How To Get Out Of Debt

&

Use Credit Wisely

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Debt – What is it?

Debt, as defined by Webster's New World Dictionary, is something owed to another or, the condition of owing something. A person can be in debt to another with no money involved, i.e., "Thank you for that favor – I forever be in your ***debt.***"

However, generally we refer to debt as a liability that an individual is responsible for. Therefore, it reduces your net worth or total money.

(Assets – Liabilities = Net Worth)

Basically, when an individual wants to purchase goods or services, but lacks the money, it is necessary to borrow it from someone with an agreement to repay it within a specified time period. This will usually be a bank or financial institution, but it could be a relative, or the seller of the product, etc.

Usually, there is a fee for the service of using other people's money (OPM), and this fee is called interest. Thus, we are really repaying more than the amount of the original loan.

Often people will extend "credit" to those they feel will be responsible for repaying the debt. In our society today, it is very common for people to receive large amounts of credit from various institutions and businesses, and it is very easy to get into debt beyond our ability to repay.

As a result of overspending and accumulating excessive debt, millions Of Americans are experiencing financial crises in their lives. This course is Designed to help those who have already accumulated excessive debt to the Point of serious credit problems, and to help others avoid getting into that situation.

Chapter 1

Familiar Terms Used in Describing the Principles of Debt Reduction

Principal

A capital sum placed at interest, due as a debt, or used as a fund. The amount of money that is borrowed.

Interest or Finance Charge

The percentage of the principal on an annual basis that is paid for the use of money borrowed from another. Interest is the fee a person is charged for using another's money.

Credit

An amount of money placed at a person's disposal by a bank, something entrusted to another on loan, an amount of money made available for your control by a bank or retail merchant.

Revolving Credit

Access to a continuous fixed credit line. As an individual makes, or begins to make repayments on credit used, that amount is then available to reuse. Most credit cards allow the user revolving access to a set credit limit.

Credit Card

A card authorizing purchases on credit, these cards allow you to borrow up to a set limit, your credit limit. Conditions for repayment are flexible, allowing the borrower to pay them back at their own pace. Only a minimum amount is due every month.

Charge Card

Like a credit card, a charge card allows the user to make purchases on credit. Generally, all purchases made during a specified time need to be paid in full within 30 days.

Loans

Money lent with interest.

Collateral

An asset, something of resalable or immediate cash value, used as a guarantee against a loan.

Debt

Something owed to another, using credit and the condition of owing (debt) may be used interchangeably at times.

Secured Debt

Loans that are backed or guaranteed by property or assets that you own. Secured debts are loans for automobiles, homes, boats and other real property. When the borrower is unable to make the loan payments, the property can be repossessed or foreclosed. Many banks will allow you to borrow money using a savings account as collateral against the loan.

Unsecured Debt

Loans that don't require any assets to guarantee or back them. These loans are given to individuals who present as a good credit risk and promise (full faith and credit) to pay the loan as agreed.

Now that we have a better understanding of some Very common financial terms, let's investigate two of these very powerful terms in greater depth:

CREDIT and DEBT

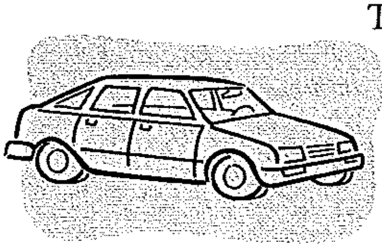
Chapter 2

Getting Credit & Getting Into Debt!!!

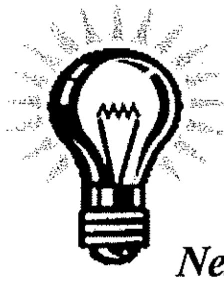
In this chapter, we will examine some of the functions of debt in our economy. We will look at many reasons, some right and some wrong, for using credit in your everyday life, and the purpose that credit serves in today's economy.

Let's look at some of the most common reasons why people get into debt. Or, said another way, lets look at the reasons that consumers are using credit far more often today, than ever before.

When people need to buy something and do not have the money, they borrow or finance the purchase today, and plan on paying for it tomorrow. Using credit, consumers are able to make purchases when they don't have the cash, or when they don't want to pay for the entire purchase at one time. This can be extremely beneficial to consumers, as it allows us to make purchases and pay for them as a part of our monthly living expenses, rather than having to save up in advance to make purchases.



This was once only available to the wealthy, now access to a credit line is readily available to most Americans. In fact, over 80% of the American adult populations have credit cards. Additionally, over94% of adult Americans will purchase an automobile using some form of credit at some point in their lives. As consumers, we can take advantage of the credit to make almost any purchase. Practically every retail outfit in the world will honor Visa and MasterCard. For those who don't a private charge card is likely to be available.



Thought of the Day:

Next time you are in a supermarket, department store, or at a gas station, count the number people who pay for their purchases with cash or check, and count the number of people who pay by using credit card. Many people would be surprised to learn that over 50% of retail purchases are made by credit cards. This is in complete contrast to how business took place as recently as the 1960's and 1970's.

Not surprising, credit card companies are soliciting to younger adolescents, as high school and junior college catalogs are filled with credit card applications offering credit to teenagers who may not have ever held a job. Establishing credit has become easier than ever before and consumers are using credit to make purchases at a rate of 8 times greater than in 1970.

Why has it become so easy? to obtain credit?

Having credit available to make purchases allows consumers to purchase impulsively. I'm sure you have noticed the banners and signs in department stores that offer the shopper access to instant credit. Instant credit allows consumers to purchase items immediately without the thinking or contemplating that may have taken place if one needed to save up for, or deplete their checking account to make the same purchase. This allows the consumer to take advantage of discounts for any purchases made that day. Consequently this leads to higher revenues for manufactures and for retail department stores.

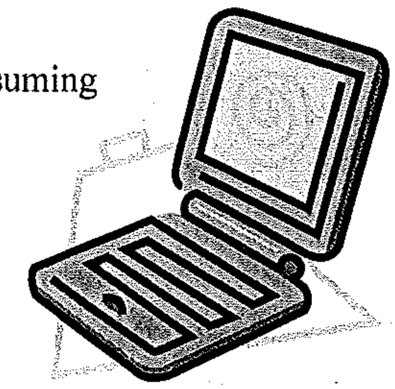
In addition to the profit that a company will make by selling a product, offering financing can be an additional source of revenue for the department store, bank, or credit card company.

For example, If a consumer wanted to purchase a new computer retailing at $2000.00, they may have two choices.

Consider the Following:

Choice 1: Assuming that the consumer has the money, he or she can pay cash. Total Price: $2000.00

Choice 2: The consumer does not have the money and elects to purchase the computer using his or her credit card with 19% interest. Assuming that the customer makes a monthly payment of 2% per month, roughly $43.00, it will take him or her seven years to pay off the debt at a total cost of $3,612.00. Factor in any additional fees for late charges and the cost of the computer would substantially increase. When the computer is finally paid for, it will probably be obsolete.



The credit card company would make at least $1612.00 from a $2000.00 dollar investment. Oh, but wait, the credit card company makes money on both sides of the deal. The credit card company reimburses the merchant only 95%-97% of the original purchase price. The merchant is also charged a fee for accepting payment in the form of a credit card. From the preceding example, the credit card company would pay the department store between $1900.00 and $1940.00 for your $2000.00 purchase.

As you can see, extending credit to consumers can generate healthy profits for the lenders, manufactures, and merchants. It is a win-win-win situation. The consumer is able to purchase and use a computer, the merchant makes a profit on the sale of the computer, the manufacturer makes a profit from the sale if the computer, and the lender makes a profit from the finance charge.

Does this mean credit can be good for the economy?

When consumers are spending money, they are also creating jobs. When an individual purchases a computer, jobs are created as: Workers are needed to engineer, design, manufacture, transport, sell, and repair that computer. Additionally, factories need to be built, which creates jobs for construction workers, architects and laborers. These additional jobs create more income, which allows more money to be pumped into the economy. So, when credit is extended to consumers, it gives a boost to the economy this in turn benefits all members of that economy.

For these and many other reasons, it is not hard to understand how using credit can be a powerful tool for today's consumer.

If so, then why do people get into so much trouble with credit?

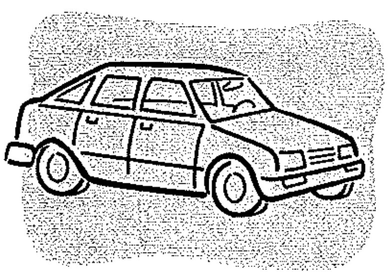
As we have seen, access to credit can be an incredible tool in an individual's financial arsenal. However, it can also be a source of significant grief for those who abuse it and become over extended. Some individuals establish excellent credit ratings and use credit to their advantage, when needed. Others, however, begin using credit and quickly realize that their debt becomes out of control as they spiral deeper and deeper into uncontrollable spending and debt.

In upcoming sections, we will attempt to explain the causes of uncontrollable debt, but first, lets take a look at the different types of debt.

As we will demonstrate, there are three different kinds of debting: good reasons, sensible reasons, and problematic reasons for using credit or for getting into debt.

What are some *Good Reasons* for using credit?

When making large purchases such as buying a home, car, or financing an education, the cost is so substantial that saving in advance would often be difficult, if not impossible. For example, purchasing a reliable used automobile can cost as much as $5,000.00 - $6,000.00. If car loans were not available, a person might have to save for 2 – 3 years



to pay for this vehicle. However, getting to and from a job can be quite challenging if you don't have your own reliable transportation. Taking out a loan to purchase a vehicle will allow the borrower to utilize their vehicle to make money, i.e., getting to and from work.

The same type of principle applies when purchasing a home. If a family was required to save the entire cost of a home prior to purchasing one, they might be forced to save for over 15 to 20 years before they have enough money to pay cash for a home. When they are finally able to afford the home,

the children may be grown up and living in another state. In that case, that huge four bedroom house would no longer be necessary.

Rule of Thumb:

Anytime that going into debt will allow you to make money for yourself, or allow you to make a purchase that increases in value, or at a substantially discounted price, then using credit to make the purchase is likely to be a good reason.

Financing a college education is another practical or good reason for going into debt. Going to college for four years to obtain a Bachelor Degree can often cost between $30,000 – $80,000. If a student were unable to acquire a loan to finance his or her education, he or she may be saving for a very long time without the benefit of a larger income that a higher education can provide.

Other Reasons Using Credit may Make Sense

At times, we as individuals like to take advantage of the opportunity to "Play Now, and Pay Later". This may mean taking out a loan for a much needed vacation, or purchasing a new TV because the reception on your set is deteriorating. Provided that you don't carry any substantial debt, or that you will have no problems meeting your expenses and bills with the additional debt, it may be reasonable to assume additional debt.

Make a List of Some Examples Where You Have Used Credit for Good Reasons:

1.______________________________________

2.______________________________________

3.______________________________________

4.______________________________________

5.______________________________________

When Does "Good" Debt Turn into "Bad" Debt?

Going into debt can easily become problematic if we fail to understand its purpose, or when we begin to misuse it. Generally, individuals who misuse credit, use it as an extension to their regular paychecks. These individuals are using credit as extra spending money, and are not considering the consequences of their spending. Often people will purchase $500.00 - $1000.00 using credit cards, while making only the minimum $20.00 monthly payment to that particular card. They quickly reach their credit limit and realize that their spending habits must change. However, because they have enjoyed their newly acquired spending habits, and would prefer to continue these habits, they apply for an additional credit card, continue their spending habit, and make the minimum payments on both credit cards. Again, they quickly reach the credit limit on their new card and repeat the process. Credit card companies may automatically increase your limit if you are making your minimum payments on time.

When asked about their spending over the past month, these problematic debtors can only account for 1/3 to 1/2 of their spending. Most of the purchases were for unnecessary leisure or recreational expenses. After a few months, they realize the amount of their debt and begin to experience many of the signs or symptoms of uncontrollable and unmanageable debt.

When making monthly debt payments in addition to regular living expenses put you into the red each month, your debting habits have become problematic and you may be heading doe a financial crash quickly.

Chapter 3

Where Has All My Money Gone?

In this chapter, we will help you to evaluate your spending habits, and begin to see the areas of spending you could eliminate or modify to improve your financial situation in the future. We will also discuss what it means to "budget" your money to help you eliminate some of the most common reasons why people go into "out-of-control" debt.

Take the Time to Evaluate Your Own Spending Habits

If you are like most Americans, it may seem hard to track just exactly where all of your money goes every month. Most can account for rent/ mortgage, car payments, insurance, utility bills, grocery bills, and credit card payments. However, for most people, that only accounts for 60% - 70% of our income. So where does all the rest of the money go?

Well, lets take a look at tracking your income and expenses every month. This will give you a good idea of your spending habits and allow you to discover where change may be possible. Many people may be afraid of looking at where their money goes. Others might find it to be a tedious endeavor. The fact remains that knowing how you spend your money is critical to financial success. Examining your spending habits will allow you to change them, spend less, and begin to invest the difference.

Track Your Income and Expenses for One Month

This is a must for anyone hoping to change the future of their financial situation. It can be a simple process for some people, and for others, it may be an almost impossible task. You can simplify it by following several easy steps:

1. ***Going back to the last full month, gather pay stubs, bank or deposit statements, or business receipts. Include any income that was generated through any means, such as rental property, interest, regularly occurring sales or side jobs, etc. Do not include such items as the income from an occasional garage sale as this is not regular monthly income.***

2. ***If income from some sources varies from month to month, then take an average of that income for the past several months.***

3. ***On a spread sheet such as the one included in this chapter, write down your total income, after taxes, for one month.***

4. ***Now use your checkbook and any other sources you can find to List all your expenses over the past month. Some expenses are obvious and will be easy to track, such as rent/mortgage payments, car payments, utility and phone bills, credit card payments, etc. Others, such as gas and grocery store receipts are more difficult to track. You may need to conscientiously spend one month saving and setting aside all of the receipts from all of your purchases. Lunches, entertainment, parking, snacks, miscellaneous items such as clothing and gifts, and others must also be included in this tracking procedure.***

5. ***If some of these expenses, such as clothing or gift expenses are not regular expenses, then "guesstimate" an average amount to include each month that will cover these things when they arise.***

6. ***Lastly, total the amount of all your monthly expenses and compare this figure to your monthly income.***

For most people, this rough estimate of income and expenses is all you need to clearly see that you are spending more money monthly that you are earning. You probably knew this already, however, but for some people this may come as a surprise.

Others may find that you can account for only 60-75% of your monthly income, and at this point you may be wondering, "Where did the rest of my money go?"

We tend to simply "forget" about many of the little things we purchase daily, weekly, or monthly. So much so, that these "incidentals" may add up quickly and account for 30-40% of out income without us even realizing it or giving it a second thought.

Since this can be a large part of our "budget" you can now see how taking control of this area can make a major change in our financial situation.

How Could Anyone Possibly "Lose Track" of 30 – 40% of Their Money Each Month?

If you could not account for much of last months spending, or for much of the balance on your credit cards, you are not alone. In fact, for most people, problematic debt is not built from purchasing essential items, it is usually built through consumers buying impulsively. Impulsive shopping includes unnecessary purchases made on the spur of the moment. These purchases are often rationalized with common excuses including, "I got a great deal on this", "I have always wanted one", and "I'll just pay it off next month."

Many people like to stop as a social activity. People go shopping when it is cold and raining, or when they have an afternoon to fill. In fact, indoor shopping centers were created for that specific purpose. While we are in the mall, different items may catch our eyes and we impulsively purchase things that we would never buy if we had to pay cash for them. The credit card has helped to make all of this possible.

Successful sales people understand that consumers make many needless purchases impulsively. Have you ever heard the phrase, "What would it take for you to take this home today?", or "If you purchase this item today, we will give it to you an additional savings of 30%."

Many sales managers are willing to lower, bargain and bring down the prices of major purchases as an incentive for the customer to purchase the item immediately. They understand the power of impulse buying and realize that if the customer leaves the store, they are likely to decide not to make the purchase.

What's So Bad About Impulse Shopping?

Impulsive shopping accounts for over ½ of the retail purchases made in America today. Likewise, because this shopping is done on the spur of the moment, few people compare their purchases for quality and price. Not surprisingly, we end up spending about 3 times more money than we had planned to spend on any given shopping trip. Because it is so easy to shop impulsively when one does not have to pay for purchases with cash, building substantial debt can happen quickly.

MONTHLY INCOME & EXPENSE

GROSS INCOME PER MONTH		**8. Entertainment**	______
Salary	______	Baby Sitters	______
Commissions	______	Vacation	______
Bonuses	______	Other	______
Others	______	Total	______
Total	______		______
LESS		**9. Clothing**	______
1. Taxes	______	**10. Savings**	______
2. Charitable Gifts	______	**11. Medical Expense**	______
NET SPENDING INCOME		Doctor	______
3. Housing	______	Dentist	______
Mortgage (rent)	______	Other	______
Insurance	______	Total	______
Taxes	______	**12. Miscellaneous**	______
Electricity	______	Toiletry	______
Gas	______	Beauty	______
Water	______	Laundry	______
Telephone	______	Lunches	______
Maintenance	______	Subscriptions	______
Other	______	Gifts	______
Total	______	Cash	______
4. Food	______	Other	______
5. Automobile(s)		Total	______
Payments	______	**13. School/Child Care**	______
Insurances	______	Tuition	______
License/Taxes	______	Materials	______
Maint./Repair	______	Transportation	______
Total	______	Day Care	______
6. Insurance		Total	______
Life	______	**14. Investments**	______
Health	______		______
Other	______	**Total Expenses**	______
Total	______		______
7. DEBTS		**INCOME VS EXPENSES**	______
Credit Cards	______	**Net Spendable Income**	______
Loans	______		______
Other	______	**Less Expense**	______
Total	______	***Total***	______

Track Expenditures Here

Before beginning to track your expenditures on the following page, study the "example" chart on this page to see how the tracking works. Then make a "master copy" of the chart on page 21 before you write on it. Make additional copies for future use. Then use one copy of this chart to document your own weekly expenditures as we have shown you on the "example" chart on this page.

Weekly Summary Example

December 3 - 9

	SUN.	MON.	TUES.	WED.	THURS.	FRI.	SAT.	TOTAL
Groceries			$27.00					**$ 27.00**
Dining Out	$ 5.50	$16.65	$ 8.50	$ 7.50	$ 8.50			**$ 46.65**
Fast Food						$ 4.50		**$ 4.50**
Entertainment					$18.00		$ 5.00	**$ 23.00**
Laundry							$ 8.00	**$ 8.00**
Gasoline			$19.00					**$ 19.00**
Parking				$ 3.00	$ 3.00			**$ 6.00**
Snacks	$ 4.00	$ 4.50		$ 3.50	$ 5.00	$ 3.50	$ 1.00	**$ 21.50**
Hair Cuts/Beauty						$46.00		**$ 46.00**
Misc.	$ 3.00	$ 3.00	$ 4.89	$ 1.50	$ 4.00			**$ 16.39**
TOTAL	**$12.50**	**$24.15**	**$59.39**	**$15.50**	**$38.50**	**$54.00**	**$14.00**	**$218.04**

(Make Copies of This Page Before Writing on it)

WEEKLY SPENDING RECORD

Week of ____________________

ITEM	SUN.	MON.	TUES.	WED.	THURS.	FRI.	SAT.
TOTAL							

Chapter 4

How Do I Know if my Debt is OUT OF CONTROL?

Now that you have a better understanding of your own personal spending habits, you must determine how much of a problem your debt may have become. Some of you may be very uncomfortable with your current spending and debting habits and realize that you have a problem.

Before beginning this chapter, you may want to take some time to analyze the "miscellaneous" items you listed as expenditures on your weekly spending record. If many of these items were unplanned, and particularly if they are things you really could have done without at this time, consider curtailing those "miscellaneous" types of impulse spending in the future. You will find that this could save you hundreds of dollars each month.

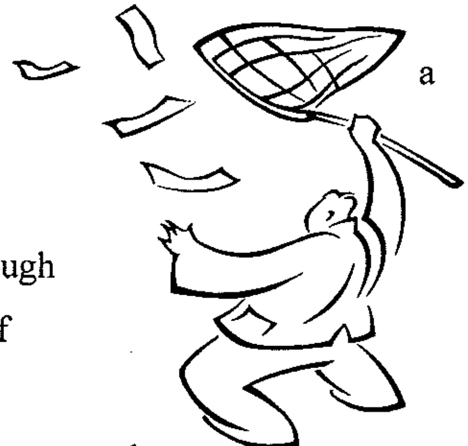
In this chapter, you can use the checklist provided to help you determine just how much of a debt problem you have. The checklist describes some of the most common warning signs of problematic debt.

- You start to realize that there is more ***month*** left at the end of the ***money***. You just fast forward into the next month and float those checks.
- You previously paid cash for most items, primarily the impulsive items and now you can nor afford to have them. But you still do not stop the purchasing madness!
- You frequently ask friends for just a few dollars to hold you over until tomorrow because you didn't have a chance to get to the bank.
- You reach your cash advance limit on one of your credit cards to make the monthly payment on another credit card.
- You hold many credit cards and you use the excuse that they all have different interest rates so it is important to keep them.
- You keep your checking account unbalanced so that you truly never know the extent of the damage.
- You continue to pay only the minimums and at least feel that you are paying your bills.
- You are post dating checks.
- You apply for new loans before the old ones are paid off.
- You have trouble making your house payment.
- You worry about money constantly.

- You split your bills into two payments (half one month and half the next month).
- To make ends meet you are working two jobs.
- You have applied for credit and were turned down.
- You have put off all maintenance activities from visiting your dentist to painting your house because you can not afford it "right now".
- Creditors are calling you all the time.
- You are bouncing checks.
- You are leaving your mail unopened.
- You are borrowing from friends frequently.
- You are taking money from savings when you should not.

If any of these situations are familiar to you, you may be one of the million of Americans who is a problematic debtor.

So, What's the Problem?



I pay my bills on time so how could I have a problem with debt? That sounds like a legitimate argument. You are paying all of your bills and making monthly expense payments on time. However, there is not enough money at the end of the month for any type of savings program. Some people may call this living paycheck to paycheck. Suppose for a moment that an unexpected emergency arises. You need two thousand dollars to replace the furnace in your home. Can you get the loan? Will this additional loan expense cause you to spend more than you earn every month? What would happen to you if you suddenly went into work to find out that your company was closing in exactly two weeks? If you had a problem with debt this could lead to a devastating financial disaster.

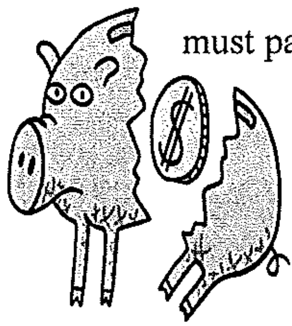
Lets Find Out if Your Debt Rate is at an Acceptable Ratio

Most financial experts believe that consumers who are spending more than 20% of their after-tax income on non-mortgage debt are dangerously overburdened.

To find out what your debt ratio is you need to add up all of your monthly non-mortgage loan credit card payments and then divide the total by your monthly net income. If your debt ratio is above 20% you will need to take immediate action to reduce your debt. Lets look at an example.

Meet Mike

Mike earns $2500.00 per month after taxes. He has a car loan of $400.00 per month and owes $6000.00 to credit card companies on which he



must pay a minimum of $500.00 per month. Add $400.00 and $500.00 dollars. This $900.00 monthly debt payment is 36% of his monthly income. This places Mike in a dangerously high debt level. With the addition of his $1000.00 monthly housing bills Mike is above 75% fixed monthly expenditures. He will probably need professional help.

FINDING YOUR DEBT RATE

1. List all of your auto loans, school loan personal loans, and credit cards. Do not enter your mortgage or your rent.
2. Determine your minimum monthly payment for each account.
3. Add up all of the payments.
4. Divide your monthly take-home pay into your average monthly debt. This answer will be your Percentage of Debt.

Using the next chart compare your debt rate to determine the severity of your debt problem.

DEBT RATIO CHART

10%	You are probably a good credit manager.
15%	No cause for alarm at this time, but you should evaluate your spending and attempt to bring it closer to 10%.
20%	You have a problem with debt and should immediately begin at working to reduce your debt.
25%+	Extremely problematic debt. You may be in jeopardy of losing your home or automobile. You need to seek professional help.

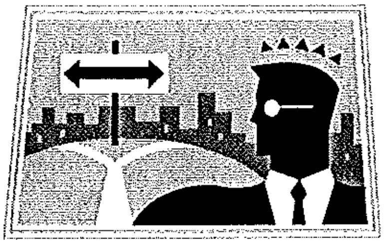
If you have determined that you have a severe problem with debt, don't panic. The first step in solving a problem is always your ability to admit that you have a problem. Rather then letting the debt continue to control your life, you will be taking the first steps to controlling your debt.

The process of getting into debt was a slow one and did not happen overnight. Consequently, repairing the damage will not happen overnight. The good news is that you have taken the first step towards repair!

Chapter 5

Creating Your Personal Spending Plan

A personal spending plan, PSP for short, is another important tool that is designed to assist you in becoming debt free. It is one of the most effective strategies available and is based on the principles of goal setting and evaluation. Just as we set educational goals, career goals, and financial goals, we create a spending plan and take steps necessary to accomplish our monthly spending goals. As with any goal, we take action towards completion, evaluate the situation to see if our approach is working, and change and redirect as necessary to remain on target. When we reach our goal, we again evaluate our new situation, and begin to set new and additional goals. The same is true for our personal spending plan. In this next chapter, we will focus on creating an effective spending plan that will be designed to increase with your happiness and fulfillment as its number one objective. Remember, like any goal, your PSP will change and grow as your situation does.



GOALS:

If you don't know where you're going, any road will take you there!

(Make copies of the chart on page 30, then use it to create your Personal Spending Plan following these directions)

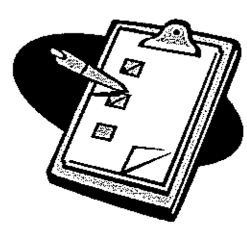
Completing Your First PSP

Begin by listing your total monthly net income, (after taxes) on the top of the page. Because the goal of this program is to assist you in eliminating your debt, the author assumes that each student has a goal of spending less money than they earn each month. Therefore, your net income should be a highly visible ceiling that is considered when planning your spending each month.

Your awareness of last months spending is also very critical to planning your next month's spending. To begin completing your PSP, carefully consider the total amount of money that you spent in each category last month. This is your starting point. Evaluate one category at a time, and ask yourself the following questions:

1. Is this a fixed, or a variable expense? If the expense is variable, proceed to the next question. If the expense is fixed, write the expense in the planned box on your PSP for that category.

2. Decide if your spending in this area was too high, appropriate, or unusually low for the month.

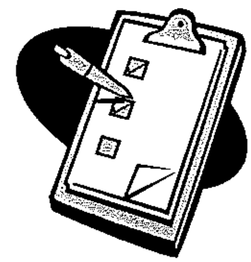


PERSONAL SPENDING PLAN

Spending Record Month of ______________ 20 ________

WEEK	Net Income						
	1	2	3	4	ACTUAL	PLANNED	DIFFERENCE
BUSES/SUBWAYS							
CAR/INSURANCE							
CELL TELEPHONE							
CHILD SUPPORT							
CLOTHES							
CONTRIBUTIONS							
DEBT REPAYMENT							
ELECTRICITY							
ENTERTAINMENT							
FAST FOOD							
GAS/WATER							
GROCERIES							
HOUSE FURNISHINGS							
HOUSE SUPPLIES							
LAUNDRY							
MASTER CARD							
MEDICAL							
MISCELLANEOUS							
PARKING							
PERSONAL CARE							
RENT/MORTGAGE							
RESTRAURANTS							
SEARS							
SNACKS							
STUDENT LOAN							
TELEPHONE							
VISA 1							
VISA 2							
TOTALS							

3. When your spending in a category was to high, decide how much you want to spend in that category next month, and enter that amount in the PLANNED box of your PSP for that category.



4. Continue this process for all categories and decide on your PLANNED spending for each. In some categories, you may even decide to spend more money next month.

When you have entered a figure into the PLANNED box for each category, total all of your PLANNED expenditures and compare to your monthly net income. If your PLANNED expenditures total exceed your monthly net income, you must reconsider each variable expense and reduce until your total PLANNED spending is equal to or lower than your net income.

Looking at Jasmine's monthly income statement on page 13 we can see that she spent $180 on vending machine and in-between meal snacks. This was in addition to her expense for fast food, dining, and any lunches. Jasmine considered this expense to be shockingly high and decided to reduce this expense to $90 per month on snacks. Jasmine understood that this allowed her to spend $3 per day on snacks and she felt that this was acceptable. Although she cut this expense in half, Jasmine realized that she would not particularly miss those extra sodas, ice cream, and chips from the vending machines. She also decided to purchase these snacks in bulk and bring them to work with her. After the first month, Jasmine realized that she was actually able to enjoy more snacks and sodas at less than half the amount she was previously spending.

Time to Evaluate

At the end of the month, using your monthly spending log, record your actual expenses for each category in the ACTUAL column on your PSP. Next, total your ACTUAL column and compare this to your Net Income.

How did you do?
Were you successful in spending less money this month than you earned?

Was there money left over at the end of the month?

Next or each category, compare your ACTUAL expense to your PLANNED expenses. How well did your ACTUAL spending compare to your PLANNED spending. Compute the difference, and record in the DIFFERENCE column. If you spent more than planned (ACTUAL > PLANNED), enter this difference as a positive number. If you spent less than planned (ACTUAL < PLANNED), enter this number as a negative (-) number. Enter zero if your planned equaled your actual spending (ACTUAL = PLANNED).

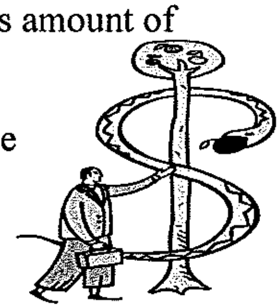
The DIFFERENCE column helps you to decide on future planning. Was your estimate for PLANNED spending too high in any category? Is there room for additional savings in this area? Or, was your estimated PLANNED spending too low for a particular category? You may want to compensate for overspending in a particular area last month by spending less next month. Whatever the case, you should adjust your PSP so that you may achieve your spending goals comfortably, while spending less money than is earned each month. As you will see in the next section, this extra money at the end of the month can be an incredibly powerful tool in helping you to eliminate your debt at an accelerated pace.

IN FULL

Chapter 6

PERSONALIZED DEBT ELIMINATION PLAN

The Personalized Debt Elimination Plan is a strategy designed to help you get out of debt and on your way to financial freedom. Using this strategy will help you to cut the amount of time necessary to pay off your debts while saving you a tremendous amount of money on interest. Although there are many steps involved in this process, it is not complex and can be followed by anyone willing to make the following commitments to becoming debt free:



1. The student agrees not to take on any additional debts. That means no credit card spending or additional loans acquired.

2. Commitment to making consistent payments every month.

3. Commitment to spending less money than you earn every month.

4. Willingness to analyze and alter your spending habits to say within your PSP.

Where Do We Start?

1. **Get organized:** *Take the time to gather all your creditor information.*

2. **Make a list:** *List each creditor beginning with the largest debt, in descending order. Use the chart on the next page. Again, you may want to make some copies of this chart prior to using the original, to have on hand. Your smallest debt will be at the bottom of the list.*

3. **Use your left over money:** *Providing you have been making all your monthly payments, while spending less than you earn, you will have money left over each month. After the end of the first month, add this left over money to the minimum monthly payment on your smallest debt. You will now be making MORE THAN the minimum payment every month until that debt has been eliminated.*

4. **Eliminate your debts:** *When your first (smallest) debt has been eliminated, add the amount of money you were paying on that debt to the minimum monthly payment on the next smallest debt in your list. This makes the monthly payment on this debt higher also. Continue to make this increased payment every month until THAT debt has also been eliminated.*

5. **Continue this action monthly:** *Each time you (eliminate) a debt, use all of the money to increase the payment on the next larger debt. Your debts will be paid off much sooner than you thought.*

Chapter 7

Rebuilding Your Credit

Once you have paid down your debts, it will be necessary to re-establish your credit. This should be one of your most important financial goals.

There is no simple or immediate way to re-establish an excellent credit rating. It took time to damage your credit, and it will take time to rebuild it. However, the process is simple, if you are willing to follow it.

Understanding Your Credit Score

Your credit rating (or score) is an indication, or a prediction, that lenders make regarding your ability or likelihood of paying back your loans or credit purchases. Lenders develop scores based on their interpretation of your credit report, your reported income, your debt ratio, and sometimes your age group.

Naturally, a credit report showing a history of on-time payments and paid-off accounts will work in your favor. A history of late missed payments and collections will make it difficult for you to get additional or new credit.

There are pros and cons to the credit scoring system. Since your credit score is based on raw numbers, there is no discrimination involved. On the other hand, scores don't take into account the consumers who have unusual or exceptional circumstances. If the score is to low, they are simply turned down, and lenders have no time to try to individualize your credit due to your difficult circumstances.

You must understand the game of credit scoring if you're going to get it to work on your behalf instead of against you.

PERSONAL DEBT ELIMINATION PLAN

DATE ______________________

LOAN OWED TO NAME & NUMBER	INTEREST AMOUNT	PAYOFF AMOUNT	PAYMENTS LEFT	MINIMUM MONTHLY PAYMENT	DUE DATE

Building Your Excellent Credit Profile

As most of you know, building good credit starts with opening a major credit card account. Having a history of making on time payments with a credit card company allows future credit issuers to recognize a pattern of consistent payments. Having a history pf "paying as agreed" accounts on your credit report can be more beneficial than having a mortgage.

"How can I begin to re-establish my credit if no one will give me a chance"

Obtaining a major credit card in your name can be difficult if you have a poor credit rating. However, by following a few simple steps, you can drastically increase your chances of getting your first or your next credit card.

1. Open a savings and checking account. Establishing a good relationship with a bank or credit union is one of the first steps in establishing a financial history. Be sure to use your checking account responsibly. Writing checks that bounce, and owing merchants for overdrafts can be very damaging to your credit rating. Be careful and record all of your transactions.

2. Pay all of your utility bills, phone bills, and cable bills on time. These companies rarely report good credit to the credit agencies, but they are likely to report any late payments or derogatory information you may incur.

3. Apply for a secured credit card, you deposit a predetermined amount of money into an account similar to a bank account. Your credit line is usually limited to your deposit amount or 1.5 times your deposit amount. Secured cards offer you the opportunity and flexibility of using a credit card, along with the convenience of making monthly payments on your account. These financial companies will usually charge interest on your balances, and usually attach account opening fees and annual account maintenance fees, but can be helpful as they will report your account history to the credit reporting agencies.

4. If your credit card was cancelled, try to reopen the account. Often paying what you owe will enable you to get your card back.

5. Inquire about a secured loan from your local bank or credit union. With these loans, you deposit a certain sum into a bank account and ask the bank to give you a loan against the money in your account. Many banks are willing to do this as they will gain interest, without incurring any risk.

6. Pay all loans, bills, and credit accounts on time, every month.

7. Keep your debt to income ratio under 20%.

8. Do not apply often for additional or new credit. Your credit file shows how many inquires have been made about you recently from credit issuers. Too many inquires in the same year will flag the credit issuer and damage your rating.

9. Stability counts too. If you've been in your current home for four years or longer, and with your current employer for five years or more, you will be viewed as a lower risk.

10. Keep your credit card balances significantly below your credit limits. Lenders will look at your spending behavior and balances when determining your credit worthiness.

11. Close all non-active accounts with zero balances.

12. Keep no more than 4 credit cards. Too many credit cards can also damage your credit score.

13. Review your credit reports on a regular basis to make sure it is accurate.

Following these simple, but important steps, will lead you on a path to building and maintaining an excellent credit rating. Although they simple, building and maintaining your credit profile requires discipline, diligence and the determination to work on your goals. Remember, credit is recognized as better than cash in many places, and more transactions are made possible through credit than ever before. Having a poor credit rating can create many obstacles and barriers that are unnecessary and disturbing. By keeping your eyes on your credit and financial goals you will soon have the stellar credit rating and financial freedom.

Chapter 8

What to do With Your New Found Money

So far, we have focused on how you got into problematic debt, and how to get yourself out of it. At some point in time, you will be ready to put your new found "wealth" to work for you in building up an accumulation for the future.

This chapter will focus on different types of investments and developing a long-term investment plan that will help to achieve your own financial goals for the future

Anyone Can Begin to Invest

The only requirement for a beginning investor is that you make a commitment to begin and then have the discipline to contribute to your investment regularly. The power of multiplication and commitment as small as $50 will grow at an exponential rate.

Take the age old story of a penny-a-day. Begin doubling just a penny a day for 31 days, and you will have accumulated over 5,000,000.00. Of course, your money is not going to double every day, but the principle is similar. Consistent contributing over a long period of time will bring about great results.

Naturally the length of time you have to invest prior to your retirement goals is a major factor in the amount you will have accumulated at that point in time. You can see by this chart that just $50/month, for 12 months/year, can compound into a considerable amount of money over time. Even if you have only a few years left to invest, SOMETHING is better than nothing.

Compound Interest Working for You

(If you invest just $50 per month or 12 payments per year)

YEARS INVESTED	INTEREST RATE			
	3%	5%	10%	12%
5	$3,232	$3,400	$3,872	$4,083
10	$6,987	$7,764	$10,242	$11,502
15	$11,349	$13,364	$20,724	$24,979
20	$16,415	$20,552	$37,968	$49,463
25	$16,415	$29,775	$66,342	$93,942
30	$29,137	$41,613	$113,024	$174,748

How Can I Know the Best Types of Investments?

Basically, there are three types of investment categories:

Stocks

Bonds

Money Market-Cash

Each has certain risks and rewards. In any of these categories, you can invest directly, with your own funds, or indirectly by pooling your money with others into a mutual fund.

Stocks:

You may purchase a share of stock, or ownership, in a company. If the company is successful and grows, the value of your stock rises. The risk is that the company may have difficulties or fail; and your stock will drop in value. You may even lose money in the stock market. A stock has no absolute value, but rather it depends on what the market is willing to pay for it on any given day. Since stocks fluctuate in value, your goal is to buy low and sell high.

With stocks, you also have the opportunity to earn dividend payments while you own the stock. With a profitable company, this can turn into a source of income for the owner of the stock.

Over time, stocks have traditionally been the best investments, and can help an investor grow capital or accumulate wealth.

Bond Investments:

When you invest bonds, you are actually loaning money to the government or a corporation. You are not purchasing ownership, however, as a bond holder, you are a creditor or lender.

Bonds usually pay interest income and there is a maturity amount specified to the investor. This is fixed income, paid on a regular basis, this can become an excellent source of income. Thus, bonds are considered to be less risky than stocks.

There are several types of bonds

U.S. Treasury Notes and Bonds represent a major source of Government Funding and are sold in amounts of $1000 and up. They have lower interest rates than corporate bonds, but represent the highest security as they are backed by the U>S> Government.

U.S. Treasury Bills are short-term securities, up to one year in length. They can be used as an interim holding place for cash. The interest you earn will be the difference between the discounted purchase price and the mature selling price. These are very safe investments.

Corporate Bonds are of two types: *Debentures,* which are backed by the good faith and credit of the corporation, and *Asset-backed* bonds which are backed by specific assets of the corporation. These are sold through brokers and usually offer a higher rate of return, because they are not as safe as government issued bonds.

Bonds have a quality rating which describes the reliability of the issues and relative risk involved. They are usually used for steady income rather than accumulation of wealth.

Money Market or Cash Investments:

These may best serve you to keep your money safe and free from shrinkage caused by inflation or market losses. They include government bonds, special bank savings programs, CD's, savings and checking accounts, and usually represent the safest investments. They may have very short or long term maturities and are considered very stable.

Mutual Funds

Popular the world over, millions invest annually in over 11,000 mutual funds available. These are the first investments that most new investors seek.

They represent a pooling of money with other investors, who share a common objective, managed by a fund manager, who has identified investments that are likely to produce results. The manager generally diversifies the portfolio with stocks, bonds, etc. Your investment gives you shares in the fund. The value of your shares can rise or fall, but they remain popular for the following reasons.

WHY ARE MUTUAL FUNDS AN ATTRACTIVE INVESTMENT?

- Beginning investors have a fund manager who will invest their money wisely.
- As convenient as using a bank, investors can make regular deposits through mail, automatic deposits, regular installment deposits, or lump sum deposits into the funds.
- Your money is automatically diversified throughout many stocks, or bonds.
- Mutual funds are liquid assets.
- Safer than owning individual stocks, but higher return than banks.
- Mutual fund companies usually can offer assistance in understanding your account.
- Many different types of funds, an investor can own many different types allowing additional diversifications of investments.

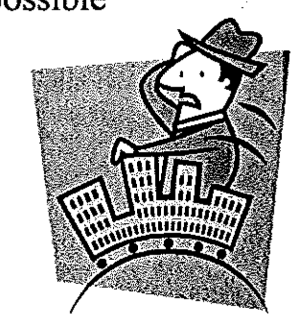
MUTUAL FUNDS, WHAT TO LOOK FOR: PERFORMANCE, RISK COSTS

First, look at the past performance of the mutual fund. If the fund has returned a consistent amount during the past 5-10 years, compare that fund to other funds. When looking at 3, 5, and 10 year averages, be aware of funds which base their high average return on 1 or 2 excellent years. Remember, you are looking for consistency.

Risk: What is this company's risk potential? Many aggressive funds may have volatile years where there was potential loss associated with the fund. If you are a long term investor, you could probably tolerate some loss in exchange for some excellent long term gains.

Costs: Many mutual funds are associated with high commissions or fees. Remember, commissions reduce your investment principle, so look for good funds without the high commissions and fees.

It is not the purpose of this volume to suggest, advise, or encourage investment in any particular stock, fund, bond, or money market instrument. This volume was intended to inform the reader of possible investment opportunities and encourage the reader to seek additional education, and information on possible investment strategies. At the end of this volume, we provide the reader with recommended books, websites and phone numbers where they may acquire additional resources and information on these topics.



Additional Considerations

Younger investors are in a better position to use the higher risk types of investments, while people with a shorter time left before retirement generally are more conservative, using investments that offer stability and security.

Most important is your willingness to commit to making regular deposits or installments into your investment. Many professional investors suggest using 5-10% of your income (such as you would put into savings) for investing for your future. Some have this money taken directly from their paychecks before it gets spent elsewhere. Whatever you decide, make it a habit.

Diversification will insure that you have the coverage necessary for steady growth.

Use compound interest by reinvesting the income generated by your investments. You could have it automatically reinvested to grow your capital.

Have patience with your investments and be prepared to weather the storm on occasion. Making emotional decisions during a market panic could cause you to have substantial losses. Keep your long term goals in mind at all times.

Appendix

Investments and Financial Resources

CNNfn	http://www.cnnfn.com/
Yahoo!Finance	http://quote.yahoo.com

FINANCIAL JOURNALS & INFORMATION

Fortune	http://cgi.pathfinder.com/fortune/
Kiplinger	http://www.kiplinger.com/

COMPANY AND STOCK INFORMATION

MSN Money Central	http://www.moneycentral.com/
StockPoint	http://www.stockpoint.com

MUTUAL FUNDS

Excite	http://quicken.excite.com/investment/mutualfunds/
Mutual Fund Investor's Center	http://www.mfea.com

DISCOUNT BROKERS

Ameritrade	http://www.ameritrade.com/
E*Trade	http://www.etrade.com
Schwab	http://www.eschwab.com

Non-Profit Investing Organizations

American Assoc. of Individual Investors	http://www.aaii.org
Natl. Assoc. of Investors Corporation	http://www.better-investing.org

Facts You Should Know About Credit Reporting

1. **Credit Accounts**: Accounts paid as agreed remain (as good credit) for up to 10 years on your credit file, from the date the account was opened. Accounts not paid as agreed remain for 7 years, and federal law mandates that they be deleted after 7 years. This time frame is from the date of the first delinquency.
2. **Collection Accounts:** Remain for 7 years, and are then removed.
3. **Public Records:** All accounts remain for 7 years from the date filed, except bankruptcies – Chapter 7 and 11 – which remain for 10 years from the date filed. Unpaid tax liens remain indefinitely. Paid tax liens remain for up to 7 years from date released.
4. **New York State Residents only:** Satisfied judgments remain 5 years from the date filed; paid collections remain 5 years from the date of last activity.
5. **California State Residents only:** Unpaid tax liens remain 10 years from date filed.

Were you wondering........?

1. Why did you turn down my request for credit? Credit information providers do not recommend that your credit application be accepted or rejected. Credit grantors make that decision based on your payment records and their own criteria.
2. Why doesn't my credit information from Equifax match that of Experian and TransUnion? Credit information providers do not share your credit data with each other. As a result, updates made to your Equifax credit file may not be reflected on reports from the other two. Not all creditors report to all three bureaus.
3. The Fair Credit Reporting Act states that everyone has a legal right to contest and dispute any and all inaccurate, erroneous, and unverifiable entries from all three of the credit reporting agencies. No one can delete derogatory credit except the credit bureaus themselves.
4. It is suggested that individuals review their credit files with each bureau at least once every six months.