

Service Your Debt Effectively In 4 Simple Steps

Meghna Maiti, 20 JAN 2023 8:55 AM

You could be saddled with several loans or debts. However, there are ways to service your debt effectively. Read on to find more.



Do Not Take Loans More Than You Can Pay Off: “One of the most effective tips to manage multiple loans effectively is to allocate 40 per cent of your income towards your EMIs. So, for instance, if your income is Rs 150,000, you can pay Rs 60,000 towards your loan repayments after considering other financial obligations. This, of course, depends on your income and liabilities.

“The key here is to find a balance. Therefore, it becomes prudent to make a monthly budget to prioritise your expenses (essential and urgent to sparse and low priority) so that you can repay all your loans on time,” says V Swaminathan, the executive chairman of Andromeda Loans and Apnapaisa.com.

Vishal Dhawan, CEO and founder of Plan Ahead Wealth Advisor, and a Securities and Exchange Board of India (Sebi)-registered advisor, adds: “Avoid taking loans unless absolutely critical or for goals important from a long-term perspective like a home loan or for education where the return on investment is likely to be high.”

Be Disciplined: Your loan portfolio may consist of short-term, medium-term, and long-term loans with different interest rates and tenures. “When servicing such EMIs, you need to be disciplined. Your loan repayment plan should include key details, such as dates and EMI amounts, so that you can allocate funds accordingly,” says Swaminathan. Ensure the EMI payment dates are near your salary/income dates so that the EMIs are paid first and then allocate the rest for household and other expenses.

Create A Buffer: Paying EMIs becomes more challenging during a job loss where regular income stops. “Creating a buffer is important, ideally three-six months of EMIs and household expenses for double-income families; if in a gig job or single income, then plan more for emergency expenses,” says Shalini Dhawan, co-founder of Plan Ahead Wealth Advisors, a Sebi-registered investment advisor.

Pay Off High-Interest Rate Loans First: High-cost loans carry higher interest, which can augment your EMI load when not tackled first. So, create an effective loan repayment plan, prioritising repayment of costly loans first. Prioritise closing the loans with a shorter repayment tenure, higher interest rate, and zero prepayment charges before focusing on loans with low-interest rates and longer repayment tenure.

“It is important to understand the cost of your loans and then use, for example, bank deposits, debt funds, etc., where, say, rates earned are lower, so can be used to pay high-cost loans, as the cost of loans is higher than the effective post-tax return that you earn on a bank FD (fixed deposit),” adds Shalini.