



YOUR MONEY

TACKLING FESTIVE DEBT HANGOVER

Repay loans in descending order of interest rate

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During the festive season, many households tend to go on a spending binge, fuelled not by savings but debt. When the festivities end, the reality of repayment hits home. If your finances, too, have got strained, here's a structured plan to help you regain financial equilibrium.

Why people overspend

Festivals bring about heightened social interaction, prompting people to spend more on clothes, gifts, and parties to maintain their social stature. Social and family expectations add to the pressure to spend.

Positive emotions lead to indulgent behaviour and impulse purchases. "More free time during this period also results in higher discretionary spending on eating out and shopping," says Vishal Dhawan, founder & chief executive officer (CEO), Plan Ahead Wealth Advisors.

"Annual bonuses increase disposable income, encouraging higher spending," adds Adhil

Shetty, CEO, BankBazaar.com.

Tempting discounts from merchants and lenders worsen the strain on personal finances. Zero-cost EMIs and buy-now-pay-later (BNPL) financing schemes make it easier to spend. "Advertisements announcing attractive offers create the fear of missing out (FOMO)," says Deepesh Raghaw, Sebi-registered investment advisor (RIA).

Peak hotel and airline costs during holidays also lead to higher expenses. This year rising gold and silver prices created the false impression that jewellery purchases are investments rather than expenses.

Early signs of trouble

Using credit or dipping into savings for purchases signals overspending. "A credit card utilisation ratio above 30 per cent is a sign of overspending," says Dhawan. Frequent cash-flow shortfalls are another warning sign.

"Regularly buying items that remain unused also indicates impulsive purchases," says Raghaw.

Get order of repayment right

Review income, goals, and annual cash flow to identify where expenses can be curtailed without affecting essential needs. "Stop new discretionary spending until existing EMIs have been cleared," says Raghaw.

Repay loans in descending order of interest rates. "Prioritise repayment of high-interest debt such as credit card dues," says Dhawan. Shetty warns against revolving credit card balances. If you are unable to pay credit card dues in full, ask your bank to convert card outstandings into a personal loan.

After paying credit card dues, repay personal or consumer durable loans, depending on cost.



Prevent a repeat

- Create a clear spending plan with a "joy budget" for discretionary expenses
- Keep family informed about household finances to manage expectations
- Plan festive spending early (by August) and fix a firm spending limit
- Plan EMIs for large purchases in advance, choose no-cost EMI options
- Avoid compromising savings to allow more discretionary spending

"While higher-cost loans must be repaid first, skipping EMIs must be avoided, as even one default affects the credit score. A balance needs to be struck," says Raghav.

Replace with secured loans

Take a secured loan at a lower cost to repay higher-cost unsecured loans. "Take an overdraft against a fixed deposit or a loan against insurance policy to close multiple high-cost debts," says Dhawan. Shetty suggests going for gold loans as they are cheaper and allow early repayment without penalties.

"A home top-up loan can also reduce borrowing costs, though it requires you to have this loan and a good credit score," says Raghaw.

Selling gold at current high prices or breaking a fixed deposit are other options.

Mistakes to avoid

The biggest mistake is denial — assuming the debt issue will resolve itself. Those who have binged on credit must spend less, cut discretionary expenses, and focus on repayment.

Paying only the minimum 5 per cent on credit cards keeps accounts 'standard' but conceals the problem. Postponing card payments to clear other bills can create a large credit buildup.

"Many people try to recover losses through speculative trading in stocks or forex, which often worsens debt," says Dhawan.

Finally, borrowing from expensive sources can plunge you into a worse financial quagmire.