Is It Time for a Financial Makeover?

Everyone is all about makeovers these days—from extreme personal makeovers to extreme home makeovers. Perhaps we also should consider a financial makeover, before it gets to be extreme. Here are some simple suggestions for your financial makeover.

Develop a Plan

It is much easier to focus on a goal if you can see it. Develop a written plan to rid yourself of debt and focus on what it will take to attain that goal. To get a true perspective of your financial situation, list all of your assets—everything you own. Then list all of your debts—what you owe. When you subtract your debts from your assets, then you will see your net worth. Now make a list of all of your sources of income to determine your cash flow. List all of your expenses, such as mortgage, car, food and credit card expenses. Subtract your expenses from income and you will come up with your positive or negative cash flow. If you have a negative cash flow, it is definitely time for a financial makeover.

Develop a Budget

This will allow you to better understand where your money goes each month. Track your spending habits by keeping a daily log of all of your expenditures. At the end of the month, you may be surprised to see how much money you could save.

Implement Your Plan

Begin your makeover by reviewing your credit report and your credit score at least once a year. Under federal law, you're entitled to one free credit report on an annual basis. To learn more, log on to www.AnnualCreditReport.com or call 1-877-322-8228. Many people wait until they need to make a major purchase before paying attention to their credit report and score and could be shocked at their low rating. If you find an error in you report, fix it immediately.

Be sure to reconcile your bank and credit card statements each month for accuracy. And while debit cards have made our lives easier, be sure to enter all debit card transactions into your check register. Failure to do so could result in overdraft charges and fees and a major hit to your carefully crafted budget.

Use Credit Cards Wisely

Credit cards, when used wisely, are a valuable and convenient tool for money management and dealing with unexpected circumstances. It is, however, imperative that you fully understand the terms and conditions of any credit card agreement and ensure that you abide by "the rules" to avoid additional costs.

If you think one of the myriad "pre-approval" credit card offers you receive daily in the mail is the answer to your financial makeover, think again. While these "low interest rate" offers may at first glance seem an attractive way to consolidate and pay off your debt, you may find that after six months, the honeymoon is over, your interest rate has doubled or tripled and your financial situation is even worse.

Late fees for overdue credit card payments have increased in recent years and you may be liable for a late fee for being one day late in making your payment. You could also face a major hike in your interest rate and find your credit score lowered. All of this could make it more difficult to get a new loan, job or insurance.

If you dedicate a certain amount of money each month to credit card payments, be sure you make a larger payment to the card with the highest interest rate in order to pay it off more quickly.

Again, be responsible and knowledgeable with your credit cards.

Personal makeovers don't happen overnight and neither will your financial makeover. However, it is a goal that is worth working toward in order to secure your financial future.

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