Create your own Debt Elimination Plan

A Simple, Step-by-Step Workbook for everyone.

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To Whom it may concern;

For two years while I was finishing college, I worked as an enrollment counselor for a debt management firm. I spent my time dealing with people who were severely over-extended, and on the verge of bankruptcy. We took over their payments for them, we closed their credit cards so they couldn't keep spending, then we negotiated lower interest rates and payments with their creditors. Our plan had people out of debt within 4 years – and it was exciting.

The company I worked for charged a hefty fee to enroll in this service, as well as a substantial monthly service fee. It was an expensive service, especially for someone who was in financial trouble! But to their clients, it was worth it, and in most cases, very necessary!

I enjoyed the job, but often times I found myself telling people how to get themselves out of debt without our help! It's just not that complicated, and I believed that most people could reasonably do it on their own.

Since joining the mortgage industry in 2000, I have continued to teach these principles to my clients. It is amazing how quickly consumer debt can be eliminated when sound principles of debt elimination are combined with the saving power of a mortgage refinance! In my business, when we apply savings to debt wisely, it's very common to see someone's debt completely wiped out in one year or less.

If you're in need of debt elimination, I hope you'll take 20 minutes to run through this workbook. It's offered for free to anyone who wants it.

The benefits of being debt free are impossible to measure. Aside from the peace-of-mind you will have, your credit score will improve dramatically. (Did you know that even if you've never been late, your high balances are killing your credit score?) With a better credit score, your payments will go down on everyday things like homes, cars, and even insurance.

If you really want to get aggressive – include your mortgage in you debt elimination plan. Depending on your debt load, you could have your home paid off in less than 1/3 of the time it would take otherwise.

Does this seem too good to be true? That's why I've given you the workbook. See for yourself – start with step one on the next page.

I wish you luck in you efforts to get out of debt.

Sincerely,

Nelson Barss
President/Principal Lending Mgr.
Old Providence Mortgage Co.

Step 1: List your Debts & Establish your payoff priorities.

Dig into your records and pull out statements for every debt you have. If you don't have statements, you should get as much accurate information as possible by calling the creditor, and if that's not possible, use your best estimate. Leave the Payment Ratio and Priority Columns until last, then follow the instructions on the right.

Creditor Name	Balance	Payment	Interest Rate	Payment-to-Balance Ratio	Payoff Priority
Totals			N/A	N/A	N/A

To Calculate Payment-to-Balance ratio: Divide:

$$\frac{\text{Payment}}{\text{Balance}}$$

To Determine the Payoff Priority: Once you have calculated the payment ratio for each debt, find the smallest ratio – that's priority #1, the next smallest one is #2, and so on.

Note: If you have any accounts with interest rates over 18%, you need to try to transfer that balance, or call the creditor to negotiate a lower rate. (Often times just threatening to transfer the balance will score you a more reasonable rate. But make sure you do this before you close any lines of credit or you probably won't get very far.) Keep these accounts in order on the priority chart until the transfer is done, the re-evaluate your priority rankings.

Step 2: Get Serious: Understand the ground rules of the "Power Payment" method.

Many people plan to pay off debts by sending a little extra to each creditor every month. There is a better way! You may have heard of this before, it is often called the "power payment" method, or the "snowball" method. In simple terms, you pay as much as possible to one account until it is paid, then you take everything you were paying to that account, and add it to the minimum payment you were paying on the next account on the priority list.

It's simple, and not that painful, but there are a couple of rules to this game that <u>must</u> be followed in order for it to work:

<u>Ground Rules</u>

1. **You must stop using these accounts**. If you don't think you have the discipline, then cut up the cards. If even that won't work, call the creditor and ask them to CLOSE your account. (Note: in order to keep your credit score as high as possible, it's a good idea to leave your 2 of OLDEST accounts open…but the rule remains, you must stop using them.)

2. **Understand right now that whatever amount of money you are paying toward your debts will remain fixed until the very last debt in your plan is paid off**. As your balances decrease, the credit card companies will lower the minimum payments, but if your debt payments today are $450, then they need to stay at $450 (or more) until the debt is gone.

If you don't feel like you can live without spending on your credit cards, you should look closely at the "increasing your power payment" information in the next step. There are multiple tips for freeing up cash and changing your budget. If you want to get out of debt you must find a way to stop spending on credit. Most of us just need discipline, but some of us need to make major changes in our debt structure and in our lifestyle. These sacrifices become comfortable in a few months, and trust me, when the debt is paid off, you'll be glad to have made the sacrifice. It also helps to remember that these sacrifices are temporary.

Step 3: Budget Cuts: Establish the largest Power Payment possible.

Ok, it's time to examine your spending habits. How much can you free up to apply toward the debt elimination plan? For some people, refinancing their mortgages or cars will do the trick, others need to make minor lifestyle changes, and still others need major lifestyle changes.

Below are some ideas that many of my clients have used to make the biggest power payment possible. If your power payment is not at least $100, dig deep to find a way to get it there. I would suggest that many people can build a power payment of $300 - $500 if they were really serious about debt elimination.

Initial Power Payment Calculation

Total Net Household Income	
Total Monthly Debt Payments	
Monthly Budget Expenses	
Subtraction Total:	

Instructions
Basically we're looking for how much of your monthly income you have left over after paying all of the minimum payments in your life. If this number is positive, you already have the makings of s strong power payment. If it comes out negative, you need to really focus on the ideas below as well as your own ideas for creating cash flow.

Ideas to increase your Power Payment

Items	My Savings Estimate	Your Savings Estimate
Go camping instead of expensive vacations	$Hundreds	
Sell your car and buy a less expensive one	$Hundreds	
Take a part time job or work overtime	$Hundreds	
Re-structure/Refinance debt (car, house, cc's)	$Hundreds	
Rake lunch to work instead of going out	$100	
Reduce cell phone plan or get rid of phone	$50	
Reduce cable/satellite package or cancel service	$50-$80	
Email rather than call long distance friends/relatives	$40-$60	
Watch sports on TV rather than buy tickets	$40-$100	
Reduce meals at restaurants by 2 dinners per mo.	$40-$100	
Clip coupons/shop sales/buy generic groceries/drugs	$40-$100	
Reduce thermostat in winter, increase in summer	$15	
Change Ins. Co./ask about discounts/raise deductible	$35-$65	
Shop on-line for big purchases (ebay/yahoo, etc.)	$20-$100	
Get books from library rather than buying them	$20	
Find a cheaper internet service	$20	
Give home-made gifts rather than store bought	$20-$40	
Borrower tools, other items rather than buying them	$20-$40	
Learn to mend clothes rather than buy new ones.	$20-$40	
Ride bus to work rather than drive – save on gas	$20	
Rent movies rather than go to theater	$15-$45	

Instructions
Select the items that could help you put more toward your power payment, and total up the "actual savings" column to know how much you can add to your power payment.

I've left the last 5 rows blank for you to brainstorm your own ideas. Remember, these sacrifices are temporary…you can have them back when you can "really" afford them…after you're debt free.

Step 4: Estimate Your Completion Date.

So how long will all of this take? Mostly it depends on how much you're willing to sacrifice in order to build your power payment. Use the steps below to estimate the completion date. If it's too far away, you might want to look harder at step 3.

Creditor	Balance	Min. Payment	Payoff Priority	New Payment	Payoff Time (mo.'s)
Totals:			n/a	n/a	

Instructions:
Step 1
For the first 4 columns, copy your debts from the chart in step 1 to this chart. List them in order with priority #1 on top.

Step 2
The new payment for the first debt is its own min. payment, plus the power payment you calculated in step 3.

Step 3
To figure payoff time, divide:

$$\frac{\text{Balance}}{\text{New Payment}}$$

Your answer is the number of months to pay this debt off.

Step 4
Now fill in the "new payment" for the 2nd priority debt by adding its minimum to the "new payment" you calculated for debt #1. Repeat steps 3 & 4 for each debt as you "snowball" your power payment down the list of priorities.

This is the number of months you will need to complete the program.

Completion Date:

Step 5: Put the Plan into Action: Important steps to take <u>every time you get paid</u>.

When you sit down to pay your bills, who gets paid first? If you're paying yourself first, great! Next should come the debt payments, then the monthly bills for utilities and services. Only after you have paid all bills *including your power payment*, can you decide how much money you have left over for luxuries.

This sounds obvious, but many of us do the exact opposite. Have you ever gotten a pay check and then gone on a three day spending spree, feeling like "I can afford that, and that, and that….and all of that too!" When you finally sit down to pay things like the car payment, you realize you really didn't have the money to buy these things, you find a way to manage the few bills that <u>must</u> be paid this period, and then starve until pay day?

That is the pattern for most people who barely make it "paycheck to paycheck. This is how most people get into debt. It's amazing how a little dedication to pay the bills <u>on pay-day</u>

<u>When you pay your bills, I suggest you follow this process:</u>

1. **You should sit down ON EVERY PAY DAY to pay the bills.** This is not as hard as it sounds. It's actually pleasant because you still have money to pay the bills. In my opinion, this is the most important step to spending within your means. Here's one more tip: budgeting is mostly about looking at your money as often as possible to know where you stand. This allows you to pace yourself. If you find yourself saying "I *think* I have enough in the checking account to cover this." You should hear a voice ringing in my head. "look more often." If balancing a checkbook is too time consuming, at least look online at your account, or do a balance check at an ATM every few days. You always need to know where you stand!
2. **You should pay yourself (your savings account) first.** At this point, you may only be able to afford $20 for savings, but do it. As soon as your debt gets paid off the power payment (or at least part of it) can start going to savings and investments.
3. **Pay the bills before you decide how much spending cash you have.** Try to spread your bills out between the first and middle of the month. Pay the cars at one time, and the house at another time, but whatever you do, don't go out spending until you have spent 20 minutes writing out the important checks and you know how much is left to play with.
4. **Separate your spending money!** If you find yourself spending too much money every time, decide at the beginning how much you can spend, then take it out in cash, or transfer it to a separate "spending" account.

Step 6: Victory! What next?

Take a look at the "new payment" at the bottom of your chart in step 4. When this plan is complete, you will have to decide what to do with all of that extra money each month!

I would guess that once you have completed the program, you'll want to give yourself back some of the luxuries you sacrificed in order to reach your goal of becoming debt free. I hope you will enjoy these items more knowing you can really afford them now.

But don't get so carried away spending all of that extra cash flow just yet. I ESPECIALLY hope you won't go out and get a new debt with new monthly payments – that would be tragic. I suggest you make it your goal to "pay as you go." Pay for things as you buy them.   Pay off any credit card balances every month. With this new cash flow, and some of that financial discipline that you developed through this program, you should be able to do that.

I also strongly suggest that you enlist the services of a qualified financial advisor. He or she will help you begin to invest this money and to realize the power of compounding interest. If you don't have a good financial advisor in mind, please call me. I can refer you to a number of good advisors that I have worked with over the years.

<u>A good advisor will help you to:</u>

- Increase your emergency savings to make sure you stay out of debt for good!
- Make sure your insurance needs are met to help you protect yourself, your family, and your income.
- Save money for your children's education, wedding, or other needs.
- Build a working plan to meet your retirement goals, including paying off your mortgage.

I also hope you will call me to tell me your story, and I hope you will tell everyone you know about this plan. Please feel free to make copies of it and give it to friends and family. This is information that everyone should know.