Household Budget & Managing Debt

Second Edition

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This book is written for all who have the desire to learn and understand a household budget. Only a small percentage of households use a written budget. For those who would like to learn how to implement a budget, we hope you enjoy this book.

Our education mission: To motivate and influence all who have the desire to learn about personal finances.

Introduction

The next time you walk into a local bank or financial institution, look for free financial education materials . The sad truth is, very few financial institutions offer basic financial education for their clients or customers. This is not to say, "The finance industry is not educating people." Many of the major financial institutions do offer financial education, but is it accessible for everyone, or just for their clients?

Wouldn't it be nice to walk into a bank and have a free book available on **budgeting**, or how to reduce and **manage your personal debt**, and **improve your credit score**? Other great topics often overlooked, such as managing your **credit report**, should be offered as well.

Many parents would like help teaching their children about money, and how to save more and spend less.

This is one of our passions at Academy of Financial Literacy**.** We have a desire to make personal finance education available for everyone who has the desire to learn.

Introduction

The statistics for personal bankruptcies in America are alarming. Over **1.5** million consumers filed in 2004. The trend of personal bankruptcies follows our economic cycles. In 2009 we will eclipse 1.4 million personal bankruptcies.

Our young adults in college use the "*carpe diem*" invocation: "Live for the moment and don't worry about the future." Over **100,000** young adults **under** the age of **25** file for bankruptcy each year. **Student loan debt** financially **cripples** thousands of college graduates; many do not have a plan to pay for their **unmanageable** debt load.

A high percentage of divorces in America can be directly linked to the mismanagement of household finances. Many couples lack the discipline to save for their future… by living within their means.

A written budget is the financial foundation that can help you succeed with your personal, and family's goals. Let us motivate and influence you to start a household budget. We can show you how to save and teach you financial balance. This book has many keys that will help you succeed with your financial future.

Contents

	Page
Purpose and Goals. . . . . Understand "why" you should start a written budget	**8—11**
Budgeting Benefits. . . . . Understanding the benefits is key	**12—13**
Starting a Budget . . . . Learn how to implement a budget	**14—17**
Using a Budget. . . . . By using your budget, you will begin achieving your financial and personal goals	**18—21**
Budget Reconciliation.	**22**
Children and a Budget. . . . . Your financial legacy	**24—27**
Sample Budget Sheet. . . . . An example of a "one-page Budget Sheet"	**28—29**
Savings. . . . . Savings accounts that must be in place to help you succeed with your household finances	**30—35**
Building Wealth. . . . . A budget is your plan for building future wealth	**36—38**

Contents

	Page
Managing Debt. . . . . A budget is your plan for building future wealth	**39—67**
Debt To Income Ratios. . . . . Useful formulas to evaluate financial stress	**42—44**
Debt Snowball. . . . . A simple debt repayment plan	**45**
Debt Collectors. . . . . Learn your legal rights	**49—50**
Managing a Credit Card. . . . . The proper use of a credit card	**51—53**
Credit Counseling	**59—60**
Debt Settlement.	**61—62**
Consequences of Paying Late. . . . . Learn what may happen if you ignore your debts	**63—64**
Debt Management Key Points.	**65—67**
Recommended Reading list.	**69**

Purpose and Goals

This is your starting point. You must put your **purpose and goals *in writing.*** What is your purpose for saving money? What is your purpose for tracking your expenses? Why create a written budget? What do you want to accomplish?

Do you think about your purpose and goals? If you simply want to make ends meet each month, this is a goal. Everyone should have a purpose, which is linked to their goals.

A **short-term** financial goal is one year or less. You can have goals with shorter terms, but after one year the goal becomes a ***mid-to-long-term*** goal.

Be passionate about your goals! Be sure to put your goals in writing. Don't be shy about telling others about your goals.

Goals will help you with money management. Without **purpose and goals**, many just spend money without a reason. Are you spending without a reason?

Goals should be a part of everything we do in our life. Goals can help you **succeed** with your **needs**, plus put you closer to your **wants**.

Purpose and Goals

In many cases, the **plan** to achieve your goals is as important as the goal itself. **Example:** It's January and my goal is to save $**10,000** for a down payment on a house, by December of this year. I will use a monthly written budget sheet to see where I can reduce my monthly **expenses**. I will put my money in high-interest savings or checking accounts, and each paycheck I will chart my savings goals. (There are banks paying higher APY in high-yielding checking accounts.) I will reduce, or eliminate dining out. I will reduce my vacation spending this year and find ways to earn extra money, such as a weekend, or evening job.

Making **sacrifices,** such as forgoing short-term pleasures for a year, is accepting **responsibility** to achieve goals. Be **aggressive, passionate** and driven about your goals. Map your steps with a **written budget**, then turn your goals into reality. Don't become discouraged if you have setbacks. So what if it takes an extra month or two to achieve your goals! Take pride in each accomplishment, and share your goals with others. They will be inspired by your successes. When you find goals you're passionate about, sacrifices become much easier.

Purpose and Goals

It can't be stated enough to put your goals in writing. First, put **three goals in writing,** regardless of the time frame. They can be short or **long-term goals**.
Basic Examples:

1. I will have **1.5 million** dollars in cash when I plan to retire at age **65,** and own my primary residence. I am **27** years from this goal, and my monthly budget (Spending Plan) is my map for planning and charting this goal achievement.

2. I will pay for my children's **college education.** This will take **$100,000** and will need to be available in 15 years. I plan to use several college savings accounts to achieve this goal.

3. I plan to **increase my income** by **$50,000** per - year during the next **24 months, by starting** my own business in retail internet sales. My plan is to use my skills and talents I have acquired. This will require I put a business plan in writing.

Be very specific! - much more specific than these examples. Each one of these goals should take a page or more in details. Be very specific with **dollar amounts**, **dates**, and **timeframe**.

Purpose and Goals

Be sure to examine and re-examine each goal. Your goals must provoke positive emotions. They must get you excited and give you a burning desire to achieve your goals.

For each long-term goal, you will need to have **short-term** goals of **one year** or less. These will be linked to your primary goal. This will help you achieve your main goal. For instance, in the retirement example, you would need to start an investment plan. Within your investment plan, you will have specific goals. Your budget will help you implement and achieve each of these goals.

Each goal will take on a life of its own. Don't let anyone tell you your goals are unrealistic! There are too many examples of people dreaming big and succeeding. Their reality became **even bigger** than their original goal - larger than they ever imagined.

Do not listen to people who say your goals are unrealistic… dream big and succeed.

The reason you must be passionate about your goals is simple: "Your drive and passion will keep your budget alive for the rest of your life."

Budgeting Benefits

A budget is a document, or set of documents, used to record both actual and projected income and expenditures over a period of time.

The definition of a "budget" gives a good understanding of its purpose. We can draw from this description that a budget looks into our **current** and **future financial** picture. Not only can a budget predict our weekly, monthly, and annual expenses, but our income and savings as well.

A budget is our **financial roadmap**. We can chart our financial future with a simple written budget sheet. A budget can become a personal habit so we can **control** every dollar we accumulate. We can also create a plan to save for our financial and personal goals.

A budget does only what we tell it to do. A budget can reduce financial stress, by giving you a clear financial picture, and more control over your finances.

A budget should be a household habit that involves the entire family. Many studies have shown that most people learn about budging at home.

Budgeting Benefits

The benefits of a budget are easy to list, so take note and prepare to get started.

- By using a household budget, financial stress can be reduced by providing a financial plan.
- Budgeting promotes family values through financial decisions that relate to a family's goals and what is important to each of you.
- Budgeting is your map and plan to save money, by showing you areas you can reduce spending and increase savings to achieve your goals.
- Budgeting can help a miser find financial balance and a spender save. Remember, financial balance is healthy and an important goal.
- Budgeting will help you build a "**Revolving Savings**" and "**Safety Savings"** account in case of an emergency, such as a job loss, divorce, or a medical setback.
- Budgeting is your plan to a vacation, new home, or retirement. Also, it will provide motivation to improve your income through savings and goals achievement.

Starting A Budget

The starting point is to simply get started! You must know what to **expect** from your budget and **why** you are going to budget.

You must be willing to **make changes** in your life when dealing with your finances. If you continue to do the same things and expect different results, well, this **is insanity**. Be prepared to modify your harmful and waste -full habits for useful new ones.

Things to consider changing:

- You don't need a new vehicle every three years. Buy used and save thousands.
- Reduce spending on food and eating at restaurants… lattes and entertainment must be budgeted.
- "Brown Bag" lunches and take your lunch to work.
- Spend less on gifts for your friends - they will like you just the same.

Starting A Budget

You will begin to see many areas where you can reduce spending and change your financial situation.

Understanding the difference between Needs and Wants.

Example: A "**need"** is something that is necessary to keep the family and household working properly, such as **new tires for the car, or a utility bill**. **Examples of a "want"** would be a new **big screen television, or** new, brand-name **golf clubs**.

We need to identify some **wants**, as this is an area where many people struggle. We would like to think this is common sense, but it is not; people prove this each day by spending more than they earn, many times on unnecessary wants.

Examples of unnecessary wants
that can break a household budget:

- Unplanned vacation with friends
- Anything customized on your vehicle
- Television cable beyond the basic
- Telephone caller ID, call waiting, camera phone
- iPod, Bluetooth, computer games, pool service, lawn service, over-gifting
- Latest electronic device to show off

Starting A Budget

Let's start by first looking at what you have done with your past finances. This will give you a starting point to build your future budget.

1. Gather your previous **bank statements** and **checkbook records** from the previous three months.

2. You will need all your sources of income. Gather documents such as paycheck stubs, SSI checks, child support received, dividend checks, etc.

3. If your **income** varies from week-to-week and month-to-month, **average** your income by totaling your monthly income for the past three months,**….** then divide by three. This is a good number to start with.

4. We use a simple one-page budget sheet that emphasizes goals. For most of us, keeping our budgeting process **simple is a recipe for success**.

5. Start by filling in the **income** columns and enter the total. Use your **Net Income. (**This is your actual take home pay after **taxes** and other **deductions** have been taken out of your paycheck.)

Starting A Budget

6. Next is your **Fixed Expenses**. These are expenses that do not change from month-to-month, but are stable for at least six months. The budget sheet will categorize these items.

7. Flexible Expenses are items that you spend a different amount on each month. For most households, your largest **Flexible Expense** is **groceries**. Most people are surprised at how much they really spend on groceries each month.

8. Be sure to assign your money to a **category** and put all your money to work. If you find you have **discretionary money (this is the money left after you subtract all expenses from your income)** put this towards increasing your **savings, then reducing debts.**

9. If your budget is not in balance due to a shortage of money, then you will need to make adjustments; the easiest targets are **Flexible Expenses to reduce your monthly expenses.**

10. Using the **goal side** of your budget sheet, set a target goal to reduce your **Flexible Expenses**.

Example: Your **actual** (current) monthly grocery expense is **$400**. On the goal side of your budget sheet, set a monthly target goal of **$370**, **then apply** the **$30** cost reduction to your credit card debt.

"Making sacrifices to achieve your goals takes maturity and discipline."

Using this process will reduce expenses within your monthly budget. If you are truly passionate about **goals**, you will find areas in your monthly budget to reduce **expenses**. Making sacrifices to achieve your goals will take **maturity** and **discipline**.

Be sure to customize your budget sheet for you and your household. Add items to your budget sheet that pertain to your unique monthly expenses.

Examples:

- Special food for your pet snake
- Special loans owed to family members
- Special work supplies

Let's look at monthly **priorities** that must be paid without fail.

Using A Household Budget

Examples of Monthly Priorities:
Rent, mortgage, all necessary **utilities**, **groceries**, **transportation**, **Insurance**, and **secured debt**. These items must be kept current and paid before other expenses such as **unsecured debt** (**Credit Cards**) **are paid.**

If you are struggling to make ends meet with your budget each month, use these **General Guidelines** for reference:

Housing costs	**25—35%**
Groceries	**10—13%**
Transportation . . .	**2—15%**
Utilities	**5—10%**
Recreation	**5—10%**
Savings	**10—20%**
Debts.	**5—10%**
Charities.	**10%**
Medical	**5—10%**

Use your **gross income** to determine if you are within the monthly **general guidelines**.
Example: Monthly **gross income** averages **$3000**, and your rent is **$900**. So **$3000** X **30%** = **$900**, and you are within the guidelines for monthly rent.
Areas to check to see if you may be overspending include: **Transportation**, **Groceries**, and **Housing**.

Using A Household Budget

Be creative and make the budgeting process fun.

A **simple tracking system for** daily and weekly spending **expenses** is to use a 3″x 5″ (or larger) spiral notebook. Write down how much you budgeted for the week, and stick to your budget plan.

Example: Label a page for **groceries**. Your monthly grocery budget is **$400**. You go grocery shopping week-one and **spend $75,** so ***deduct*** **$75** from your **$400** on the grocery page. Now you have **$325** remaining to spend on groceries this month. You can do this for most of your **flexible expenses,** such as:

- **Groceries**
- **Gasoline**
- **Clothing**
- **Entertainment**
- **Spending money**
- **Gifts**

This is an easy way to keep track of your expenses each week. Remember to plan for future expenses, such as… **annual memberships**, **auto license tabs**, and bi-annual **auto insurance**.

Using A Household Budget

Keeping your budget process **simple**.

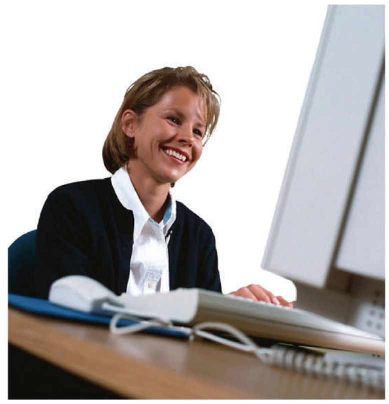
Many financial counselors will have you complete a complex four-page budget (**spending plan**). This is not a simple process. For most of us, this can take the fun, and **simplicity**, out of budgeting.

These budgets will ask for **gross income** (before taxes and other deductions), then ask for all of your tax information and other deductions. To these counselors I ask, "What is the purpose of this exercise?" We are not looking for a **Net Worth analysis** but a **simple spending plan**. When we do a Net Worth analysis, we need more details and more financial forms for a complete financial picture.

Banks will not cash your Gross income.
Only Net Income is usable for paying bills,
Savings, and goal attainment.

Succeeding with your monthly budget takes **consistency** and **discipline**. Use your budget on a regular basis. Review it twice per-week, and make sure you're on track by looking at your financial accounts daily. A one-page budget sheet, as shown in this book, will help you succeed with your monthly spending plan and **financial goals**.

On-line Bill Pay



Most banks offer free online bill payment service. This is a much safer and less-costly method of bill payment and a very easy way to pay bills.

Advantages:

- No postage or envelopes to purchase
- Safety: No worry that your mail will be taken or lost from a mail drop box
- Convenience of paying bills anytime, day or night from anywhere
- Easy to set up automatic repeat bill payment
- A good method to track your expenses
- Review account balance daily if desired

Using on-line banking is a great way to track your monthly expenses. When **reconciling** your monthly budget, simply review your online checking statement. A very easy system to track all monthly expenses.

Budget Reconciliation

When **reconciling** your budget, you're checking to see if you stayed on track with your financial spending plan.

When you start a monthly budget, you are looking into your financial **future**. At the end of the month you want to double check to see if your budget **balanced,** and you used good numbers. You do this by looking at your checkbook register, or **online banking statement**. Take each expense category, and total how much you spent for each budgeting category for the month. If you were **tracking your expenses** each week, you should be in balance.

Example: In the Groceries category, you budgeted **$400** for the month and tracked your spending each week. At the end of the month, you add all your **grocery expenses** and see you actually spent **$420.** Not bad, but you missed your goal. You will want to find where you spent the extra **$20**. **W**as it planned? Did you subtract **$20** from another category, such as **clothing expenses**? If you did, then your budget balanced. You do this for each category to see if your budget **balanced** for the month. Moving money from one **flexible expense** category to another can help balance your monthly budget. This is being **financially savvy**.

Children and a Budget

Teaching your children the family's values about money is a family legacy

A household budget should be shared with the family. Some parents may feel uncomfortable showing their children the household income.

There are ways around this. You can explain about expenses by going through the budget sheet and budget process with the family. You can exclude the income, and explain this is private information.

Others will have no problem with this process, so showing income will not be an issue. Involving the entire family will increase the excitement and interest about saving and achieving the family's goals. Discuss financial issues with your children, and allow them to listen to the decision making process.

Children and a Budget

Example: Your family is planning and saving for a trip to Australia in two years, as a **Long-term goal.** (**A short-term goal** is one year or less.) By using a household budget, you involve each member of the family. Each can contribute savings towards this planned vacation. You can also give incentives for money-saving ideas.

Example: Your teenager decides to help by watching the younger children, allowing you to save money on a sitter and apply this savings to your vacation goal.

Teenagers involved in the budgeting process will learn to successfully manage their own money and set savings goals.

The payoff can be big. Children with money-management skills are less likely to have financial problems as young adults.

Parents need to take responsibility for their children's financial education, by teaching sound money habits. **Eighty five percent** of children learn about money from their parents. The teaching process can be easy. Take advantage of this, and be a good example. Remember to use leverage with allowance, and get their attention.

Children and a Budget

Allow your teenagers the responsibility of the household budget for a month. Let them make the purchasing decisions, and help them as they learn the process. Or have your teenagers plan their own financial spending goals by using a budget.

Since each situation is different, your challenge may be in getting your teenagers more involved with the budgeting process. Make an effort, because your family's financial legacy may depend on it.

Make sure you show your teenager the monthly bills. Show the cost of household amenities, such as the television cable, internet, and electricity bill, compared to an hour of work or their allowance.

When financial times are tight, and the household budget is challenging to balance, **involve** the entire family. Ask for ideas that can reduce monthly expenses. Review household luxuries that can be reduced or eliminated.

Today, many households are over-spending money on items that are not priorities.

Example: Computer games, iPod downloads, or other monthly expenses associated with the internet. These are non-essential items.

Children and a Budget

Camera phones: Is it a phone or a camera? These are just a few examples of money pits, that can upset a **tight** household budget.

Teaching your children to save and plan (wait for an item, instead of **impulse buying**) can be priceless. Items may go on sale at a later date, or a wanted item may fall out of favor with your child.

Giving an allowance to children is a great teaching tool. There are many parenting advantages to giving your children an allowance. *Leverage* is a big reason, and of course giving them the chance to manage their own finances is key.

Use the allowance **leverage** to your advantage. This is an added incentive for your children to follow the house rules and save money, by following their own budget. This should be the house rules of receiving an allowance.

Example: An allowance for your five-year-old may be **$3** per week. You can link chores to the money, so the child has the thrill of earning, saving, and spending money. One idea is to separate the money into five categories.

Children and a Budget

Example for a five year old:

1. Spending money
2. Short-term goals. (It's Important to start goal achievement early.)
3. Long-term goals, such as college or a bike
4. Giving to charity or church
5. Holiday gift-giving

This example is very general. Be specific with your children.

Make sure they are involved in each step of the budget and saving process. Keep them excited about their goals.

For children, a **short-term goal** would be 2—6 months. There are varying points of view on linking money to chores. There are chores each family member must do, and other chores can be linked to payment. Adults work for money, so there should be a connection between work and money.

Monthly Take Home Pay		
(Net Income) Take Home Pay		
Child Support / Alimony Received		
Other Income, Bonuses		
Total Net Income	**$4,500.00**	
FIXED EXPENSES	**Constant for Six Months**	
Mortgage / Rent	**$1,300.00**	
Insurance: Auto, Home, Life	**$140.00**	
Long Term Savings, IRA, 401(k)		
Emergency Savings	**$300/Goal $15,000**	
Church Donations		
Legal / Child Support / Alimony		
Car Payment	**$300.00**	
Total Fixed Expenses	**$2,040.00**	
FLEXIBLE EXPENSES	**Change Month To Month**	
Groceries: Household Items, Pet Food	**$470.00**	
Cell Phone / Telephone	**$150.00**	
Electricity	**$150.00**	
Water/ Gas / Heat / Utility	**$75.00**	
Bundle Package / Cable TV	**$120.00**	
Internet Service	**Included**	
Transportation: Gas, Oil Changes, Car Maintenance	**$150.00**	
Credit Card Payment	**$60.00**	
Other Unsecured Debt Payment Student loan, Bank loan		
Childcare / Daycare	**$400.00**	
Prescriptions, Medical / Dental	**$25 Copay**	
Pet Care, Postage, Office Supplies	**$10.00**	
Clothing / Dry Cleaning	**$40.00**	
Memberships / Contributions		
Home Maintenance		
Entertainment, Dinning Out Hobbies, Latte's, Movies	**$300.00**	
Revolving Savings	**$1000 Goal**	
Savings - College		
Spending Money: Hair, Smokes	**$50.00**	
Gifts / Holidays / Other		
Total Fixed Expenses	**$2,040.00**	
Total Flexible Expenses	**$2,000.00**	
TOTAL EXPENSES	**$4,040.00**	
Subtract Expenses from Income	***$460.00***	

Budget Goals	Budget Goals	
(Net Income) Take Home Pay		
Child Support / Alimony		
Other Income, Bonuses		
Total Income		
FIXED EXPENSES	**Constant for Six Months**	**Monthly Savings**
Mortgage / Rent		
Insurance: Auto, Home, Life		
Long Term Savings, IRA, 401(k)		
Emergency Savings		
Church Donations		
Child Support / Alimony		
Car Payment		
Total Fixed Expenses		
FLEXIBLE EXPENSES	**Reduce Flexible Expenses**	
Groceries: Household Items, Pet	**$420**	**$50**
Cell Phone / Telephone		
Electricity		
Gas / Heat / Utility		
Bundle Package / Cable TV		
Internet Service		
Transportation: Gas, Oil Changes, Car Maintenance		
Credit Card Payment		
Other Unsecured Debt Payment Student loan, Bank loan		
Childcare / Daycare		
Medical / Dental		
Pet, Postage, Office Supplies		
Clothing / Dry Cleaning		
Memberships / Contributions		
Home Maintenance		
Entertainment, Dinning Out Latte's, Hobbies, Movies	**$250**	**$50**
Revolving Savings		
Savings - College		
Spending Money: Hair, Smokes		
Gifts / Holidays / Other		
Total Fixed Expenses		
Total Flexible Expenses		
TOTAL EXPENSES		
Subtract Expenses from Income	***Monthly Savings***	**$100**

Money Saving Ideas

- Many financial institutions offer high-interest savings accounts. Many have zero fees, with no minimum balance requirements. Some pay **1%-5% Annual Percent Yield (APY) during good economic times.** This can be a great account for **Safety Savings money**.

- Clipping coupons and buying store brands. When done properly, a household can save over **$1,000** per year.

- Carrying **unmanageable debt** is very expensive. Use a **Debt Snowball** to reduce your debt and **save thousands each year**.

- Raise the deductible limits on your home and auto insurance. Make sure you have this money in your **safety savings** account. This can save you **$50 to $100** each month on insurance premiums.

- Stay within your written budget for all budget expense categories. Look for ways to reduce spending in your **flexible expense** categories.

- **W-4 tax form**: Adjust your exemptions to improve your interest-earning savings accounts.

Money Saving Ideas

Don't count on winning the lottery. Even if you did hit the "big one" a written budget is a must.

Invest your lottery ticket money into a high-yield savings account. The money saved will be a nice account after a few years.

Money Saving Ideas

Take time to be organized, and establish a good recordkeeping system; this will save you time and help with your money management. Make sure to keep tax records and important documents in a safe place; consider a fireproof safe for these documents.

- Brown bag lunch can save **$50** to **$60** per month.
- Bring your coffee from home. Not buying take-out can save **$20** to **$30** per month, or more.
- Never pay full price for any product where there is a commissioned sales person. Always negotiate a better price.
- When purchasing a commuter car for work, buy a used vehicle, with a four or six-cylinder engine, to save on gasoline and insurance costs.
- A home purchase is huge. Make sure you maintain your **FICO credit score above 750**. You will **save hundreds** each month. A higher credit score means lower monthly house payments.
- Save big on auto insurance with a **high credit score, clean driving record,** and **life insurance** for a **multi-line discount**.

Savings Ratio

Using a monthly spending plan and implementing a consistent **savings plan** is a great way to improve your net worth. Of course this can only be accomplished if you reduce your debt load also.

Monthly Savings (1) $ **$550**

Monthly Net Income (After Taxes) (2) $ **$4500**

Divide monthly savings by net income to find your monthly Savings Ratio.

Example:

(1) **$550** Divide (2) **$4500** X 100 = Savings Ratio **12.2** %

12.2% Savings Ratio is acceptable. Your savings ratio is a **general guideline**. There will be years this percentage will increase or decrease, depending on your household economy. A **Household economy** will cycle, the same as the American economy. In years where your household income is up and debt is low, be sure to **save** and **plan** for years when the household income is down. Your goal is to find **financial balance.**

Savings Accounts

Let's look at your **savings accounts**. Savings are a big part of achieving your personal and family's financial goals.

Emergency (**safety**) **savings** can be a financial life - saver in cases such as**,** job loss, medical setback, etc. For many households, the general rule of having a **"Safety" savings** account of **four-to-six months' gross** income will apply. **Gross income** is your income before taxes and other deductions are taken from your pay.

There are exceptions to the four-to-six month rule. For instance, those who are self employed, and those who have income based on **special, or specific talents**, will want to build a larger **"Safety" savings** account. Up to **one-year** of income for loss of job or medical emergencies is recommended.

This **emergency savings** account should be in a liquid (easy access) account. This account should earn higher interest than a passbook savings account. There are many high interest savings accounts paying **1—4%,** and, **depending on the economy, you may do better**. It usually takes several years to build an emergency savings account, but it is important to have one.

Savings Accounts

A Revolving Savings Account (Top Priority)

A **revolving savings** account is, for many, an unfamiliar term. *Simply put…. a revolving savings account helps balance a household budget when monthly unexpected financial surprises arise.* This savings account will be a **passbook savings account**; usually at the same bank or credit union **linked to your checking account.**

Example: You did the household budget for the upcoming month. Your budget is in balance, and your teenager just remembered to tell you, he needs supplies for an upcoming science fair project, costing about **$200.** If the cost had been **$50,** you could have moved money from the entertainment or clothing budget categories. Instead, use your "**Revolving Savings Account**." Move the **$200** to the checking account to cover the added expense. Your budget will stay in balance without taking on additional debt.

Keep **20%** of your **monthly gross** income in your **revolving savings** account. Income **$3,200** X **.20** = **$640.** *This is your first line of defense from using a credit card for unexpected expenses*. <u>Build a **Revolving Savings** account before you build an Emergency account.</u>

Building Wealth Using a Budget

A budget is a great opportunity to start building wealth. There are several steps you must complete before you can start building wealth.

- Build a **revolving savings** account of **20%** of your monthly **gross income**.
- Have a **debt-reduction plan**, such as a **debt snowball**, to pay off debt.
- Change the **way you think** about your financial situation and financial goals. **Maturity** and **discipline** are required to build wealth. If you continue to accumulate **unmanageable debt**, by spending beyond your means, true financial wealth will elude you until you make changes.
- Create a savings plan using a budget to accumulate an **emergency savings**… **in case of job loss or medical setback**. This account needs to be large enough to last your family from four months, to a year. Each family is different. A single parent with children would need a much larger **safety savings**.

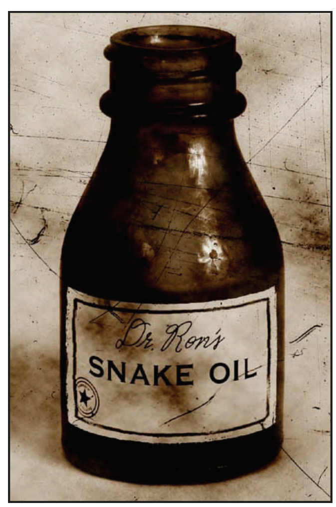
Building wealth by saving, investing and leveraging your money is a life-long process.

Building Wealth Using a Budget

Your household budget can be used to accomplish many **financial goals**. Accumulating wealth takes **knowledge** and **patience**. The best method is to put your money into **several** financial investment vehicles, not just one. This can ensure you will never lose all your finances in one investment setback.

Take the time to learn about **economic cycles** and **investment cycles**. Understanding these two**,** may help "you" build financial wealth.

Those selling a **"magic investment system"** are only product sales people, not true financial educators. If their magic system really worked, would they sell it to us? They would be too busy using their system to make millions.



Slowly and steadily, save and invest for the long-run. Budget and save **15—20%** of take home pay, dividing this into several **savings** and **investment** portfolios. Be **consistent** and **persistent** to achieve your financial goals.

Building Wealth Using a Budget

Plan for your future, and set financial goals that will allow you to retire from work in comfort and safety. A household budget can be used to plan and save millions of dollars for your future.

As stated in the goals section, **dream big**… **save big**. Don't allow **debt** to detour you from reaching your financial goals. Retirement should be one of your long-term savings goals. Learn the power of **compounding interest**, **dividends**, and **leverage**.

Set a goal of saving at least **10%** each paycheck. Once you see your savings grow, your goals become reality. You will get more excited and want to save **20%** each payday. How do you save a million dollars? One paycheck at a time. Start today and don't look back, only forward.

How do you eat an elephant? One bite at a time.

Managing Debt

We have all heard the ageless cliché: *There are two things in life that are certain—death and taxes.* For many Americans, we could add **unmanageable** debt. This debt legacy for many families continues for generations, due to lack of basic financial habits.

We can teach you how to deal with **unmanageable** debt and to reduce financial **stress**. Learning to save for your future and achieving financial goals is a sign of financial discipline and maturity.

Many married couples **start** their marriage with thoughts of saving more money and reducing their **debt**. They believe, with a second income they can eliminate their debt and save more money. They soon realize each person is spending more money than before they were married. The **reality** is, it's not how **much** money is made, but their **spending** habits that count. A high percentage of broken marriages is directly linked to money.

The old cliché, *It's not how much you earn, but how much you spend,* is true for most.

Getting motivated to make basic financial changes is easy, but maintaining a successful financial strategy over time is the true test of financial success.

Managing Debt

Managing debt is a choice, a positive **habit** that you can start at anytime in your life. Obviously, the **younger** you start, **the better** off financially you will be.

If you believe that debt is "**good debt** or **bad debt** " because this is what you have been told, let's change your thinking. Debt is not out to get you; debt has no conscience. Start thinking of debt as **manageable** or **<u>un</u>manageable**.

Here is an example of one way many people get into trouble with the "**good-debt**, **bad-debt**" belief: A home purchase has always been classified as a so -called "**good debt**." A house will never lose value, right? What do you tell people who have lost their home in foreclosure and can't sell or refinance, because their home lost value?

In a typical year, there are <u>over 1 million</u> home foreclosures in the U.S.

These people lost their homes for various reasons, such as a job loss, divorce, illness, or even a tragic accident. The bottom line: They could not *afford* the monthly mortgage payment. The home is still a home, neither good nor bad.

Managing Debt

Too many people buy more house than they can afford, which can lead to foreclosure. It is up to you to decide how much house you can afford, not the mortgage broker. In the great sub-prime home lending debacle of **2003—2007**, many mortgage brokers put people into risky loans that were more than people could afford. They did this by using ***no money down, adjustable rate interest-only mortgages***. Once interest rates started to climb, many families were forced from their homes, because they could not afford the higher monthly payment.

Let's look at some ways you can protect yourself and your family from a debt disaster. When deciding to make a major purchase, take into consideration how this purchase will affect your monthly cash flow. Again, the **general guidelines:**

- Home Mortgage **25—35%**
- Transportation **10—15%**
- Food **10—13%**
- Debt **5—10%**
- Savings **10—50%**
- Childcare **5—10%**
- Entertainment **5%**
- Clothing **5%**
- Utilities **10—15%**

Remember, if you choose to exceed these basic financial rules you will add financial stress to your life.

Debt-To-Income Ratio (Back End)

Here is a useful tool in determining your financial stress level. Do the math, and consider where you are before taking on further debt.

1. **Gross Monthly Income** (Total income, before Federal Taxes, State taxes, Social Security entitlements) 1.___$3800___
2. **Debt Payments** (Include charge cards, car payments, advance pay, loans, rent, mortgage PITI)

Monthly Expenses:

	Monthly Payments
Mortgage/Rent	$ $1200
Auto Loan	$ $350
Credit Cards	$ $250
Personal Loans	$
Student Loans	$
Insurance	$ $150
Other	$
Total	2. $1950

3. Divide line 2 by line 1, and multiply by 100
(2)__$1950__Divide(1)__$3800__X 100 = Back Ratio_51.3_%

28%-30% Some additional credit may be used.
31%-43% Fully extended, FHA/VA typical limits.
Above **43%** seriously over extended—seek help!

Debt-to-Disposable Income Ratio (Front End)

The **general guidelines** are helpful. If you find you are over budget and short on cash each month, start by looking at these percentages to see **where** you may be spending too much.

When making a home purchase, have your mortgage broker show you some **worst-case scenarios**. Plan your home purchase based on what happens if interest rates climb for the next decade. Don't lose your home because you did not plan for the future.

Example: **$3,000** monthly gross pay X **.30** = **$900** rent. For safety, keep your house payments below the **30%** limit.

Another simple, but useful, formula to use is a **Debt-to-Disposable-Income Ratio, also known as the "Front End"** formula. **T**his can be a good way to determine if you are carrying an **unmanageable** debt load.

Debt-to-Income Ratio Formula: For this formula, your "monthly debt payments" include everything **except** the **mortgage**, **rent**, **utilities**, and **taxes**. **Included** are things such as **credit card payments**, **student loans**, **auto**, **medical bills,** and loans on items such as **furniture** and **electronics** purchased.

Debt-to-Disposable Income Ratio (Front End)

Include total monthly debt payments, and divide it by your total **take-home** (**Net**) **income** - your paycheck **after** taxes and other deductions have been taken out. This will give you your **debt-to-disposable-income** ratio. What does this mean, and why should you care?

In general, creditors look at your debt-to-income ratio to see the relationship of the **amount** of debt you have, **compared** to your income. Many use this to determine if they should grant you a loan or give you credit. If your debt-to-income ratio is **below 16%,** you are considered to be in **good** financial shape.

Example:
1. Monthly take-home income is $3,000
2. Monthly debt payments are $450
3. Take $450 (monthly debt payments) divided by $3000 (take-home pay) = .15, so **15%** is your Debt-to-Income Ratio.

When your **Debt-to-Disposable-Income Ratio** gets above **17%**, a lender will view you as a **higher** risk. Use this formula, along with your percentage **general guidelines**, to keep your budget in balance and your debt **manageable**.

Debt Snowball

A Debt Reduction Plan

The following chart shows an example of all debts, listed from the smallest to biggest. First review your monthly budget sheet to make sure your **needs** and **priorities** have been paid, including your **secured debt,** such as for a car loan. Next, list your **unsecured debt** and **student loans** as in the example. Attack this debt using a Debt Snowball.

Payoff Debt #**1** first, using your discretionary money. Once #**1** is <u>paid in full</u>, **apply** the *discretionary* money to debt #**2** (along with debt #**1**'s previous minimum payment). **Continue** the process (including each paid debt's minimum) until **all** debts are paid in full. This is how a **debt snowball** works. This plan works well for many and is not **impacted** by interest rate changes.

Debt Snowball Example

	Balance	Min. payment	
1. Providian credit card	**$ 400**	**$ 25**	**Start with the smallest debt and apply the min. payment to the next debt.**
2. Target card	**$ 450**	**$ 25**	
3. Sears card	**$ 500**	**$ 30**	
4. MasterCard	**$1,200**	**$ 50**	
5. Student loan	**$6,000**	**$150**	
Total	**$8,550**	**$530**	

Warning Signs of Too Much Debt

- Living paycheck-to-paycheck without a plan
- Spending **more** than you earn
- Living on borrowed money
- Receiving 30-day late notices for late payments
- Making minimum credit card payments each month
- Receiving calls from your creditors asking for payment
- Choosing which bills to pay first, realizing that others will be paid late
- Transferring credit card balances regularly to *zero interest rate* cards
- No savings account nor contributions to a long -term savings plan
- Regularly refinancing to take equity from your home to pay off unsecured debt (credit cards)

These are warning signs that can lead to bigger problems. The first step is recognizing that you have a financial problem and that you may need help.

Managing Debt

Debts that can become a priority are **unpaid tax** debts, **child support**, **alimony, and secured debts, such an auto loan**. These are debts you **definitely** do **not** want to avoid paying, as these debts can be collected using more **aggressive** means. Make sure you learn the laws in your state with regard to these debts. Be sure to keep payments current. If you can't make a payment on time (before the due date) you must communicate with your creditors.

Staying in **denial,** continuing to **procrastinate,** will only compound your debt situation.

Are you **afraid** to get a copy of your credit reports, because you don't want to see your **true** financial situation? You must face your past.

It's common for parents to assist their adult children during financial hardships… then end-up bankrupt themselves. This is not a good plan.

Unless you make changes, you will get more of the same. Don't play the *Blame Game.* You should face up to your financial situation and take charge. **The buck stops here.** *"I am responsible for my actions,"* is the attitude you must take to help your debt situation. Maturity with discipline will help you gain control of your debt and finances.

The Cost of Over-Spending

What keeps you from paying your debts? If you have good household income and still spend more than you earn, what is your **reason**?

Are bad habits keeping you in debt, such as buying **cigarettes**, **alcohol**, **drugs**, **gambling**, car parts for your **hotrod**, too many **shoes**, or a **new** car? How much do you spend eating at **restaurants** each month? Look at the **Flexible Expenses** category on your monthly **spending plan** (Budget).

A person who smokes a pack of cigarettes each day is needlessly spending about two **thousand** dollars every year. Over a thirty year span (say from age 20—50), that is nearly **$50,000**. That's a good down payment on a house or **$150** a month towards paying off your debt. These are areas in your life that need to be addressed.

Denying that you have a problem, or joking about your spending habits, is a way of **procrastinating** and **avoiding** your problem. It takes maturity and self-discipline to seek professional help.



Managing Debt

Debt Collectors

Debt priorities, and **how** to deal with debt collectors, need to be understood. Harassment is the name of the game for debt collectors, including **daily** phone calls telling you that if you don't pay they will take your possessions, take legal action, or ruin your credit.

The ***Fair Debt Collection Practices Act*** provides consumers rights and protection from many of the debt collector's tactics. Within five days after a debt collector first contacts you, the collector must send you a notice that tells you the name of the creditor, how much you owe and what action to take if you believe you don't owe the money. Debt Collectors must **not**:

- Contact you at **unreasonable** times (before **8** a.m. and after **9** pm), unless you agree.
- Contact you at work **if** you **tell** the debt collector that your employer disapproves.

- Contact you **after** you write a letter telling them to stop, **except** to notify you that the collector plans to take a specific action.
- Contact your friends, relatives, employer or others, **except** to find out where you live and work.
- Harass you through **threats** to harm you, the use of profane language, or repeated telephone calls.
- Make any **false** statement or *claim* that you will be arrested.

If debt collectors violate **any** of these laws, make sure you inform them of their federal law violations and that you will report them to the **Federal Trade Commission**: **www.ftc.gov.** Also report the collector to your and their **State Attorney General.**
Legal actions take time, and they can **not** take your personal possessions for credit card debt or medical bills. These debts are ***unsecured*** debts, meaning the debtors have no claim to your possessions. If legal action is taken, and a judgment is placed, you could have a wage garnishment. This can happen, so ignoring the debt is **not** a good idea. It is advisable to speak with your debtors. Explain your situation, and be sure to put it in writing.

Do not pay for an unsecured debt before your essentials and basic needs have been met, such as housing, utilities, and food.

Managing A Credit Card

Three uses for a credit card

1. **Travel:** A credit card is safer to carry for travel than a debit card, cash, or personal checks. Budget ahead for your travel, so when you return from your trip, you **pay** your balance **in full**. Also, you can make payments while traveling via the Internet. Use your bank's online bill-pay system while traveling, to make sure you don't accrue interest on your credit card for travel expenses. For **short vacations** and **online** purchases, we recommend you pre-pay for the purchase. Send the money in via online banking before you charge. What a concept - **_pre_payment**.

2. **Business:** Credit cards are used by many companies for business travel expenses. Credit cards are an easy way to track purchases, with the added protection of ***stop payment*** on purchases if needed.

3. **Credit Report and Credit Score:** Using your credit card in concert with a written budget will, like the above examples, help build a good credit history. This will help maintain a good credit score and improve a poor credit score, *when used properly.*

Managing A Credit Card

The proper way to use a credit card is seldom taught. We have all seen what **unmanageable** credit card debt can do to a household's budget. Let's look at the proper way to manage a credit card.

Credit cards are a **financial tool** that, when used properly, can be an asset and benefit for you. A credit card should only be used in **concert** with a **written budget**.

Example: You have **budgeted $100** for clothing this month. The money is in your checking account, which you planned to use to purchase a pair of shoes. Instead, use your credit card, then pay your credit card bill within **15** days, or the same week. Using your credit card will show you can use credit responsibly and is one of the best ways to maintain and improve your **credit score**.

Use your credit card for **safety** and **convenience**. If a thief were to get a hold of your **debit card** and clean out your checking and overdraft protection savings account, whose money did the thief steal? "**Yours**" If the same thing happened with your **credit card**, whose money was taken? A credit card is a **bank loan**, so the bank's money was taken, not your money.

Managing A Credit Card

Federal laws for consumer protection regarding a credit card theft, say your **maximum liability** is **$50**. In the debit card example, you could have had overdraft charges also. Banks in most cases protect the consumer, but if your PIN was used in the crime, your bank may take a second look at the crime before putting temporary money into your account.

Federal limits of liability for a **debit-card**:

Notify your bank within **two days**, **$50** maximum liability. **Two days** to **sixty days, $500 maximum liability**. **Sixty days or longer,** the liability is unlimited.

Use a card with no annual nor monthly fee. Do **not** *revolve* a balance (carry a balance from month-to-month). Try not to use your credit card for emergencies. A "**safety-savings**" account is for emergencies.

A credit card **grace period** is the time period between the posting date of a trans action and the due date, within which any new credit card purchases made during the billing cycle will avoid finance charges. If your grace period is 22 days then you have 22 days after purchase before **interest** starts accruing. Interest is the **penalty** for borrowing money.

Managing A Credit Card

Example: You buy a washer and dryer with your credit card. The money is in your checking account, but you use your credit card. The set is delivered, they arrive damaged, and the retail merchant is not helping. Since you used your credit card, you can dispute payment. Your credit card company will contact the merchant to verify and generally will work on the consumer's behalf to correct the problem. Many credit card companies can help you, even months after a purchase. The only real stipulation is that the goods purchased are more than **$50** and purchased within 100 miles of your mailing address. You must first try to resolve the dispute with the retail merchant before contacting your credit card company to dispute payment.

Had you used your debit card, these options would not have been available.

Understanding Debt

Paying off a **$5,000** balance at different interest rates:

Percentage >> Mo. Payment:	10%	15%	20%
$100	5 years, 5 months	6 years, 7 months	9 years, 1 month
$200	2 years, 5 months	2 years, 7 months	2 years, 9 months
$300	1 year, 7 months	1 year, 7 months	1 year, 8 months

Interest is the **penalty** for making just the minimum payments on your credit card and other loans.

Example: For a credit card with an APR of **18%** and a **$1,200** balance, making a **4%** fixed payment will take **over two** years, and the **penalty** is an additional **$315** in interest. **Interest** is the **penalty** for borrowing money.

For a credit card with an APR of **20%** and a **$10,000** balance, making just the **4%** minimum payment will take **15** years **8** months, and the interest penalty is **$7,050**. Here's an idea: How about **pre-paying** before you charge to your credit card? A great idea for **online purchases** or **short vacations**.

Borrowing to Pay for Debt

It is **<u>not</u>** recommended, "ever," that you **borrow** from the ***equity*** in your home to pay off **unsecured** credit card **debt**. Using the equity in your home to pay off credit card debt is taking a debt that has no "security" tied to it, and turning it into a *secured* debt. The reality is, when this is done, your home is now the **security** for your prior credit card debt.

It was common for many households to use the equity from their home to pay off their unsecured debt. There are many financial advisors who have recommended this financial tactic. The mortgage industry survives on this **tactic**. The sad truth is, over **80%** of households that use their home equity to pay for credit card debt are back into worse credit card debt within two years.

The **15%** of people who do this successfully are the ones who had a financial plan. I don't want to throw the baby out with the bathwater when I say, "It is not a good idea to refinance for the purpose of paying off debt." The statistics show odds of success are against most people. Don't become a statistic.

Understanding Debt

Before you do this, ask yourself, "Am I in the **80%** or the 20%?" One way to tell is to look at your past performance in dealing with debt. Have you done anything to change your financial habits? Have you taken financial education classes? Are you mature enough to live within your means with a budget? Are you now **disciplined** enough to implement and maintain a financial plan?

These are serious financial questions that only you can answer. Do not listen to mortgage brokers when they tell you, "**You can afford this.**" They may put you into an interest only **ARM** (adjustable rate mortgage) after you informed them you plan to **stay in this home for the next twenty years**. Run, run fast, from these people. Seek financial advice from people with experience and financial certification. Be honest with yourself; if you are not going to stick to a sound financial plan, do not refinance your house to pay off credit cards. You only make the mortgage broker happy.

Example: The Brown family has $30,000 in credit card debt and other unsecured loans. They would like to eliminate their monthly debt obligations. They decide to **refinance** their home and use the **equity** from their home to pay off this debt.

Six months later, Mr. Brown, the only source of income for the family, loses his job. The family has no "**safety-savings**" account, so they use their credit cards for **living** expenses until they are maxed out again.

During their financial difficulty, they fell behind on their mortgage payments and were **forced** to **short -sell** their home before **foreclosure**. But, when they sold their home, they actually owed **more** than the sale of the home could provide and still owed the **second lien holder,** who wanted their money. With no income and falling further behind on the monthly bills, Mr. Brown decided his only option was to file for **bankruptcy**.

Credit Counseling

A **Credit Counseling Agency** is a **good option** to consider. Thousands of people have used them to pay off credit cards and other unsecured debt.

Reasons to use a **Credit Counseling Agency**:

- May be able to re-age the debts and eliminate finance charges and late fees
- Free personal finance education for the whole family
- Free educational materials
- **Answers** to many of your personal finance questions
- Most are ***non-profit*** and adhere to **strict** state and federal (**IRS**) guidelines and a code of **ethics**
- Many of the non-profit, 501(c)3s, offer a debt-management **plan** (**DMP**) that may reduce interest rates, collect one monthly payment amount to disburse to creditors, and possibly help pay off your debt sooner. Debts must be paid in five years or less.
- Federal laws require the consulting or set-up fee waived when you ask

Credit Counseling

The **credit counseling industry** offers free consumer education. In many cases, knowing your financial options may help you find a **solution** to your situation. Many people have had a very positive experience working with a Credit Counseling Agency.

For more information, here are several websites:
www.aiccca.com
www.aadmo.org
www.nfcc.org

Many of the non-profit credit counseling companies are approved as **Housing and Urban Development** (HUD) **housing counselors**. They help millions of homeowners work with their mortgage servicer on **loan modifications** and **foreclosure** issues.

Credit Counseling usually will only deal with **unsecured debt**. Most will not deal with **debt collectors**, because many debt collectors do not like to deal with the Credit Counseling Agencies.

The Federal Trade Commission has information on what to look for in a Credit Counseling Agency. Their website is www.ftc.gov.

Debt Settlement

A **Debt Settlement Company is not recommended. They** will *negotiate* a **reduced** settlement **payoff** with your creditor. The only way a debt settlement company can do this is if you **stop** paying your debts (bills). Then the creditor (credit-card company) realizes they may not get any money, so they settle for **less** than the full amount. But, when you stop paying your debt, your credit is ruined. You have now become a ***high risk*** when viewed by lenders. Your credit score falls dramatically, because you have failed to "*pay as agreed,"* per the terms of your contract.

You also need to know that if you pay less than the full debt amount, anything above **$600** saved may be taxable *income.*

Example: You owe **$8,000** on credit cards. You sign a contract with a **Debt Settlement Company**, and they tell you **not** to pay your credit card bill. The settlement company negotiates a *settlement* of **$5,000** with your credit card company, to be paid in three years or so. Here is what happens to you:

- Your FICO score (credit score) takes a significant drop, possibly **50—100** points.

Debt Settlement

- Your credit report now shows a *Settlement* for this debt.
- The **$3,000** dollars you did **not** pay may be **taxable** income as forgiven debt, so you must pay taxes on it.
- You paid a **very high fee** for this service that ruined your credit.
- In most cases, using a Debt Settlement company can be as bad as filing for **bankruptcy**.

The Debt Settlement industry has been **un-regulated** for years. The failure rate of people dropping out of a Debt Settlement plan is very high.

When doing business with *any* company that has access to your money, be sure to ask for references, and check with the **Better Business Bureau** for complaints. If you have access to the Internet, always do a **web search** using the name of the company, to see what information is reveled.

A debt settlement company is <u>not</u> recommended.

Debt Consolidation

A popular loan of choice for many with un-secured credit card debt. There are thousands of companies making promises to help eliminate your debt. Their lending standards are very low, which allows many households with already damaged credit scores to participate in their program.

Most people believe if they just had money to pay off their credit card debt everything would be fine again. This **flawed logic** is what the **Debt-Consolidation** industry wants you to believe. Borrowing money to pay for your debts is always a bad idea. Many **banks**, **credit unions** and independent financial companies will provide a debt consolidation loan. What happens in **90%** of the cases is: households will borrow the money and pay off their credit cards. Their credit card accounts are still open….guess what happens, yes, you're correct, within two years the credit cards are **maxed again**. The consolidation loan payment is still due each month, and so are the credit card payments. In many cases, these households find themselves with such unmanageable debt, they finally throw in the towel and file for bankruptcy. **We never recommend** a loan, or **debt consolidation** loan to pay off credit card debt, or any debt.

Consequences of Paying Late

Know what can happen if you decide to pay **late** or not at all:

Mortgage payments from **90—120** days late can result in foreclosure and the loss of your home.

Auto loan, 1-day late (although lenders *may* wait 60 days): Repossession, loss of car, potential for collection of unpaid debt. If your car is repossessed, the bank or the lender will sell it. If the money from the sale is *not* enough to cover the amount you owe on the vehicle, you will owe the balance. This debt may go to *collections* if you do not pay in a timely manner.

Student loans, 270 days late: Wage and Social Security garnishment, tax-refund seizure.

Credit cards, 180 days late: Account "charge-off," sent to collections.

Collection accounts (depends on the amount and the aggressiveness of the collector): Wage garnishment, property or bank account seizure.

Tax debt (depends on the amount and the aggressiveness of the collector): Wage garnishment, property or bank account seizure.

Consequences of Paying Late

Child support (depends on the amount and the aggressiveness of the collector): Lawsuit, wage garnishment, jail.

Each of these will have a negative impact on your credit report and score. Always communicate with your creditors.

Many State laws differ, so be aware of your particular state laws.

Credit Card Billing Disputes Under the Fair Credit Billing Act

- Send a letter (certified mail) to the creditor within **60** days of the postmark of the bill with the disputed charge.
- The creditor must acknowledge your letter in writing within **30** days of receiving it and conduct an investigation within **90** days. You do not have to pay the amount in dispute during the investigation.
- If there is an error, the creditor must credit your account and remove any fees.
- If the bill is correct, you must be told in writing what you owe and why. You must pay it along with any related finance charges.

Debt Management Key Points

"Keep it Simple"
A Recipe for Success

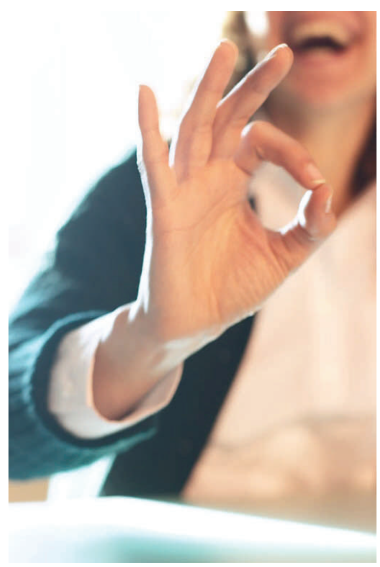
1. You must put your debt-reduction plan in action **now**, **today**.

2. Take simple steps to **start.** Write a simple budget. (Review our sample budget in this book).

3. Write your debts on a piece of paper in order of smallest to largest.

4. Make a plan to start your debt snowball **today** by paying off your smallest debt **first**.

5. If you are overwhelmed, consider calling a non-profit credit counseling agency for help.



6. You must start your **safety-savings** and **revolving savings** accounts **ASAP**. This can help protect you and your family in case of an emergency.

Debt Management Key Points

Debt has been a way of life for many. Sometimes parents pass this legacy of debt to their children, due to their own lack of financial education.

Many states have strengthened personal finance education in schools. However, our high school seniors are still **failing** yearly personal finance literacy tests. (Jump$tart Coalition for Personal Finance Literacy)

It is important for parents to understand the **impact** of personal finance education *in the home* and **not** rely on the school system to teach the basics of money management. Parents must set a good example.

Using a simple written budget and learning to ***pay yourself first*** (*save* **10—20%** of your income) are **basics** that are **so** easy to **teach**. Continue to be a positive example for your children.

A high percentage of young adults leave college with **unmanageable** amounts of debt. **Credit cards, auto loans,** and **student loans** have put a financial burden on our society.

Debt Management Key Points

This can be a heavy financial burden when starting a new career or family. Personal finances are not difficult. It does however take **maturity** and **discipline** to achieve your **purpose and goals** in life. Set goals and maintain sound financial habits. ***"Keep it Simple, Silly."***

Throughout this book, *nowhere did we say you must live totally debt free*. Debt is unavoidable and should be thought of as a financial **tool**. A mortgage is debt, an insurance contract *can* be debt, and a car loan is debt. These **contracts** are a way of life and should be ***managed***. Your debt should to be managed in a way it does **not** affect your health nor the well-being of your family.

When used properly, debt can create **wealth**, such as when you leverage real-estate for financial gain. A well-planned student loan is debt that can help create future wealth through improved knowledge and skill enhancement.

If you choose to **procrastinate**, you may be one of the thousands of Americans living in debt and with limited income at retirement. The average social security check is $**1,000** per month, and for many, this is not enough to pay the bills each month. Set a plan into action as soon as possible.

Closing Statement

Financial literacy has been around for hundreds of years. For many, this information is something new. Many households have never implemented a written budget. Many have never considered the impact **financial education** could have in their household.

Whichever financial plan you decide to implement, keep it simple; this will make it much easier to repeat and maintain. A successful financial plan is a **simple**, **repeatable** plan that can be taught to others.

If you need professional help, there are financial counselors you can speak with. Look for financial counselors who are trained to deal with debt, credit, credit score, and know how to build a simple **spending plan** (**budget**) you can understand and follow. A good professional designation to look for is an **Accredited Financial Counselor** (AFC), as these are some of the best consumer financial counselors available. A good professional financial counselor will make your finances easy to understand.

You can find one in your area by going to the www.AFCPE.org website. The key is, **start today**.

Recommended Reading

Think Like A Winner
Dr. Walter Doyle Staples

The Richest Man In Babylon
George S. Clason

Living on a Budget
Peter J. Sander

Deal with Your Debt
Liz Pulliam Weston

The Millionaire Next Door
Thomas J. Stanley
William Danko

Ready Set Retire
&
Buckets of Money
Raymond Lucia

Notes