly payment can help you avoid falling behind.
- Can make sense if you're struggling to meet payments.

Debt Management Plan: Work with a credit counseling agency

- A nonprofit can advocate for you and help you come up with a solid plan.
- May be right for you if you're feeling overwhelmed.

Settlement: Convince creditors to accept less

- Reducing the principal you owe can help you avoid more severe outcomes.
- Consider if you're already missing payments.

Keep your borrowing in check.

To keep your debt manageable, a good rule of thumb is to limit your total debt payments to no more than 36%* of your gross income. This is commonly referred to as your debt-to-income ratio.

For annual income of:	Limit annual debt payments to:
$50,000-$80,000	$18,000-$28,800
$80,000-$110,000	$28,800-$39,600
$110,000-$140,000	$39,600-$50,400

Key terms

It's important to understand your debt, here are some key terms you should know:

- **Interest rate**—The annual rate at which interest accrues on a loan. A higher interest rate means you pay more.
- **Minimum payment**—The lowest amount you may pay per month without violating your loan agreement.
- **Principal**—Also called balance, this is the remaining outstanding amount of what you originally borrowed.
- **Term**—The length of a loan. For example, most mortgages have terms of 15 or 30 years.
- **Total interest**—All the interest you pay over the life of a loan.

Own your debt.

You don't have to go it alone. Your UBS Financial Advisor can help you identify the best approach for your situation. With a plan, you can feel more confident that you're in control so that you can focus on other areas of your life.

Key takeaways

- Debt can help you meet major goals and build your credit, but it's important to use debt carefully.
- If your debt feels manageable, you can decide whether to pay off high-interest debt first or small balances.
- If you're struggling with debt, you can consider consolidation, refinancing, balance transfers and other strategies.
- Try to limit debt payments to no more than 36%* of your income.
- A UBS Financial Advisor can help you come up with a plan for managing your debt so that you can focus on other areas of your life.

*"The Basics of Debt-to-Income Ratios," Credit.org. https://credit.org/2011/04/07/debt-to-income-ratio/.