Debt: Get Out and Stay Out!

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1. If you are in debt, **you've spent** more than you've earned! Duh!!
2. In order to get out of debt, you've got to **fix #1** and either increase earnings or decrease spending, or a combination of both.
3. As you seek to get out of debt, **analyze your spending habits**. How did you get into debt? You probably need to change some habits. You may want to try recording everything you spend for a month to see where your money has been going. Pay attention to small purchases like drinks, & junk food ($1 a day = $356 a year).
4. Scrutinize your **needs vs. your wants**. You must be willing to forego, or at least postpone, some of your wants, in order to be able to get out and stay out of debt.
5. **Avoid borrowing for wants**. Restrict your borrowing to needs and strategic plans.
6. **Eliminate some of your expenses**, especially recurring expenses. Many people are deeply in debt, but still have cable TV, cell phones, various phone options, expensive internet service, and other monthly expenses which are not needed. Choose your priorities.
7. Remember, there is **nothing magic** about getting out of debt. If an offer sounds too good to be true, it is! Some, who say they'll help you, actually worsen your position if you let them.
8. If you are an **impulsive buyer**, leave your credit cards at home, locked up in a safe place. Only use them when you have the funds lined up, or in an emergency.
9. **Don't co-sign** on others' loans. They may intend to pay, but you may actually pay, and it may be after your credit rating is severely damaged.
10. In order to stay out of debt, you will need a **contingency plan**. I recommend you include:
    a. A savings account – for **emergency use only** (build it to 10% of your income as you can).
    b. A savings account – for your "**for sure**" expenses (start immediately!)
    c. A savings account – to "**buy stuff**."
    d. An **overdraft protection** line of credit attached to your checking account (not to be used for anything other than to avoid bounced checks and associated fees when you, or someone else, makes an error). If you keep this loan empty, a high rate times a zero balance = zero interest.
    e. An "**empty**" **credit card** (one that you rarely if ever use – only for emergencies – 0 balance).
11. Get a **safe return** on your savings. Remember: "the greater the rate, the higher the risk."
12. Tip: **Nothing is risk-free**. If someone claims a risk-free use of your money, they are either lying, or they don't understand that there is always risk involved, if only opportunity risk.
13. Remember: when you borrow, even at the best rates available, you are putting more of **your earnings into someone else's pockets**, getting something now, and committing future income, thus eliminating future options.
14. Before you borrow, **compare!!!** Find the best deal available to you. Pay close attention to the Annual Percentage Rate (APR). The APR is essential for comparing the cost of credit.
15. If you must borrow, always **try to beat 13%** APR. Usually you should beat it by a lot!
16. Utah law has **no interest rate ceiling**. There are "easy loans" out there with outrageous interest rates! Avoid them like the plague!
17. If you aren't in the habit of **paying off your credit cards completely within each billing cycle**, as soon as possible, get there! If you do, you pay no interest (most credit card terms). If you don't have the money, consider using a lower interest line of credit to pay off the credit card.
18. **Watch out** for "low" or "no interest" offers. Pay close attention to the terms and costs. Be aware that the artificially low rate might be offset by an increase in the cost, or other hidden expenses.

19. Recall the example of a TV purchase (retail cost: $400) at terms currently available in Utah).

   a. Cash: $400 – or less if you find it on sale.
   b. Credit card $459 – at 18% APR for 18 months (~average credit card rate).
   c. Small loan co. $523 – at 36% APR for 18 months - the maximum APR in some states.
   d. Rent-to-own $1,260 – at 196% effective APR for 18 months (APR not disclosed in contract).
   e. Auto title loan $1,833 – at 300% APR for 18 months.
   f. Payday loan $3,125 – at 520% APR for 18 months (not intended for long-term financing).
20. To **avoid late fees** (which accelerate the cost of borrowing) make sure your payments are **received by the lender** on time, early, or at least within the grace period (if there is one).
21. To **avoid bad credit**, always ensure that your payments are received before they are 30 days late. For some credit card payments, they must be received by the due date (no grace period).
22. If you've already been smashed financially: **Hang on**, until you can bounce back. Seek to satisfy your obligations as soon as you can (highest rates 1st), keep everything current for 2+ years. If you can't meet your monthly obligations, get some help.
23. Before applying for a mortgage loan, **compare, compare, compare**. Fees, rates, prepayment penalties, and terms. One hour of phone calls may save you many thousands of dollars.
24. When signing documents, take your time and understand **what** and **why** you are signing.
25. If someone tries to rush you through signing documents, tell that person to "take a hike." The time to **be assertive** is before you sign. After signing, sometimes "very nice" people turn uncooperative. Plan on at least 2-3 hours to wade through a stack of mortgage loan documents.
26. If consolidating, **expect delays**, and keep all other obligations current. It is much easier to get a refund of an overpayment than to suffer from delinquent accounts as a result of delayed loans.
27. To save (avoid spending) money on interest, make extra principal payments and thus **pay off your loans early**. Make sure your lender applies extra amounts to principal, and follow the lender's procedures for making extra principal payments.
28. **Bi-weekly** payment programs can be a great way to make pay extra principal **if**:
   a. **Your paydays** are bi-weekly.
   b. The program includes low, or **no fees**.
   c. Whoever is administering your plan is **reputable**.
29. The main advantage of bi-weekly payment programs is that you pay the equivalent of just over **one extra payment each year.** If each bi-weekly payment is ½ of the scheduled monthly payment, in an average year, you pay the equivalent of just over 13 full payments rather than 12 [1].
30. **Extra principal** payments of just over 1/12 of your scheduled monthly payment will accomplish almost exactly the same thing as a bi-weekly payment program. Multiply your required monthly payment by 1.09and use that as your new payment each month to slightly beat the bi-weekly.
31. **Refinancing a mortgage loan can be great**:
   a. **If** the total of payments of the new loan is less than the total of payments of the old debts;
   b. **If** the interest rate of the new loan is significantly lower than the old one.
   c. **If** you don't run up other debts again (consolidation loans).
32. Refinancing mortgage loans **can be a major financial setback** if:
   a. Your equity gets eaten up by fees (watch out for high closing costs).
   b. You run up new debt after consolidating.
   c. You jeopardize your home by replacing unsecured debt with debt secured by your home.

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[1] More precisely: bi-weekly plans where ½ of a monthly payment is paid every 14 days yield an average of 13.044645 payments each year [365 ¼ (days in an average year) ÷ 14 (days in a bi-weekly period) = 26.08929 (paydays in an average year) x ½ (the bi weekly payment amount being ½ of a regular payment) = 13.044645 (full payments in an average year)]. Therefore, in order to match a bi-weekly program, you'd need to pay 1/12 of 13.044645 payments each month [1/12 of 13.044645 = 1.087]. To beat a bi-weekly plan, round up and multiply your required monthly (principal & interest) payment by 1.09 get your new payment.