



# THE COMPLETE GUIDE TO PAYING OFF YOUR DEBT

Break free from your debt faster  
than you ever thought possible so  
that you can live a better life

 moneyminiblog

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# Preface

Cash or Credit?

You've heard both extremes: "debt is a tool" and "debt is pure evil".

I'm not that extreme, but I do lean towards the second option.

It's often believed that debt can be used as leverage, and that it can get you where you want to go faster than living debt-free. That can be true but living with debt can also get you bankrupt faster than living without debt.

Yes, all reward has risk, but this one may not be worth it.

Let me clarify. Here's why I think debt is a bad idea and how it's possible to live without debt...

## Why Live Without Debt?

The less debt you have, the less stress you have.

I always hear things like "I would pay cash for a car if I had \$30,000." You know how it goes.

That's the wrong mindset.

You have to live within your means. If you have to finance it, it's not within your means.

It may be hard to admit what your means actually are.

It's easy to reason why you need debt. So we'll briefly go over the main types of debt.

Pretty much everyone agrees that credit card and consumer debt is useless. That is, carrying a balance from one month to the next, and therefore paying interest – very high interest. That's a bad idea. We'll talk more about whether or not to use credit cards in the first chapter, but what about the other types of debt?

## Auto Loans

Again, interest.

Even a very low interest rate will still mean you pay more for the vehicle than you would otherwise.

And cars depreciate like used furniture. Ok, not quite that bad, but they do depreciate quickly.

Never borrow money to buy something that depreciates. We'll talk in a moment about whether or not you should borrow on things that don't depreciate, but definitely don't do it for things that do.

If you just *had* to get that car loan, pay it off as fast as you can, or consider selling the car and buying something you can actually afford. We'll dive deeper into this in the chapter on different types of debt.

## Student Loans

Student loans are perfectly fine though, right? Well yes, if by yes you mean "student loans might possibly be the downfall of our generation".

Because that's probably true.

They never go away, they are usually for very high amounts, and too often people don't ever use the degree they paid for.

So for student loans, only get them if you fall into the following criteria:

- You refuse to work your way through college
- You have an exact plan for how to use your degree
- You are able to get an extremely low interest rate

Because they *never* go away. Did I already say that?

## Mortgages

Now for the big one (literally): mortgages.

This really is the big one, and because of that, you may want to do some further reading.

Here's the deal: ideally, you should pay cash for your house, because with a mortgage, you usually pay two or three times as much for the house.

Depending on your area, it may even be better to rent.

If you do decide to buy a house, do this:

- Get a 15 year mortgage (or less)
- Get a very low interest rate (4% and under)
- Don't buy a bigger house than you need (and can afford)

As a general rule, if you can't afford a 15 year mortgage, you can't afford the house.

We'll talk more about mortgages in [chapter 4](#).

# Chapter 1

Cash or Credit?

Cash or credit? What do you use?

I'm a fan of Dave Ramsey, but I don't think everyone has to be stuck using only cash.

I'm a fan of credit card rewards, but I don't think everyone is responsible enough to use them.

So how do you really decide whether to purely use cash or whether to get some credit card rewards?

Here's how you can decide for yourself...

## Cash or Credit: A Quick History Lesson

Credit existed long before credit cards. It was common for local stores to give you a line of credit, especially if you owned a business, but this was thought of more as a charge account that you would pay off all at once. It had nothing to do with minimum monthly payments or collecting interest. It was simply a way for business owners to get what they needed throughout the month and then pay the bill all at once, similar to a tab in a bar.

Later on, select department stores and gas stations came out with their own cards to promote customer loyalty.

In 1950, the Diner's Club card was created as a means to merge some of these cards into one. People thought it was a bit much to have 5 or 10 cards in their wallet for different stores, though some people today would laugh at only having 5 or 10.

Today, the total U.S. consumer debt is \$2.5 trillion, and people sign up for about 6 billion credit cards each year.

Credit started to get out of control and so did individual debt. Thus, people like Dave Ramsey came about promoting a lifestyle free of credit cards and free of debt. Of course, since Dave started his anti-credit trend, he has had some backlash. Others have went the other direction by explaining the benefits of credit cards and why you need them.

As you can see, it's a common trend for people to go back and forth. So let's talk about cash, credit and you.

## The Case for Cash

Dave Ramsey has a point. *Most* people aren't responsible enough to use credit cards. Statistics prove this over and over.

That means the majority of people, especially is the U.S., should cut up their credit cards and switch to cash.

This is why it makes me nervous to see all of the articles that talk about Dave being an idiot and how everyone should have credit cards. I get the point, credit cards have benefits, but broadly speaking to everyone about how they need credit and credit cards is dangerous business, and it's not true. Most people would be better off without them, because most people can't control them.

**Note:** You also have to remember that article headlines are written to grab your attention, and when you see headlines like "This is Why Dave Ramsey is Completely Wrong About Everything", they are really just dramatizing the fact that some people can responsibly use credit cards. They don't really believe he's entirely wrong, but you're more likely to click that, rather than "Why I Disagree With Dave Ramsey About a Few Things".

### **Who should use cash?**

- If you've filed for bankruptcy due to credit card debt in the last 10 years
- If you repeatedly *don't* pay off your balance in-full at the end of each month
- If you have credit card debt that you are working to pay off

If credit cards make you nervous, just use cash. If you believe that all debt is bad, even for the remainder of the month, just use cash. There is no one-size-fits-all answer here, just know that it's not wrong to only use cash and never incur any debt.

### **The Case for Credit Cards**

Credit cards generally provide more fraud protection than debit cards. Credit cards offer more protection than cash on no-return items and items that may be difficult to return. Credit cards offer some nice sign-up bonuses. Finally, credit cards offer some lucrative rewards. We pay for our vacations and most of our children's Christmas with credit card rewards.

That being said, credit card companies wouldn't be earning billions if the majority of people were responsible with them.

So after you've completely paid off your credit card debt, and you're in a place where you can pay them off in-full each month, you should start looking into some of the more rewarding credit cards.

### **Who should use credit cards?**

- If you've never struggled to pay them off in-full each month
- If you keep track of your spending, and don't spend more than you have
- If you don't have any outstanding credit card debt from previous months

These rules aren't set in stone. I'm a great example of someone who has been in credit card debt, learned my lesson and paid off all of my credit card debt. *Once I was completely free of credit card debt*, I started using credit cards for the rewards.

Credit cards rewards are great, but they are just that: rewards. Rewards are meant for people who deserve them. This is evident when you look at the terms for the rewards, such as completely losing them if you're late on your payment – that's a common term for most credit cards.

If you're responsible in using them, you won't have to worry about that. If you are worried about losing them because you make a late payment, there's a good chance you shouldn't be using them in the first place.

It all comes down to this: if you can use credit cards responsibly, use them. If you can't, use cash. And be honest.

I cringe when I hear someone say that *everyone* should use cash or *everyone* should use credit cards. That's simply not true.

### **If You're Reading This Guide**

There's a good chance you haven't been responsible with credit cards in the past.

If you're reading this guide, you most likely have some form of debt that you want to pay off.

If you're in significant debt, you may be there due to some financially irresponsible choices.

Change your financial decisions today. Start making responsible choices.

That may mean no credit cards at all.

# Chapter 2

## How to Pay Off Your Debt: 2 Methods

If you want to be debt free, you need a strategy. A method.

The average US household has \$54,000 in credit card debt.

**You need a plan. You really do.**

The good news is that you have more than one option.

There are several ways to get out of debt, but the two most used ways are called the debt snowball and the debt avalanche.

Let's look at the differences and see what works best for you...

### Two Methods

I'm going to go over two methods for paying off debt.

**There is no right or wrong here.** It depends on you and your situation.

I used the debt snowball to get out of debt and it worked for me. That's what's important...it worked!

**If you become debt free, you win. It doesn't matter which method you used once you are debt free.**

The debt snowball and the debt avalanche are very similar. Here's how they work:

You pay the minimum on all your payments, except one. Once that is paid off, you add that payment to the next debt. Either way, it turns into a snowball or an avalanche and your debt will melt away.

The difference is in the *order* that you will pay off your debt.

Let's look at these methods in detail...

### The Debt Snowball

The debt snowball (made popular by Dave Ramsey) is a method for paying off all your debt by starting with the lowest outstanding balance.



You put as much money as you can towards your lowest balance, while making the minimum payment to every other account.

Once your lowest outstanding balance is paid off, you put as much money as you can towards your second lowest outstanding balance. You repeat this method until you are debt free.

**Example:** Jim has four different debts to pay off. Two credit cards, a student loan and a personal loan.

**Related Book:** [\*The Total Money Makeover\*](#)

Here is the order that Jim would pay off his debt:

1. \$12,000 credit card (11% interest)
2. \$15,000 credit card(18% interest)
3. \$19,000 personal loan (6% interest)
4. \$22,000 student loan (8% interest)

### **Debt Snowball Benefits**

The idea behind the debt snowball is to create a series of “small wins” and “early success”. This is especially true if you have several different debts to pay with low balances.

It’s generally pretty easy to pay off a few small balances, then you have all of that extra money to start adding to your other debts.

Also, if you have tried to pay off your debt before and failed, you may want to consider the snowball, because statistically, people are more likely to stick to it.

### **Debt Snowball Drawbacks**

When you pay your smallest balance first, you don’t pay attention to the interest rates, therefore, you will end up paying more interest and it will take you longer to get out of debt.

If you’re all about the numbers and you don’t need the emotional support of having small wins, the debt avalanche may be better for you.

### **The Debt Avalanche**

The debt avalanche is very similar to the debt snowball, except you pay off your debt in order of interest rate.

You put as much money as you can towards your highest interest rate debt, while making the minimum payment on every other account.

Once your highest interest rate debt is paid off, you put as much money as you can towards your second highest interest rate. Then you would repeat this method until you are debt free.

**Example:** Remember Jim? Let's use the same debts and order them for the debt avalanche. Two credit cards, a student loan and a personal loan.

**Related Book:** [\*The Money Book for the Young, Fabulous & Broke\*](#)

Here is the order that Jim would pay off his debt:

1. \$15,000 credit card(18% interest)
2. \$12,000 credit card (11% interest)
3. \$22,000 student loan (8% interest)
4. \$19,000 personal loan (6% interest)

### Debt Avalanche Benefits

With the debt avalanche, you will pay less money in interest. If you are only concerned with paying as little as possible to the banks and loan companies, go with the debt avalanche.

You will also be out of debt quicker with this method, since you are attacking those high interest rates first.

### Debt Avalanche Drawbacks

You may not get the small motivational wins in the beginning.

If your highest interest debt is one of your largest, it may be a while before you really start to see progress.

### What's Best for You?

It really comes down to your situation. It all comes down to you!

The debt snowball works great for someone with a large amount of small outstanding balances, because you will be quickly freeing up money to put towards other debt.

The debt avalanche works great for someone with a large amount of very high interest credit card debt that needs to be paid off quickly.

It also depends on your personality. If you know you need a lot of motivation, consider the snowball. If you are all about the numbers, consider the avalanche.

Don't forget that money can be a very emotional thing. Too often, people argue their side with pure math. That's not how money works. At least, not with personal finances.

Sometimes the right method may not make the most sense on paper, but if it works, **you still win!**

# Chapter 3

How to Pay Off Your Credit Card Debt Now

Do you know the total credit card debt of the United States population?

**793.1 billion dollars.**

Now you know. And now you have a sick feeling in your stomach. At least, I do.

Does that mean credit cards are evil? Nope.

It just means people are ~~stupid~~ uneducated.

That's the problem. Here's how to fix it...

## Step 1: Access the Damage

Sometimes the first step is the hardest and that can definitely be true with credit card debt.

Face your debt.

Run the numbers and actually figure out how much credit card debt you have.

Go ahead and pull your free credit report at [AnnualCreditReport.com](http://AnnualCreditReport.com), then head to [Credit Sesame](#) for your free score.

Once you know where you stand, it's time to move on.

## Step 2: Control Yourself

If you are in serious credit card debt, you have no self-control with them.

**Easy fix. Stop using credit cards.**

You don't have to cut them up, and you don't need to close all the accounts, but stop using them until you have paid them off and can pay them off, in full, every month.

**Quick Tip:** Don't close all the credit card accounts, because your debt to credit ratio will lower and that can negatively affect your credit score.

You can always lock them in a safe or freeze them in a bowl of water. Or just stop using them and put them away like a normal person, whatever works for you. Just kidding! Freezing them is way more fun. Don't be normal!

### Step 3: Organize Yourself

Now that you know how bad it is, it's time to do something about it.

Create a budget, including all of your credit card payments.

Do you have enough income to cover all your expenses? You may not.

Step 4 can help with that...

### Step 4: Cut Your Expenses

Cut. It. Out. (Full House reference, anyone? No?)

What do you need to cut out to eliminate your debt?

You can always cut something.

Reevaluate your needs vs. your wants. Especially if one of your main wants is to be debt free.

### Step 5: Make Your Choice

Now that you have faced your debt and cut your expenses, you should know whether or not you can fix this yourself or if you need professional help.

If you can do it yourself, do it yourself.

Only get professional help if you don't see any possible way for you to do it on your own.

- **Professional Help:** [Find a good debt relief company](#)
- **Credit Counseling:** [Approved list of non-profit credit counseling agencies](#)

I think you can do this though, if you think you can too, move on to step 6...

### Step 6: Do It Yourself

I knew you could do it.

Paying off debt is easy in practice, but it can be difficult in discipline.

**It's all about discipline.**

The most important thing is to not get into any new debt, once you begin paying it all off.

Once you have made that decision, you can call the companies and negotiate to bring the amount of debt down. This is as simple as calling the number on the back of the card, getting to customer service, and asking to speak to a supervisor. Supervisors are able to lower your interest rates more than the customer services reps. They may even be able to lower your balance.

When negotiating, it's important to have some leverage. Just go find some cards that are offering a 0% balance transfer fee, with a 0% interest rate (usually for a certain length of time) and there's your leverage. It's easier to negotiate when you have the option of transferring your balance somewhere else.

The overall goal is to get a lower interest rate.

If you can't get a 0% interest rate, you may want to transfer your balance. (The Chase Slate card is currently offering a 0% interest rate for 15 months on balance transfers, and no fee to transfer.)

I see no reason not to transfer your balance, if it will save you money overall. The problem is when you are not able to pay off a balance transfer before the interest rate goes up. So, before you transfer a balance, do this:

1. Figure out the total amount of debt you are transferring
2. Divide your debt by the number of low/no interest months
3. Decide if you will be able to pay that much each month

If you are, then it's worth looking at. If you're not, you need to figure out if the interest rate will be lower than you're currently paying or higher. And remember to expect the unexpected. Just because you can make that payment now, doesn't mean you will be able to make it for a year or longer.

As a side note, I would suggest that you NEVER use a home equity line of credit (HELOC) to pay your debt. That can be an incredibly dangerous plan.

Once your debt is under control, you may need to [improve your credit score](#).

I hope you got something out of this. The important thing about debt is paying it off. It doesn't really matter how you do it.

4 Questions Before Doing a Balance Transfer

I've been there. Over \$20,000 in consumer debt with interest rates higher than Cheech and Chong combined.

I remember seeing the offers pouring in to lower my interest rates. This one stuck out:

*"0% interest rates on balance transfers for up to 15 months!"*

It was a [Chase Slate card](#). 15 months was the longest zero interest offer I could find for a balance transfer at the time. I calculated how much we needed to pay each month to pay it off in 15 months. We applied. We were approved.

It worked for us. We went from paying interest rates of 12%, 15% and even 17% to paying no interest whatsoever. But what would have happened if we would have went over the 15 month mark? Around 23% interest would have happened.

We had to ask ourselves if we were certain we could pay off the account in time, no matter how many unexpected costs popped up, but that's not all we had to ask. Here are four questions to ask if you're considering a balance transfer. Two to ask the company and two to ask yourself...

### 1. When Does the Rate Expire?

Obviously first you'll want to know what the rate is; then you'll need to know when it expires. You should be able to find 0% (like the [Chase Slate card](#)), but once the introductory rate expires, the interest will likely skyrocket, so make sure you're able to pay it off in time.

All you need to do is divide your total amount of debt by the number of months you have to pay it off before your interest rate goes back up. If it's doable and possible *even with unexpected expenses* then you're in good shape so far. You'll have to crunch some numbers here, but even if you don't pay it off during the intro period, you still may save money on interest. That depends on what the interest will jump to. We'll talk about that next...

### 2. What Are the Terms?

With many 0% introductory offers for balances transfers, they will do anything they can to get that interest rate back up into the double digits. Typically if you make *one* late payment, your interest rate will go back to the normal rate and stay there.

You should also consider that if you make new purchases on that card, you'll probably be paying the regular rate for the new balance. Most 0% intro offers are only for the balance you transfer and not for any new debt. So before you start thinking you can rack up your balance without the interest, read the terms.

### 3. How Will the Balance Transfer Affect Your Credit Score?

One balance transfer will have little to no effect on your credit score. Ten balance transfers will have a significant effect. If you plan to transfer your balance multiple times, make sure you know the potential impact it can have on your credit.

Credit agencies and credit card companies can tell when you're just transferring your balance to avoid paying interest. You would think it would make you look smart (and I personally think it is pretty smooth), but they would rather see that amount being paid off rather than sticking around for several years.

## 4. Are You Responsible Enough to Do It?

This is the ultimate question. If you're not responsible enough to pay off the card in time after you transfer your balance – don't do it. But this is difficult, because you have to be honest with yourself. Look at your past and look at who you are now. If you have a history of being undisciplined with paying extra on loans, who's to say you aren't going to be undisciplined with this one? If you have any questions about your ability to pay it off in time, you may want to consider creating a plan in your current situation without transferring any balances. You can still [negotiate with credit card companies](#) to lower your interest if you decide not to transfer your balance.

Balance transfers can be great if you're disciplined and responsible enough to take advantage of them, as opposed to being taken advantage of by them. You're the only one who can make that call, but if you're dishonest about your ability, you're only hurting yourself and potentially your family.

How to Negotiate With Credit Card Companies

It's common advice to negotiate with credit card companies.

Most finance gurus will tell you to call the companies and negotiate a lower interest rate or a lower balance...or both.

The only problem is that they don't tell you how to do it.

There are lots of questions around the idea of negotiating your debt.

Let me show you what to do and most importantly, what to say...

### Why You Should Always Try to Negotiate

Credit card companies are like any other company. They like money. If you can't afford to pay your payments, they don't get money. They can hassle you all they want, but if you can't pay, you can't pay. Credit card companies aren't stupid. They know that getting something out of you is better than nothing. That's why they will work with you to settle your debt.

### Who You Should Call

So, who do you call to start this process? Simply look on the back of your card for the customer service number.

Once you make the call, it usually only takes pushing about a thousand buttons to get to their customer service department. That's where you want to be, but you don't want to talk to the first person you reach. I'm sure they are a very lovely person, but you will want to speak to their supervisor.

The customer service reps can only do so much as far as making positive changes on your account.

Their supervisor can do much more. Go for the supervisor.

## What You Should Do Before You Call

Before calling, you need to prepare. Get some other credit card offers together.

You'll want to have a point of negotiation. When you're asking for a lower interest rate, be sure to tell them about all of the offers you have for a 0% rate with other companies. And kindly let them know that you are willing to transfer your balance to the other company if they won't lower your rate.

In many cases you can get a 0% rate, but it depends on your credit history and your total amount of credit card debt.

Getting a lower balance will depend on your total amount of debt and how generous the supervisor feels based on your ~~sub-story~~ explanation of your situation.

## Making the Call: The Script

Now that you have your offers together and you know who to call, here is what you should say once you get to the supervisor...

For a lower interest rate:

“Salutations! (Hello works fine too.)I’m calling to get a lower interest rate on my credit card. How much will you be able to lower it?”

*If they say none or anything other than all the way to 0%:*

“have several offers here for a 0% balance transfer, with a 0% interest rate, including the [insert popular 0% card] and the [insert other popular 0% card].”

*If they still won't do 0%:*

“Unfortunately, it looks like it would make more sense financially for me to go ahead and transfer my balance. I’ve enjoyed using your company, but if you can’t lower my interest rate to 0%, it doesn’t make sense for me to stay with your company.”

Usually, before you hang up, they will agree to lower your interest rate substantially, if not entirely to 0%. Then you can decide if the rate is low enough or if you want to transfer. Remember, you're not binding yourself to anything by telling them you're going to transfer your balance. You can always change your mind and decide to stay with the company. At this point,



you're basically "all talk". But what you're saying is legitimate. You do have the option to transfer.

Notice how I worded the questions in the script. Anytime you ask a yes or no question, the answer can be "no". Avoid that by asking in a way that forces them to be proactive, such as "how are you going to...?" or "how much can you...?" It's also a good idea to mention actual competitor credit cards that you have 0% offers for. It will make your case much stronger.

Here's another script...

For a lower balance:

"Hello, I'm calling, because I'm unable to make my payments and therefore need a lower balance on my card. I don't want to file for bankruptcy. I would rather do the responsible thing and work this out in other ways, but I can't afford the high balance. How much will you be able to lower my balance?"

*If they say none or very little:*

"I appreciate you trying to help me, but unfortunately that will not be enough. It looks like I may have to file for bankruptcy or start a Debt Management Plan that will lower or wipe out my balance. I would rather pay something, since I made these purchases and I don't feel like it's right to "take the easy way out". Can you please lower my balance by more than that so I can pay it myself?"

Again, notice how the questions are worded. That's very important. You're not trying to make them feel sorry for you or guilt them into helping you, but if you're in a position where you need a lower balance, they need to know that you may not pay any of it back if they can't help you. That usually makes them more likely to want to help. And again, remember that you aren't obligated to go through with your claims. This doesn't mean you have to actually file for bankruptcy if they won't lower your balance, but strong words like that can really get their attention.

## A Few Last and Important Words

Now you know who to call and what to say. Remember, it never hurts to try. Even if you're not paying insane interest rates or on the verge of bankruptcy, you might as well try. You have just as much power as a debt consolidation company. They are useless. You can do this on your own. Read the [Fair Debt Collections Practices Act](#) (FDCPA) for more on what creditors can and can't do. If they are breaking the law, [file a complaint here](#).

And always remember to get your deal in writing. Once you agree on a lower rate or balance, have them fax or email you an official document containing that information.

# Chapter 4

## How to Pay Off Your Mortgage in Record Time

Since you're reading this guide, I assume you want to eliminate every bit of debt you possible can.

Because of that, I'm not going to go into whether you should or shouldn't pay off your mortgage early.

You probably hate debt, and you want it gone. I can relate.

If you want to know more about other mortgage issues, such as the question of "should you pay it off early?", a list of things to do before paying it off early, and a few more answers to common mortgage questions, check out chapter 5 of [The Complete Guide to Control and save Your Money](#).

Now for some extremely powerful strategies for paying off your mortgage early.

### 1. The Short-Term Strategy

This is a big one.

30 years is a long time to pay for a house. Opt for a 15 year mortgage or even a 10. If you can't afford to take out a mortgage shorter than 30 years, you can't afford that house.

If you can't refinance, that's ok! You can pay a little extra on a 30 year loan to pay it off quicker. Look at how much extra you would have to pay to pay it off early, it's not much:

This is the amount you would pay every month (for an 8%, \$100,000 loan) to pay off your mortgage early:

- 30 years: \$733.76
- 25 years: \$771.82
- 20 years: \$836.44
- 15 years: \$955.65
- 10 years: \$1213.28

Did you notice that there is only a \$102.68 difference between paying off this loan in 30 years and paying it off in 20 years? That's 10 years off your mortgage!

Figure out your numbers and how much you can save with [Dave Ramsey's free mortgage calculator](#).

Not only do you pay off your mortgage earlier with a shorter loan, but the interest rate is usually much lower as well. Why? Simply because the bank is “stuck” or “locked-in” at that interest rate for a shorter period of time.

## **2. The First Day Payment Strategy**

If you take full advantage of this strategy, it is one of the most powerful ways to make a huge impact on shortening the life of your mortgage without paying extra.

You simply make your first payment on the day the loan is activated (the day the lender starts charging interest) instead of waiting until your first payment is due.

This works so well, because this way, your entire first payment goes towards principle. Principle payments have the most impact during the early years, especially this first payment.

It will make you sick to see how much of each payment is going to principle in the early years of a mortgage. There could be as little as \$20 or \$30 each month going to principle on a \$1200 payment. The rest is going towards interest.

If are already the proud owner of a mortgage, you can still apply this strategy by simply making one extra full payment. It won't have quite the same effect as it will on the first day, but you will still knock some time off your mortgage.

## **3. The Famous Split-Payment Strategy**

You've probably heard of it. Some people think it's magic, but it's actually a really simple concept.

You simply pay half your payment twice per month, instead of making one full payment.

This works in 2 different ways...

1. Paying half-payments every 2 weeks will cause you to automatically make one extra full payment every year. (26 half-payments per year comes out to a total of 13 full payments instead of the usual 12)
2. You will lower the principle balance 26 times per year instead of 12.

You can usually set this up with your bank, but if they won't do it, you can still take advantage of this strategy by adding a little extra to your principle each month.

To figure this out for your mortgage, simply divide the amount of your principle payment (principle only, not escrow or interest) by twelve and add that amount to each month's payment.

For example, if you have a \$500 payment, add \$41.67 to your principle every month and you will achieve the same effect.

Before you start paying off your home early, check out the next section...

Everything You Need to Know Before You Start Paying Off Your Home Early

“I’m in debt. I am a true American.” -Balki Bartokomous

It’s true. Just about every person in American (and much of the world) is in debt.

We are so used to it that we even consider ourselves to be debt-free when we still have a mortgage.

You know how it goes...

“Yeah, I’m debt-free...well, except for my house.”

**If you have a mortgage you are not debt-free.**

But you can be...

There is a lot to know before you start paying off your home early...

## Types of Mortgages

There are many types of mortgages, but really, only a few apply to the savvy home-buyer.

### *Fixed-Rate Mortgages*

Fixed-rate mortgages have a fixed interest rate for the entire life of the loan. This means that you will pay the same interest rate until it is paid off (or until you refinance). Fixed-rate mortgages are predictable since the interest rate remains the same. The standard loan is 30 years (in America), but it’s also fairly standard to see a 10, 15 or 20 year fixed-rate mortgage. The shorter, the better. Under no circumstance should you ever take out a fixed-rate loan for over 30 years. If you need a 40 year loan, you can’t afford that house!

### *Adjustable-Rate Mortgages (ARMs)*

Adjustable-rate mortgages (ARMs) have an adjustable interest rate. Usually the rate is fixed for a certain amount of time, but after that time it fluctuates with the market rates. ARMs are unpredictable since interest rates fluctuate. They can go lower, but they can also go much higher. This makes an ARM much more risky than a fixed-rate mortgage. To keep it simple, I would just say: don’t do it!

### *Other Mortgage Types*

Other mortgage types include interest-only mortgages, interest-only ARMs, balloon mortgages and other types of “creative financing”. There are also several variations of ARMs. These types

of loans are very risky and should never be used by the average home buyer. In my opinion, they should never be used, period.

A fixed-rate mortgage is the safest and most predictable type of mortgage. Unless you are experienced with creative financing, stick with a fixed-rate. I recommend refinancing if you have anything but a fixed-rate.

## **It All Comes Down to One Thing**

No matter which type of loan you may have, there is one very important thing for you to know right now when you are attempting to pay off any mortgage early.

**It's all about making extra principle payments.**

I have probably heard 100 different ways to pay off a mortgage early and every single one of them equated to paying extra principle payments in one way or another, but that doesn't mean that they aren't all effective.

**There are different reasons for the different strategies.**

These strategies are not magic, but they work. And they set you up to be able to make extra principle payments, even if you don't think you can afford to.

## **Pre-Payment Penalties**

Everyone likes to talk about pre-payment penalties.

I have actually heard this as an excuse for not paying off a mortgage early.

Many loans don't even have them. You need to contact your mortgage company if you are unsure and figure out if your loan has pre-payment penalties.

**Even if you do have pre-payment penalties that doesn't mean you shouldn't pay off your mortgage early.**

Yes, the bank would love for you to make payments for the entire length of the mortgage, 15, 20 or 30 years. That's why pre-payment penalties exist, but don't let them scare you!

These penalties generally only apply to the extra principle payments you make, not to your regular payments. Even if you have a penalty, you will almost always benefit from making extra principle payments.

## **Pay More, Earlier**

You will see a bigger difference when you make extra principle payments in the earlier years of your mortgage, as opposed to the later years.

With a fixed mortgage, your payments will stay the same over the life of the loan as long as nothing about your loans changes.

Your interest rate will also stay the same with a fixed mortgage.

Your payment is made up of principle and interest.

There is also escrow in your payments for insurance and tax payments, but for the sake of this article, we are just talking about principle and interest.

This means that in the early years, your payments will be almost entirely made up of interest. In the later years, your payments will be almost entirely made up of principle.

Why? Because your payment amount stays the same and your payment always includes principle and interest. In the earlier years, you owe much more on your home than in the later years.

Once you have paid off the majority of your mortgage, you are paying much smaller interest payments and much larger principle payments. Think about it: 6% of \$150,000 (when you first get your loan) is a lot more than 6% of \$20,000 (after you have paid off most of your loan).

Does that make sense? Hopefully! But if you have questions, that's what the comments are for.

It's important to make extra principle payments in the early years in order to pay less interest overall. Once you make it to the final years of the loan, you won't notice as much of a difference.

Some people say that you shouldn't pay off your mortgage early, but you should invest the money since you can generally earn more by investing than you can save by paying off your mortgage early.

This is true, but it's much more true in the later years of your mortgage.

If you are in the very first few years of your mortgage, you can make a huge impact just by paying a little extra here and there.

**It can mean years off the life of your loan if you pay extra in the beginning.**

### **What Are You Putting Down?**

If you are still looking for a home, consider making a sizable down payment.

You will reduce your overall mortgage amount. You will reduce your monthly payments, which makes it easier to pay extra. And you will pay less interest!

**Don't fall for those first-time buyer 0% down loans.**

Plus, there are great ways to save money for your down payment.

First, you need to determine how long it will be before you will be buying a home.

If it is less than 5 years, you should save your money in a savings account, Money Market account or possibly a very conservative mutual fund.

If it is more than 5 years, you should invest your money in a moderate to aggressive index fund until 5 years before you plan to buy, then transfer to a safer account.

If this is your first home, you can use an IRA to shelter your down payment.

Now let's talk about something that you may have heard about, but you may not understand...

### A Word About Private Mortgage Insurance

Private mortgage insurance (PMI) is basically an insurance that the lender uses as protection in the event that you default on your loan.

It's common for loans with less than a 20% down payment, since those are viewed as a "riskier" investment by the lender.

If you are required to pay PMI, it is typically included in your monthly payments.

The thing that many people don't know about PMI is that once you have paid 20% of your total loan, you can drop it, but don't expect the lender to remind you about this.

If you are required to pay it, pay 20% of your loan as quickly as possible, then call your lender and kindly ask them to remove your PMI.

# Chapter 5

## How to Not Have a Car Loan

Car payments are a beautiful thing, aren't they?

**Of course they are...when you are the one receiving them.**

When it comes to car payments, you have 2 options.

You can take out a loan, put yourself in debt and pay interest on your monthly payment to a financial institution or you can opt for the better option...

**Make a payment to yourself!**

That's right, open an account and set a certain amount as your monthly payment that goes into the account every month, automatically. Not only will you be saving for a vehicle, but you can earn interest on the money you save, as opposed to paying interest on your car payments.

### What Type of Account is Best?

The best type of account to use depends on how long you will have to save. If you have less than 2 years, then your best bet is something safe, like a Money Market account. If you have 3 or 4 years to save, then you could look to a low-risk mutual fund. If you have been very responsible, thought ahead and have 5 years or more to save, then you can look at some aggressive mutual funds and possibly individual stocks. It is always best to use the stock market, only when you have at least 5 years before you will need the money.

As with any investing, the longer you have, the greater return you can expect. The main point here is to plan ahead.

If you currently own a vehicle, chances are that you will need a new one in the future, whether sooner or later. Why not start making the payment to yourself now in an saving or investment account? This allows you to pay what you can afford instead of having to afford the car payment you are stuck with.

### How to Sell Your Car if You're Upside Down on It

So you've decided that a life of debt isn't for you.

Congratulations! Good choice. Welcome to the club.



You know the first step to seeing big results is to sell your expensive vehicle, but there's one problem.

You're upside down. Way upside down. And it looks like you may not get flipped back over.

Don't panic! You have some options, and you can still make this work. Here's how.

## What Not to Do

When we're talking about what *to* do, it's important to first understand what *not* to do.

The reason you're selling the car (or truck or van or winnebago) is to get out of debt. The last thing you want is to get into more debt because of it. I'm talking about financing another car and adding your current balance. Don't do that.

A friend of mine owed \$24,000 for an \$11,000 car, because he kept adding the balance of his previous car to his new loan. Not just once, but four times! A few thousand each time caused him to have a \$13,000 balance when he bought the fourth car. Fortunately, since then, he has paid it down tremendously and is working on getting out of debt.

Another thing to be wary of is transferring the remaining balance to a line of credit. Sometimes it makes sense to do a balance transfer. For example, if you **know for a fact** that you can pay this off in less than 15 months, the [Chase Slate](#) (not an affiliate link) is a good option, because it's the only card I know of that offers a 0% APR on balance transfers for the first 15 months, with a 0% balance transfer fee as well. So you pay nothing extra if you pay it off in 15 months. Of course, this is a risky option, because if you don't pay it off in time, your APR will likely be double what it was when you were paying your car loan (that's what Chase is hoping for). It's also worth noting that your credit needs to be pretty high to qualify for this card.

Now let's discuss your primary options...

## Two Options to Get Right-Side Up

Generally (not always), the loan company will not give you the title until you pay off the loan. So in a normal sale, you would sell the car, pay off the loan with the money you receive, and then get the title within 30 days and hand it over to the new owner. This means that you usually don't have the option of selling the car, paying off the amount you receive, and then continuing to pay down the loan without the collateral (the car).

In the rare circumstance that you already have the title, you could do what I just mentioned, but you should still check with the loan company to make sure you're not doing anything illegal that was stated in your contract.

Choose the option that works best for you:

## 1. Take out a loan on the difference

This may sound counterintuitive, but hear me out. If you owe \$15,000 for a \$10,000 car, go to the company you're borrowing the money from (or another company if you need to), and explain the situation. Simply say "I owe you \$15,000, but my car is only worth \$10,000. I'd rather sell the car and only owe you \$5,000." Most companies will work with you to make that happen. Just make sure your interest rate isn't way higher on the new loan, to the point that you're not paying much less overall.

## 2. Pay down the loan to even it out.

This is a more disciplined approach. You simply pay down the loan until you're not upside down, then you can sell the car and pay it off. In this scenario, you would basically forget about the debt snowball/avalanche until this was accomplished, because selling the car would be your priority. Then you'll have all that extra money freed up, from not making the payments anymore, to pay off the rest of your debt.

Either option is going to require you to get aggressive. Start selling everything in your house except your children, unless you can get a high price for them. In that case, you'll want to...I kid, I kid (no pun intended).

Once you sell your car, you should first celebrate (*not by spending a bunch of money!*), then do this...

## After You Pay it Off (And Your Next Car)

There's a good chance that you're planning to get a "little beater car" – that's what everyone seems to call them – to get you around, usually to work and home. You need to make sure you don't make another purchasing mistake here.

When my wife and I decided to buy our last vehicle, we were on a mission. We knew exactly what we wanted, exactly what we were willing to pay, and exactly how to walk away if they didn't meet our needs. This is vital.

I wrote about our entire experience of getting a van that was listed at \$8,900 for \$2,800, and included it right after this section.

Remember that your get-out-of-debt car is not permanent. Like Dave Ramsey says "you're living like no one else, so later you can live like no one else." It always gave me a sense of pride to drive beater cars while I looked around at everyone else driving brand new cars. I couldn't help but think of how much they were paying a month.

We're the ones winning. Driving junk and getting out of our funk.

Buy a nice car later, or just spend money on things that actually matter, and invest intelligently. Your call.

How I Paid Less Than 1/3 of the Sticker Price for a Car

On a beautiful spring afternoon, my wife and I headed into Oklahoma City to look for a vehicle.

After spending the majority of the day at a certain car dealership, we ended up driving a new car home...well, new to us.

We are happy with the vehicle, and we were even happier with the price.

**Long story short, they were asking almost \$9,000 for a vehicle that we ended up purchasing for \$2,800.**

How did we do that? We used these 6 haggling hacks (I hope you can appreciate the alteration) to get the deal...

## 1. Be Flexible

We were flexible on everything *except the price*.

If you're flexible, you can always move to a different car (or a different seller) when the negotiation doesn't work out.

We wanted a vehicle with at least 6 seats for under \$5,000.

That's it. We didn't care if it was a minivan, SUV, or a bus...if it fell within our criteria, we were interested.

This opened up a lot of options, which brings me to my next point...

## 2. Don't Get Married at the Dealership

I'm talking about to a vehicle, not to a person. That would be a weird wedding.

There are better places to get married and better things to marry than a car...like a human, for example.

Don't marry the vehicle you want, even if it's the "car of your dreams".

It's important to know what you want, but not to fall in love.

**That's exactly what the dealer wants.**

It won't be the end of the world if you don't buy that exact vehicle.

We didn't fall in love, so we could always walk away, which leads me to...

### 3. Don't Be Afraid to Walk Away

We left the dealership and they actually called begging us to come back. That happens when they know you are serious and they know you have money (either in the form of cash or a credit score).

The deal isn't going anywhere, and if it does, you'll survive.

Once you have your price set in stone, don't budge.

**You can always find a good deal. Seriously, you can.**

Sometimes you have to just walk out so they know you're serious. You can always come back.

Be prepared to devote at least one day to buying a car and that may mean walking out more than a few times.

### 4. Be Informed and Know the Value

You should be as informed as possible. It's easy these days, since most of us have the internet in our palms.

**The more informed you are, the less they can take advantage of you.**

You can compare the value at these sites:

- [Kelly Blue Book](#)
- [Edmunds](#)
- [NADAguides](#)

Most dealerships use these guides, along with others, such as a "black book value". But just because they show you a piece of paper with a price on it, that doesn't mean it's accurate. Edmunds actually [sent a staff writer undercover](#) as a car salesman for a few months and one of the things he discovered is that some dealerships just make up a value and hope you'll pay high-dollar for the vehicle, instead of questioning the price.

Salesmen tend to..."fluff" the truth a little, so don't always trust the value they come up with.

Know the value of what you're looking at. Do your research. You'll want to check a few things out to get the real value.

It's a good idea to take a test drive to a local mechanic for a quick inspection. If that's not an option, try out Firestone or Auto Zone for a quick diagnosis (it's not completely thorough, but it's better than nothing).

You can check a lot of it yourself. Just remember to check everything. It's easy to be sold by a cold A/C in the middle of July, but how well does the heat work?

## 5. Don't Be Afraid to Hurt the Salesman's Feelings

They will try every tactic in the book. They will try to make you feel guilty or even obligated to buy a car, but you don't owe them anything.

You should see how much they would be willing to help you *after* you buy the car...probably not much. It's all sales gimmicks.

The only decision that matters is the one you make. It doesn't matter what the salesman wants. It's your money. It's ok if you decide not to buy and they get upset.

## 6. Don't Finance, Get Rewards Instead

Pay cash. plain and simple. If you have to finance, you can't afford it.

You have more negotiation power with cash. When you finance, they can always talk you into buying more car.

**You should never finance something that depreciates.**

We used a credit card for the purchase to get the cash-back. More money saved!

Just be sure to pay it off in full when the bill comes in.

## Final Words and One Last Tip

We actually had a great experience buying our car. It was fun to haggle and watch the price sink lower and lower.

You will usually get a better deal when buying private-party, but we chose to keep our options open to dealerships as well...and it worked out well for us.

It was sad, however, to watch the couples sitting in the different offices. Sad, upset and even scared. One lady was crying!

That's what happens when you finance and especially when you overpay. It can be stressful.

We walked away knowing our car was paid in full. It's a great feeling.

**One Last Tip:** Make sure everything that is promised is on paper. A tank of gas, gift certificates, a TV...these are a few examples of what dealerships will do to earn your business. Make sure, if you haven't already received it, that it's in the paperwork or you might as well forget about it.

And don't forget to ask for the CarFax Report. No need to pay for one yourself. Any reputable dealership will provide one, free of charge.

# Chapter 6

## How to Deal With Student Loans

Attending college is a rewarding and exciting time in a young person's life.

It's a period marking your transition from childhood to adulthood and the obligations that come along with it.

A critical area of responsibility necessary for this change is finances; you must be financially prepared for college and everything that comes after.

Savings, scholarships and grants, and student loans are topics you need to become educated in.

### Savings Programs

Hopefully you already have a savings program, such as a 529 plan, in place. Named after Internal Revenue Code 529, these plans are designed to invest in higher education. Parents and guardians typically open these accounts to save money for their children's future education. All qualified education expense withdrawals from 529 accounts are free from federal income tax.

If you do not already have a savings plan in place, start now; even small savings add up and make a big difference in the long term.

### Scholarships and Grants

Scholarships and grants are funds awarded to you based on merit or need. They are "free money" in the sense that you are not required to repay the funds you receive. Scholarships may be "merit-based" meaning you have to meet certain standards set forth by the scholarship giver; whether that is in the area of academic achievement, sports, or talent. Grants are typically awarded based on financial need rather than merit. Schools, employers, private organizations, and state and federal government may all be sources of free money. The funds may cover a small portion or the full amount of your tuition, easing your financial burden, in either case.

#### **Free Sources for scholarship and grant information:**

- High school guidance counselor
- College financial aid office
- Local library
- U.S. Department of Labor's search tool
- Federal agencies
- State grant agency

## Student Loans and Repayment

Scholarships and grants may not cover the entire amount of your tuition and educational expenses. There's also the possibility that you were unable to qualify for scholarships or federal loans due to your academic standing, criminal convictions, or non-US citizenship. At this point, you may need to turn to private loans to cover any remaining portion of your expenses.

It is important to repay your loans to remain in good credit standing. Repayment is especially important if you are looking to continue your education – as mentioned above, you can be denied for federal loans if you've previously defaulted. Some students choose to consolidate their debts after college in order to have one lower monthly payment. Another good option is to make an ascending list of your debts and begin paying them off in that order. With the snowball, at the start you get the satisfaction and confidence boost from eliminating the small debts, and as time goes on you'll be better equipped to take out the larger ones.

### Preparation is the Key

It's important to prepare for college. Saving from an early age can be particularly beneficial, but any and all savings can go toward your college education. Grants and scholarships are especially effective in reducing your overall financial obligation, but are not a guarantee, which is where student loans come into play. Make sure you are financially responsible and repay those loans – you do not want to ruin your financial reputation as you are just getting out of the gate.

## 3 Strategies to Plan Ahead for Student Debt

As of 2012, the average amount of student debt accrued by graduating students reached nearly thirty-thousand dollars.

For these graduating students, debt is a fact of life that they'll be dealing with for around a decade after leaving their old alma mater.

Student debt can be prohibitive for many students, and the snowballing interest of forbearance makes it a highly unappealing option.

**However, there are ways to brace yourself, or avoid payment entirely, by planning ahead when it comes to how to manage student debt before it becomes a problem.**

Here are three strategies to consider when a future of student loan payments is just around the corner...

### 1. Loan Forgiveness or Discharge

Instituted by the U.S. government, loan forgiveness occurs after completing a qualifying program or community service endeavor.



If you're working as a teacher, doctor, or are involved with the military, there may be a variety of options for you to get a free ride after college to avoid paying student loans.

Many state-based institutions such as teacher associations offer career specific loans which can be forgiven with a certain number of years of service, oftentimes as a means to encourage more professionals to work within the state, for example.

Other organizations, such as the Peace Corps., will often work with its volunteers on forgiveness programs for their service.

However, loan discharge is another type of financial assistance entirely, and possibly the silver lining to an otherwise devastating personal event. While having a relative pass away as an excuse for not completing a paper might be as popular as "my dog ate my homework", it can have dire financial consequences when it actually happens.

The government recognizes this predicament and is often able to discharge loans when death, or serious disability, impede one's life too severely to manage repayment.

## **2. Know Your Options and Best Approach**

Depending on your amount of debt and the rates of interest you're dealing with, there may be preferable options for your situation.

The popular "pay-as-you-earn" repayment plan can make payments significantly lower, but often saddles students with a decade longer of payments than they could have dealt with originally.

Only after carefully measuring each of your options, such as standard, graduated, or other models of payment, should you commit to any course.

While you should ideally stick with the option that results in the least overall sum, be careful to not overextend your finances with the ideal option if it's not immediately affordable. After all, there's a reason you needed a loan in the first place!

## **3. Strategy When You Can't Afford It**

Forbearance can seem generous on the surface, but accruing interest can be crippling in the long term.

It should only be used to keep collections calls at bay and your credit score safe, since allowing interest to accrue alone can be devastating.

Instead of relying on this as your only option for pushing back payments when you can't make ends meet, consider reviewing your student loan consolidation options.

Most providers are willing to compete with your current interest rates and help streamline the debt repayment process – especially if you're dealing with multiple loan providers.

Best of all, this stems the tide of interest that has been gaining against you all the while you were attending college.

While no two financial situations are the same and a piece of cookie cutter advice isn't always applicable, these methods can be foolproof once you've analyzed your personal debt situation and assessed your options.

Managing your student debt wisely – or avoiding student debt entirely – can be the bright start to your life in the “real world.”

### How to Actually Get Your Student Loans Forgiven

Student loan forgiveness has been a hot headline over the last year. The ever increasing mass of student loan debt continues to weigh on the hearts and minds of our college graduates. Today, 7 in 10 college seniors are graduating with student loan debt! While student loans are a necessary tool for some students, they should be used carefully by borrowers.

You may have seen the late night television ads preaching the benefits of student loan forgiveness. Despite what these television ads say, not everyone is eligible for student loan forgiveness. These ads are often being run by unethical telemarketers looking to take advantage of uneducated student loan borrowers. To qualify for student loan forgiveness you must meet certain eligibility requirements for federal programs. Don't find yourself victim to a student loan forgiveness scam.

**The following U.S. Department of Education programs can actually forgive your student loan debt:**

#### **1. Public Service Loan Forgiveness (PSLF) Program**

The PSLF Program was created to encourage individuals to enter and continue to work full time in public service jobs.

Under the PSLF program, federal student loan borrowers may qualify for forgiveness on the remaining balance of their Direct Loans after they have made 120 qualifying payments on those loans while employed full time by certain public service employers. Qualifying employment is any employment with a federal, state, or local government agency, entity, or organization or a not-for-profit organization that has been designated as tax-exempt by the Internal Revenue Service (IRS) under Section 501(c)(3) of the Internal Revenue Code (IRC).

Private student loans are not eligible for the PSLF program!

#### **2. Total and Permanent Disability (TPD) Discharge**

If you find yourself total and permanently disabled you may be eligible to receive federal student loan forgiveness. That being said, you must be able to prove that you are totally and permanently disabled in one of the following three ways:

1. **If you are a veteran**, you can submit documentation from the U.S. Department of Veterans Affairs (VA) showing that the VA has determined that you are unemployable due to a service-connected disability.
2. **If you are receiving Social Security Disability Insurance (SSDI) or Supplemental Security Income (SSI) benefits**, you can submit a Social Security Administration (SSA) notice of award for SSDI or SSI benefits stating that your next scheduled disability review will be within five to seven years from the date of your most recent SSA disability determination.
3. **You can submit certification from a physician that you are totally and permanently disabled.** Your physician must certify that you are unable to engage in any substantial gainful activity by reason of a medically determinable physical or mental impairment that

### 3. Death Discharge

If you, the borrower, die, then your federal student loans will be discharged. If you are a parent PLUS loan borrower, then the loan may be discharged if you die, or if the student on whose behalf you obtained the loan dies.

Depending on the private student loan lender, your loans may or may not be forgiven with death. You should check to see if your private student loans will be discharged at death. You may have seen the headlines where cosigning parents have been stuck paying the student loan debt in place of the primary borrower. Don't let this happen to you! Check your promissory note for more information.

### 4. Teacher Loan Forgiveness

If you are a teacher and also a *new borrower*, and have been teaching full-time in a low-income elementary or secondary school or educational service agency for five consecutive years, you may be able to have as much as \$17,500 of your subsidized or unsubsidized loans forgiven.

### 5. School Closing While Enrolled or Soon After

If your school closes while you're enrolled or soon after you withdraw, you may be eligible for discharge of your federal student loans.

Be aware, private student loans may not be eligible for forgiveness under this rule.

Student loan forgiveness has been a hot topic and will continue to be a hot topic as long as borrowers struggle with student loan debt. There is no easy way out of student loan debt. That being said, you can improve your student loan situation through a variety of other programs. Income-based-repayment can help you better manage the repayment of your federal student loans. And, if you find yourself paying high interest rates on your student loans, student loan refinance may be a great option to lower your interest rate.

#### 4 Great Strategies For Paying Off Student Loans

You've graduated college, now your student loan forbearance or "grace period" will end soon and you don't know how to formulate a payoff strategy.

For those who don't know where to start, below are 4 tried-and-true strategies to help jump-start your loan payoff...

## **1. Find Money in Your Budget**

It can be hard to adjust a budget to include a loan payment, especially if you're not used to making one.

Before you trim a budget, you need to build one that works for your lifestyle.

A good rule of thumb for beginner budgeters is to separate your budget by the 50-30-20 rule: 50% of your monthly take home income toward living expenses, 30% to debt repayment and savings, and 20% to discretionary funds or "spending money."

Once you have the basics down, try and find money within your budget to make extra loan payments. Cable, subscription services, eating out, and your daily coffee habits are all great sacrifices to make in the short term to fuel long term goals. Try making a game out of it and see how much extra money you can contribute to your loans each month.

## **2. Pick Up a Side Hustle**

What if you are on a tight budget already and can't allocate any extra money to your loans?

Consider picking up a side job, weekend gig, or working remotely on a contract basis to bring in extra income.

Your 9-5 job doesn't have to be your only source of income, and earning more often allows those who "side hustle" to pay back debt at an aggressive rate.

## **3. Get Strategic with a Debt Snowball**

In the debt snowball, you list all of your loan amounts, putting the smallest balances at the top.

The idea is to put all of your extra money towards paying off the smallest balances, and then when that one is paid off, on to the next loan, and so on and so forth. This is a great strategy to get those "small wins" in the beginning and work towards the rest of your debt aggressively.

Others prefer paying off the highest interest loans first. This method is known as the Debt Avalanche. It doesn't matter which way you go about it, as long as you have a plan that works for you!

## **4. Research Consolidation**

If you have more than one loan, whether federal, private, or both, you can consider consolidating your loans into one interest rate and monthly payment.

There are many advantages to this including saving money on interest, or adjusting to a lower monthly payment. However, be cautious as some borrowers end up consolidating at slightly higher total interest rate and end up paying more over the life of the loan because they receive a lower monthly payment, which looks good to them in the moment.

Be sure to do your homework.

Don't stick your head in the sand when it comes to your student loan burden.

While it may seem like an insurmountable amount of debt, many students before you have managed to pay off the debt and live financially stable and fulfilling lives.

The important lesson here is to have a plan of attack, stick to it, and work hard to accomplish the payoff goals you set for yourself.

# Chapter 7

## Protecting Yourself and Bankruptcy

How do you protect yourself financially? It comes down to having the right information.

I want to start this chapter with one of the most common mistakes people make: co-signing.

After that, we will discuss the worst case scenario when you're facing serious financial hardship or simply more debt than you can handle. The worst case scenario is called "bankruptcy."

### Why You Should Never Co-Sign (And 6 Things to Do Instead)

Type "Why Co-Signing" into Google and you will quickly see the suggested searches start with things like:

"Why co-signing is bad"

and...

"Why co-signing is a bad idea"

Have you ever co-signed for someone before?

Or have you ever had someone co-sign for you?

Let's see why it's so bad and what you can do instead of co-signing for a friend or family member...

### What is Co-Signing?

Co-signing is a simple process of signing on the dotted line for someone's purchase. Usually for a loan. Most popularly, a car loan.

If the person pays the loan, you are good to go. You will never pay anything.

However, co-signing is a bad idea because of what happens when they don't pay. And there is a good chance that they won't.

**If someone needs a co-signer, that means that the bank thinks they won't pay the loan.**

You won't need a co-signer if the bank trusts you.

## What You're Agreeing To

By signing for someone else's loan, you are guaranteeing their debt.

**In some states, the lender can actually come after you before they try to get the money from the person who actually received the loan.**

Why would they do that? Because if you have the credit to co-sign, you're more likely to pay than the actual borrower.

Your responsibilities should be spelled out in a co-signer agreement. You will see things like this:

"You are being asked to guarantee this debt. Think carefully before you do. If the borrower does not pay the debt, you will have to. Be sure you can afford to pay if you have to, and that you want to accept this responsibility."

Just know that when you co-sign, you are legally responsible for that debt.

## If You Still Decide to Co-Sign

There are some situations where you may want to co-sign. Most commonly when your child ~~needs~~ wants their first loan.

**I have still heard horror stories, even when people are dealing with their own children, so beware!**

I also have a good friend who co-signed for his own father. My friend is now paying the bill on a car that he never sees. Sadly, he never sees his father either.

Here are some things to consider if you decide to do it:

- Make sure you agree with the purchase
- Make sure you can afford to pay the loan
- Make sure you will be notified if they don't pay
- Make sure you understand all the consequences
- Make sure you read your state's laws on co-signing

## 6 Things to Do Instead of Co-Signing

Most of the time, people will understand why you don't want to co-sign for them, but sometimes they won't. It's possible that you can actually lose friends, because you choose not to co-sign.

That, however, is ridiculous. And you should probably be questioning the integrity of that friendship if you lose them over something like this.

It's like the old saying "if you loan \$20 to your brother-in-law and you never see him again, was it worth it?"

I'm a positive person, so I don't want to leave you with all this negativity of what you shouldn't do...

Here are some things you could do instead:

1. Explain why it is such a bad idea
2. Suggest they not take the loan at all
3. Explain why they shouldn't co-sign either
4. Help them learn to save for big purchases
5. Explain that your relationship is more important
  
6. Direct them to this blog for help with their money

### What If You Already Co-Signed?

Alas, if you are here and you are dealing with a "co-sign gone wrong", you have some options.

Here are some things you can do:

**Attempt to work out a payment plan with your friend/family member.** If you are still in contact with them, they may be willing to at least help pay the loan, since they can't pay it in full.

**Call the lender and negotiate the agreement.** The lender may be willing to work with you, especially if you aren't able to pay. They would rather get something, than nothing. You may be able to negotiate a lower interest rate and/or lower the balance.

**Stay disciplined and learn from this.** It may have been a bad idea for you to co-sign, but you can't change the past, so why not learn from it? Now you will never do it again. The good news is that this can be the last time you make this mistake.

We can overcome ~~almost~~ anything if we take responsibility and just do it!

Bankruptcy: The Reasons for Filing and the Results

There are around 1,000,000 bankruptcies every year in the US.

Obviously, it's a problem.

A problem that can be avoided, but if you're past the avoiding stage, it may be your best option.

Let's dive in and discuss the different types of bankruptcy, when to file, when not to file, and the effects of filing.



## What is Bankruptcy?

The actual definition is “the state of being bankrupt.” Well that explains everything.

Bankruptcy is when you can't pay your debt (personal or business) and you have to find a way to get rid of it. It's a fresh start, kind of. But as you know, there are negative effects and consequences.

Generally the process involves paying your outstanding debt with your assets, but not always. It depends on the type.

Here are the primary forms of bankruptcy you may need to know about:

- **Chapter 7** – Assets are liquidated, if you have them. This includes all property, vehicles and even furniture; however, your state will work with you to help you keep the things you need, like your homestead, clothing, furniture, and in some cases, vehicles. Once your debt is wiped out with a Chapter 7, you will not make payments on it. It's simply gone. But a Chapter 7 won't wipe out everything. Things like school loans, child support and taxes will stick around, and you'll still have to pay them. There are also income restrictions to file for Chapter 7.
- **Chapter 11** – This is available to businesses or individuals, but you will rarely, if ever, hear of an individual filing Chapter 11. Chapter 11 is a way for a company to reorganize their debt, but it is very expensive. Generally small businesses stay away from this type of bankruptcy, because it's difficult for them to continue operations after paying for it. You will most often hear about Chapter 11 from major corporations.
- **Chapter 12** – You haven't heard about this one much, because it is only available to farm owners and commercial fishermen. Chapter 12 is setup in a way to help them specifically. The debt limits are much higher than other options, which is necessary for people who own a few thousand acres. Ideally, this option would allow farmers and fishermen to keep their land and occupation. There is a five year limitation on the restructuring plan, which means the debt must be paid within five years.
- **Chapter 13** – If you have disposable income left over at the end of the month, after all bills are paid, you can't file Chapter 7, so Chapter 13 is generally your best option. Or if you make more money than Chapter 7 allows, Chapter 13 is your best bet. Chapter 13 requires a 3-5 year payment plan for all of your debt. After your payment plan concludes, all of the debt included in the bankruptcy is wiped out. Basically, if you can afford to pay something, you will be directed to file Chapter 13, if you can't and your income is low, Chapter 7 may be better.

There are a couple other types of bankruptcy. They include Chapter 9, which is for cities and towns to reorganize their debt, and Chapter 15, which is applies to people who have debt within the US and outside the borders. I'm not going to go into detail about these, because you most likely don't need them! Unless you own a city or something. Do you own a city?

## When to File Bankruptcy (And When Not To)

Bankruptcy can be devastating to your financial situation on paper, but it can also provide relief. Sure, it can hurt your chances of getting another loan in the future, but if you're facing bankruptcy, the last thing you should be worried about is another loan.

Simply put, bankruptcy is for people who owe more than they can afford.

If your bills are behind, creditors are calling, you're barely making minimum payments and you don't see another way out, bankruptcy could be an option for you. It is a solution to a completely overwhelming financial situation. It would be better to file for bankruptcy than to sacrifice your health over the stress of a financial meltdown.

There is a really popular *bad* reason to file for bankruptcy. It's becoming more and more popular to get into a poor financial situation by being completely financially irresponsible. Then file for bankruptcy and hopefully keep all of your stuff. Some people do this on purpose, knowing that they can just file for bankruptcy once they buy too much stuff. This is basically a form of strategic default. And it's really popular with mortgages.

Especially after the housing bubble popped, people have been walking away from homes that they could afford, because they owned way more than the home was worth. If you can afford to make the payment, and you purposely don't, that's strategic default. There's nothing responsible or commendable about strategic default. Any self-respecting adult should see that. So don't do that.

File for bankruptcy when you see no other way out of the situation. If you're just in a lot of debt, but you're able to pay it, read our [Get Out of Debt Guide](#) or go talk to a professional. Consolidate your debt if you have to. But bankruptcy is only for an otherwise unsolvable situation. You don't want to file for bankruptcy on a whim, and I'll explain why below.

## What to Do Before Filing for Bankruptcy

So you've decided that bankruptcy may be for you. You don't see another way out.

The process for filing isn't always fast, but it is relatively easy. However, before you file for bankruptcy, you should do a few things:

- **Get your finances in order.** Make sure you need to file for bankruptcy. After you get all of your finances in front of you, you may see that you don't need to file for bankruptcy, [you just need a plan](#). You may be able to make it work. It almost always seems worse than it is, until we actually look at it on paper.
- **Figure out which debts won't be forgiven.** As mentioned earlier, things like student loans and taxes are not forgiven with bankruptcy. You may find that most of your debt comes from debt that isn't going to be wiped out with bankruptcy. In that case, you don't need bankruptcy, you need to call the lenders (schools, student loan companies, the government, etc.) and tell them you're unable to pay. They will usually set up a payment plan.
- **Think about your co-signers.** Co-signing is [almost never a good idea](#), but you may have talked some people into co-signing for you in the past. If so, you should make sure they aren't stuck with your debt when you file. It depends on the company you took the loan out with, but it's not uncommon for a co-signer to be stuck with the full balance once you file for bankruptcy.
- **Assess what will be affected.** Do you have a home? Other property? Vehicles? Furniture? Retirement plans? These are all things that could potentially be

affected and taken from you when you file, though some of these things are usually protected, such as retirement plans.

You have to be prepared when you file for bankruptcy. The last thing you want is to file without realizing your home is going to be taken away. Then you're bankrupt and practically left on the street. I've personally known people who lost everything and were literally living on the street with their family. Full disclosure: this happened before I met them; otherwise, they would have been welcomed at my house.

## **The Negative Effects of Bankruptcy**

Bankruptcy stays on your credit report for seven to ten years. So what does that mean? It means that you will have a hard time doing anything that involves your credit report for several years. This includes getting a loan, but it also includes things like getting hired.

In the scope of life, a decade isn't as long as it sounds, but you will have to expect your life to be different until you've fully recovered from the bankruptcy. It's good that you can't file for bankruptcy and then immediately go out and get back into the same amount of debt, and that's why it has that effect on your credit report.

That being said, when you file for bankruptcy, it's likely that you will start seeing credit card offers immediately. Why? Because they know you filed for bankruptcy and they know you can't file again for a long time; therefore, they send the offers. Obviously this is a trap. Your interest rates are going to be astronomical, and they will promote the credit offers as a way to [bring your credit score back up](#). Don't fall for it.

Once you file, you should wait a long time before even [considering more credit cards](#). Credit cards are great if you use them responsibly, but there's a good chance that using them irresponsibly is what got you into bankruptcy in the first place. In that case, I highly suggest using cash for at least the seven to ten years your credit is hurting. Then, and only then, can you possibly make the decision to start using credit cards again, but you have to be honest with yourself about your level of responsibility. You don't want to file for bankruptcy twice, do you?

There are some other areas that are affected by bankruptcy, but they aren't often talked about. For example, if you want to join the military, a bankruptcy could hold you back. It's not impossible, but it will require a waiver, and waivers don't always get approved.

Your best bet is to avoid bankruptcy unless the benefits outweigh the consequences.

# Chapter 8

## 10 Books to Get You Out of Debt Faster

- [The Total Money Makeover](#) by Dave Ramsey
- [Rapid Debt Reduction Strategies](#) by John Avanzini
- [The Richest Man in Babylon](#) by George Clason
- [Maxed Out: Hard Times in the Age of Easy Credit](#) by James Scurlock
- [Zero Debt: The Ultimate Guide To Financial Freedom](#) by Lynnette Khalfani-Cox
- [Debt Free for Life](#) by David Bach
- [Negotiate and Settle Your Debts](#) by Mandy Akridge
- [How to Get Out of Debt, Stay Out of Debt, and Live Prosperously](#) by Jerrold Mundis
- [Manage Your Money and Get Out of Debt Faster](#) by JB Woods
- [Debt is Slavery](#) by Michael Mihalik



## About the Author

My name is Kalen Bruce, and I am the founder of [MoneyMiniBlog](#). I'm really trying to start a revolution here with all this "mini blog" talk. I think mini blogging will become more popular as our days seem to get busier and our attention spans get shorter. Whether your attention span is short or not, mini blogs are much more convenient to fit into your life than full length blogs.

### Mission Statement

I'll show you how to control your finances, create positive habits and get the life you want, through research-backed articles. I keep it short, sweet and simple.

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