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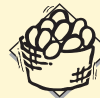

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SECTION 6

1

CHAPTER PREVIEW

Escaping Debt With a Spending Plan

I. Before you begin investing your surplus funds in the markets, you should pay off any outstanding consumer-type debts.

A. For purposes of this book, consumer debt includes credit-card debt, local charge accounts, auto loans, home-equity loans, and even student loans. First mortgage loans on one's home will be covered separately in the next chapter.

B. Aside from the *practical* advantages of getting debt-free—such as less financial stress and savings on interest expense—there are *biblical* ones as well.

C. Having a thoughtful and workable plan for getting debt-free is a sign of maturity.

II. A winning financial strategy begins with a monthly surplus. And making sure you have a monthly surplus begins with a workable budget or spending plan. A good plan can help you:

A. Apply your current income more strategically, as you manage spending decisions more proactively and steadily eliminate your debt;

B. Reach financial goals that would otherwise be unattainable while also equipping you to withstand economic downturns;

C. Increase your giving to the Lord and His work;

D. Stay motivated by giving you a sense of accomplishment as you measure your progress;

E. Wipe out your debt as quickly as possible.

III. Are you using your credit cards or are they using you?

A. Many people are carrying high levels of credit card debt—and are paying for it.

B. Consumers continue to use and abuse credit cards for various reasons.

C. If you decide to use credit cards, follow the four "rules of the road."

D. This chapter offers a plan for digging your way out, and staying out, of debt.

We begin our journey toward financial security and peace of mind by making it a priority to . . .

The wicked borrow and do not repay, but the righteous give generously.
Psalm 37:21

Give everyone what you owe him: If you owe taxes, pay taxes; if revenue, then revenue; if respect, then respect; if honor, then honor. Let no debt remain outstanding, except the continuing debt to love one another, for he who loves his fellowman has fulfilled the law.
Romans 13:7–8

. . . pay off those credit cards, car loans, and other short-term debts. That's right, the first financial fitness test you need to pass is the "debt" test. Webster's defines debt as anything you're "bound to pay or perform; the state of owing something." Using that definition, few Americans are free of debt.

Why place an emphasis on getting debt-free as the first step toward a sound *investing* strategy? Because it's unwise to take on the risks that come with investing unless you have staying power. That means you don't want to be in a position where circumstances unrelated to your investment strategy force you to sell your holdings and use the money elsewhere, such as for interest and debt payments. Also, for Christians, debts are moral as well as legal obligations. They must be honorably met no matter the circumstances.

Have you ever wished you could "begin again" financially?

I once heard a sermon in which a noted pastor read a poem called "The Land of Beginning Again." The pastor then presented the claims of Christ, explaining that He is *King* in the Land of Beginning Again! Each of us has experienced his share of errors, failures, and missed opportunities. We all have things we would do differently if given a second chance. What wonderful news to know that, in Christ, the slate is wiped clean and we do have the opportunity of beginning again.

In a similar fashion, many who have become weighed down by debt wish they could get free. They have learned that the satisfaction that comes with spending is brief indeed when compared to the pressure of making monthly payments that may go on for years. For some, the situation seems hopeless. You may sometimes feel this way yourself.

"I wish that there were
some wonderful place
Called the Land
of Beginning Again
Where all our mistakes
and all our heartaches
And all of our selfish grief
Could be dropped like
a shabby old coat by the door
And never be put on again...
"The Land of Beginning Again"
by Louise Fletcher

If so, take heart! You can make great strides over the next year, but it will require planning, discipline, sacrifice, and singleness of purpose.

Without singleness of purpose and specific goals, we can become like the person described in Scripture as double-minded. *"That man should not think he will receive anything from the Lord; he is a double-minded man, unstable in all he does"* (James 1:7-8). So let me encourage you to engage in a meaningful goal-setting exercise as you work to get debt-free. Here are suggestions for effective goal-setting in any area of life; adapt them to your financial situation.

- **Set goals that are consistent with God's Word.** Many successful people have accomplished much, yet remain unhappy. Having singleness of purpose toward the wrong goals only leads to wrong results. Examine your motivations, as well as your actions, in the light of God's wisdom.

• **Ask God for His guidance.** This is not the same as having scripturally sound goals. This has more to do with having the wisdom needed to set the right personal priorities. God promises to guide us if we're willing to submit to Him. It's not: "Show me Your will, Lord, so I can decide if I'm willing." Rather, it's: "Before You even reveal Your will to me, Lord, the answer is yes."

• **If you are married, set goals together.** If two have become "one flesh," how critical that they have a singleness of purpose in their commitment toward common goals. Few areas will so quickly affect a couple's relationship as a financial plan that limits their spending freedom because it brings mutually conflicting goals into the open. If you can't reach a meeting of the minds on what your priorities should be, perhaps the marriage relationship itself needs some work.

• **Put your goals in writing, signing your name and date.** This act helps cement in your thinking that you really have made a firm commitment of your will to achieving your goals. It is also helpful to have your goals posted where you will see them daily as additional motivation to stay the course when the inevitable temptations to compromise arise.

Aside from the practical reasons for getting out of debt—namely, less financial stress and huge savings on interest expense—there are biblical reasons as well. Here are three that are compelling:

• **To be obedient.** *"Give everyone what you owe him: If you owe taxes, pay taxes; if revenue, then revenue; if respect, then respect; if honor, then honor. Let no debt remain outstanding, except the continuing debt to love one another, for he who loves his fellowman has fulfilled the law"* (Romans 13:7-8). When God's Word tells us to pay our debts, that instruction should be just as binding on the conscience of the follower of Christ as is biblical teaching about loving others, avoiding sin, preserving our marriage, and a host of other moral guidelines that we take seriously.

• **To maintain your integrity.** *"The wicked borrow and do not repay, but the righteous give generously"* (Psalm 37:21). Many Americans look at bankruptcy as a "fix" for their debt problems. In the 12-month period ending in March 2013, more than 1.1 million U.S. households filed for bankruptcy protection. Obviously, many people are faced with debt that they believe to be unconquerable. However, bankruptcy can never be more than a temporary solution for the Christian. When we borrow, we are making a vow to repay under the agreed-upon conditions of the loan. Unless the lender releases us, we are obligated to pay the debt back. In some forms of bankruptcy, the courts establish a repayment plan based on the amount of debt that you can afford to pay and directs the creditors to operate within this plan. These arrangements, rather than help you avoid responsibility for your debts, make it possible for you to honor your vow and maintain your integrity and witness to the faithfulness of Christ.

• **To preserve your allegiance to Christ alone.** *"The rich rule over the poor, and the borrower is servant to the lender"* (Proverbs 22:7). To be in subjection to those from whom we borrow makes it impossible to serve Christ with our undivided energies. Is it possible that we may have missed exciting and rewarding opportunities for serving Him because we weren't available? Those who love Christ want to be available to be used by Him in His kingdom work, but how can He use us in a new vocation or field of ministry when our debt obligations make it impossible to say "Yes!" to the call? We want to conduct our lives so that, to the greatest extent possible, we're free to serve Christ.

The problem we face in attempting to get completely debt-free is that we are our own worst enemies.

Most debt problems result from an excess of spending, not a lack of income. It's not hard to spend money. With a little practice, most of us get really good at it. Advertisers show us things that (they say) will make our lives more fun, exciting, and fulfilling. And if our eyes are bigger than our wallets, lenders shower us with credit cards and encourage us to pamper ourselves. It may be expensive, but after all "we're worth it." For the most part, we're all prone to being tempted by the neat stuff we see around us.

If you've made more than your share of past mistakes, it's never too late to correct poor spending habits! The solution is deceptively simple: You need a plan:

- to keep you on course;
- to remind you where you want to go and help you get there;
- to assure that you spend less than you earn;
- to help you live out your priorities.

Then you'll have a *monthly surplus* that can be applied to gradually eliminating your debts. Let's discuss cash flow plans and how to put one together that fits your situation. but first, a little motivation.

So you want to be be a millionaire? Okay, here's what you do.

Starting when you're 30 (starting earlier would even be better!), save $475 a month. Invest it in a tax-deferred account, such as an IRA, and earn an average return of 7% per year. When you reach your full retirement age at 67, voilà, you'll have a million bucks!

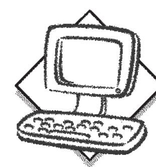
Of course, how much that will buy when you reach retirement is another story. Assuming 3% inflation, $1 million will be worth less than one-half as much as it is today. I throw that in only to impress you with the fact that, while $475 is a nice starting point, you'll probably want to set aside much more.

For now, however, the question is this: Do you *have* an extra $475 each month? Or let me put it this way: If your family were a business, would you be showing

a profit of at least $475 a month? After all the income is counted and all the bills are paid, is there money left over? There better be, because that monthly surplus is the key to building your financial security.

If you're not sure you even have a monthly surplus (let alone how much it is), then you have got two choices. One, you can continue your "easy come, easy go" approach, spending your money according to your moods and whims of the day. That's a fun way to go through life—until you begin drowning in debt. Meanwhile, you're robbing yourself of the opportunity to move toward financial stability and security. By the time you come to your senses, it could be extremely difficult to redeem the situation.

Or, two, you can buckle down and develop a plan to guide your spending decisions. In other words, act like a grown up. Sure, creating and living by a budget takes time. But if you're tempted to skip this section, you do so at your peril. For 99.9% of us, having a plan is absolutely essential to progressing financially. It certainly was for my family (more on that shortly). A winning and gratifying financial strategy begins with your monthly surplus. And making sure you have a monthly surplus begins with a workable budget and—there's no sense kidding ourselves—a healthy dose of self-discipline. A good plan can help you:



Planning Tools
A good introductory look at some of the popular online tools is available to visitors at www.soundmindinvesting.com in an article "Taking Your Household Budget Online."

- Apply your current income more strategically as you reduce or eliminate unneeded or impulsive spending.
- Improve communication with your spouse as you set priorities.
- Steadily eliminate your debt.
- Withstand economic downturns.
- Increase your giving to the Lord and His work.
- Stay motivated by giving you a sense of accomplishment as you measure your progress.
- Reach financial goals that would otherwise be unattainable.
- Invest for the long-term with regularity.

Excellent resources are available that will guide you through the process of putting together a workable spending plan (see sidebar). They generally follow an allocation-type strategy in which all your expenditures are categorized and spending boundaries are assigned to each category. Your spending is monitored weekly (or monthly) to make sure you're staying within the amounts allotted.

My wife Susie and I have used this kind of rigorous approach to control our spending . . .

. . . and it worked well. Here were our "keys to success."

1. Be truthful in your communication. I keep track of the money in our family, and I was the first to realize we were facing a serious financial chal-

lenge (see chapter 28 for background). Susie knew that we were experiencing financial difficulties, but she didn't know just how difficult it had become to balance our income and outgo. Even though some of the events that had caused the problem were beyond my control, I felt like a failure in my role as the financial provider in the family. I hated the idea of telling her our situation, but knew it would take both our best efforts to deal with it responsibly.

2. Be thorough in your preparations. As I began working on our cash flow plan, I listed not only every category of spending I could think of, but also every anticipated item within each category. For example, I didn't just put down $500 for family birthdays—I listed each person on the gift list and how much we typically spent on that person. (The more categories you have, the better idea you'll have of where all the money's going and, consequently, the more ideas you'll get on where you can save.) Furthermore, I didn't just put down round numbers that "seemed right." I used my cancelled checks, Visa bills, and old tax returns to see what I'd actually spent in the past.

Helpful Resources

The trendiness of frugal living has given rise to several helpful newsletters on how to live well on less money. One of the best known is *Debt-Proof Living*. With wit and humor, editor Mary Hunt makes saving money almost a pleasant experience. The design is great, and the content is even better. Mary has gained national recognition by appearing on such programs as "The Today Show" and "Focus on the Family." There's a wealth of money-saving information and encouragement in this website. Go to www.debtproofliving.com. The cost is only $3.99 for a monthly membership, and you can cancel at any time. If you prefer, annual memberships are available for $29.

3. Be willing to change your lifestyle. All of my work simply gave us a picture of where our money had gone in the past. Now it was time to go over the spending categories and discuss what we could do to lower (or temporarily eliminate) the spending in each one. Savings are possible in almost every category if you're willing to make changes in your lifestyle and shopping habits.

4. Be consistent in monitoring your spending. My goal was to account for 100% of our spending—an almost impossible task, as I was to find out! It's amazing how much money is spent a few dollars here and a few dollars there. This was more of a burden on Susie than on me. (In most families, wives handle the majority of the routine spending.) We decided to use old reliable—the envelope system—to help us stay within our budget. Here's how we did it.

Each week, we would put enough cash for that week's expenses in a small envelope that Susie would carry in her purse. If she went to the grocery store and spent $48.24, she'd write "Groceries $48.24" on the front of the envelope at the time she withdrew the money. Ditto the drug store, gas station, school lunch money . . . whatever. There were two advantages to doing it this way. First, she was reminded to keep track of her spending because she was pulling the cash from the actual envelope. Second, she could pace herself as the week went along and she saw her cash begin to dwindle. At the end of the week, she'd give me the old dog-eared envelope so I could track everything on a computer worksheet. Any unspent money was transferred to a new envelope and the process would start over.

An area of confusion for many couples is how to handle the spending that occurs periodically rather than weekly. The way that worked best for us was to divide those items into two groups. I took responsibility for the expenses that were somewhat automatic with respect to the amount and date due—for

example, monthly mortgage, life insurance premiums, utilities, and tuition payments. These were typically paid by check. Susie took those categories where purchasing decisions were involved—birthdays, clothing, household items and repairs—and we set aside an amount in an envelope for each one. These were handled like the weekly envelope system except she typically didn't need to carry these particular envelopes with her every time she went out.

5. Be disciplined in staying within your agreed upon limits. The reason you need to closely monitor your spending is so you will know if you're on target or whether mid-course adjustments are needed. This gives you a certain degree of flexibility. If you go over in one area, you'll need to cut back in another. For example, an unexpected dental bill of $200 may have to come out of your "recreation" envelope if the "medical" envelope is already empty. Or, you might prefer to take $20 out of 10 different envelopes to spread the shortfall around and lessen the impact on any one category.

6. Be mutually supportive. Susie was great! She wasn't critical or complaining in any way. In fact, she continually reminded me that God was our source of supply, and we would just need to do the best we could while waiting on Him to send a solution. Her positive attitude was a tremendous encouragement to me as we "tightened our belt." It was key to have her cooperation. If you and your spouse aren't of one mind as to the importance of developing and living out this kind of lifestyle, conflicts will arise frequently.

The point of all this feverish effort is to make sure you have a monthly surplus. Assuming you're successful in that regard what's the best use for it? I encourage you to *initially* use your monthly surplus toward accomplishing the crucial (and God-given) goal of getting out of debt. Once that's done, all the money that was previously going toward monthly debt payments can then be profitably redirected to an investment portfolio (more on that later).

Here is a tried-and-true seven-step formula for using your monthly surplus to wipe out your debt in the fastest possible time.

1. Stop adding to your debt. Today. No exceptions, no excuses. Obviously, you can't get *out of* debt if you keep going *into* debt. This is fundamental. The remaining steps will not work if you fail here.

2. List all your debts—credit cards, personal loans, college loans, car loans, home equity loans, and house mortgage—in order according to the amount you owe. Include your minimum monthly payment. I also like to show the interest rate, but that's strictly for informational purposes; it has no bearing on the order in which you will pay off the debts. We target the smallest debt first because it has a motivational benefit. When you see progress being made, you're encouraged to continue being faithful to the program.

(Many people elect not to include their mortgage on the list because they

don't feel it's realistic to expect to pay it off early. We'll look at that decision in chapter 2. For now, I want to include it so I can show the impact it would have.)

3. Ask for a better rate. If you have a solid history of paying your bills on time, call the customer-service number listed on the statements of any of your credit cards that are charging especially high interest rates. Ask the person to look up your account. Once they have it on their screen say, "I believe I've been a good customer and I'd like to keep my account with you, but many of your competitors are charging lower rates. Would you be willing to lower your rate?" If they turn you down, ask to speak to a supervisor and repeat what you said to the first person. What's the worst that can happen? They might say no. Then again, they might say yes. And a lower rate will greatly speed up the process of getting out of debt.

4. Determine your payments. If you take on no new debt and dutifully pay the minimum due each month, then that minimum required amount will actually decline a little bit each month. It isn't the kindness of the credit card company; it's math. The minimum due is based on a percentage of your balance, so if the balance goes down a little each month so, too, will the minimum required payment. However, paying only this declining minimum payment is what keeps you in debt for approximately… forever! So, take note of your *first* month's required payment and pay *at least* that amount each month

5. Pay more than the amounts you initially planned. If you really want to jump start the process, look for ways to tighten your belt a little more (or bring in some extra income) so you can increase this number. This should be possible because the minimums set by the credit card companies are abnormally low. Most credit cards require only 2%-3% of your total balance as a minimum monthly payment. *They don't want you to pay off your balance quickly*—the longer it takes, the more they'll make on your interest payments.

6. Target your smallest debt first, applying any extra monthly surplus you come up with toward that debt. When that debt is paid off, take the money you had been paying on it and add it to the amount you're paying on your second smallest debt. This technique is called the "debt snowball," because the continual rolling over of your monthly payments toward each succeeding debt grows in a powerful way, just like rolling over layers of snow can quickly build a large snowball.

7. Persist, persist, persist. For motivation, use an online calculator to prepare a time line that shows how long it will take you to get debt-free. Reflect on how much money you'll be saving on interest costs by speeding up the process.

To see a debt snowball in action, look at the sidebar on the right where

we will track the experience of Tom and Linda, a young couple with a typical variety of debts. Table A shows their situation when they begin. They have consumer loans totaling $22,334 plus a remaining balance of $125,893 on a house mortgage they took out two years ago. Their minimum monthly payments total $1,374. Since these are already factored into their budget, their monthly surplus isn't needed to make those payments. They decide to use $100 of their monthly surplus for their debt elimination strategy. This brings their total monthly payments to $1,474. This is the amount they will pay each month until their creditors are all paid.

Tom and Linda begin their program by first targeting the Visa debt because it's the smallest. They add the $100 to the $25 minimum payment they had been making and begin sending in $125 each month. Table B shows the results after seven months. Most of their debt balances have fallen rather slowly due to their making only the minimum payments required, but the Visa debt has disappeared entirely. Now they have $125 a month available they no longer need to send to Visa. Resisting the urge to spend this new "found" money, they begin paying it toward their Discover card bill, the next debt on their list. They had previously been paying $42 a month; now they can send in $167.

At the 15-month mark, the Discover bill is history, and they move on to the MasterCard debt. Adding the $167 they had been paying to Discover to the $83 going to MasterCard allows them to up their monthly payment to $250. Since the MasterCard balance at that point is only $529, it doesn't take long to eliminate that debt. In the 19th month, they're able to increase the monthly student loan payment to a hefty $482 ($232 previously plus $250 from the retired MasterCard debt). It's paid off in another 11 months.

With the student loan being paid off by the 30th month, they take that $482 and add it to the $294 a month going toward the car loan. The new amount is more than enough to pay off the balance of the car loan in only two more months. In just 32 months, then, Tom and Linda paid off over $22,000 in debts, and saved themselves thousands of dollars in interest charges to boot.

Plus, they now have an extra $776 a month in their monthly surplus. They've had to sacrifice to stay on course (which involved living within their budget and not adding any new debt), and you can't blame them if they want to celebrate a bit by using that $776 for lifestyle treats they've been denying themselves. Or they might take just part of it for enlarging their budget a bit, and put the rest toward a long-term investing strategy.

But, just for the sake of argument, let's say they decide to keep rolling their debt snowball and go after the house mortgage. Originally a

TOM AND LINDA'S DEBT SNOWBALL STRATEGY

Table A: At the Outset

Debt Item	Balance Due	Fixed Payment	Interest Rate
Visa	$ 826	$ 125	2.9%
Discover	1,412	42	16.9%
MasterCard	1,786	83	15.9%
Student Loan	8,628	232	7.0%
Car Loan	9,682	294	4.0%
House	125,893	698	5.0%
Total	$148,227	$1,474	

Table B: After 7 Months

Debt Item	Balance Due	Fixed Payment	Interest Rate
Discover	$ 1,240	$ 167	16.9%
MasterCard	1,354	83	15.9%
Student Loan	7,334	232	7.0%
Car Loan	7,831	294	4.0%
House	124,664	698	5.0%
Total	$142,423	$1,474	

Table C: After 15 Months

Debt Item	Balance Due	Fixed Payment	Interest Rate
MasterCard	$ 792	$ 250	15.9%
Student Loan	5,789	232	7.0%
Car Loan	5,663	294	4.0%
House	123,214	698	5.0%
Total	$135,458	$1,474	

Table D: After 19 Months

Debt Item	Balance Due	Fixed Payment	Interest Rate
Student Loan	$ 4,804	$ 482	7.0%
Car Loan	4,557	294	4.0%
House	122,471	698	5.0%
Total	$131,832	$1,474	

Table E: After 30 Months

Debt Item	Balance Due	Fixed Payment	Interest Rate
Car Loan	$1,100	$ 776	4.0%
House	120,363	$698	5.0%
Total	$120,467	$1,474	

Table F: After 32 Months

Debt Item	Balance Due	Fixed Payment	Interest Rate
House	$ 119,522	$ 1,474	5.0%

30-year, $130,000 loan, there's still 25+ years to go. How long would you guess it would take to retire the remaining $119,522 if they paid an *extra* $776 a month toward their principal each month? Just a little over eight years! Not only would they then own their house free and clear, but they'd save more than $64,000 in interest payments by paying off their mortgage 17 years early!

Now, let's turn to the challenging task of managing our credit and using credit cards wisely.

A Credit Card Vocabulary

Before we go any further, let's review some basic credit card lingo.

- Annual Fee
  Flat fee some credit cards charge you each year for having their credit card.
- Transaction Fees
  Fees for cash advances, late payments, going over your credit limit, etc. Some credit cards even charge an inactivity fee if you don't use your card.
- Finance Charges
  Interest costs and all related transaction costs.
- Annual Percentage Rate (APR)
  Interest rate measuring your credit cost as a yearly rate.
- Periodic Rate
  Interest rate applied to your outstanding account balance when calculating your current finance charge.
- Grace Period
  The number of days you're allowed to pay off your balance before the credit card company starts charging you interest. Once a balance goes unpaid in any month, the grace period is lost until the balance is once again paid down to zero. Typically this means that new charges on that card begin incurring interest costs the day the purchase is made.

According to recent estimates based on Federal Reserve data…

…almost one-half of U.S. households have at least some credit-card debt. Of those that do, the average balance is around $15,000. Of course, some use credit cards for convenience and pay the balance in full every month. For others, though, too much credit-card use leads to an ever-growing credit-card debt.

Most of us are aware of the pitfalls of credit cards, so why do we continue to use them?

• **Convinced by convenience.** Simply put, they're easy. And you can use them almost everywhere. Why mess with carrying cash or writing all of those checks? Just pull out that handy, little card and you're on your way. And how about the luxury of pay-at-the-pump gasoline? Enough said.

• **Just no other way around it.** Sometimes it's hard to get what you want any other way. From buying online to reserving a hotel room, credit cards seem to be the new necessity.

• **Seeking rewards.** From frequent-flyer miles to insurance and extended warranties, we love the perks. We figure, we're going to spend the money anyway, so why not get something for it?

• **Keeping up with the Joneses.** We see something we want but don't want to wait until we can pay for it outright. We work hard and feel like "we deserve it."

• **Emerging emergencies.** Like a comforting security blanket, that extra credit card is always there—just in case.

• **Perishing for lack of knowledge.** By focusing on the monthly minimum rather than the total cost, some of us justify credit purchases by rationalizing that we can afford the minimum credit card payment. This leads to our first lesson in negative compounding interest. By then, it's often too late and we're overwhelmed by the deep, dark hole of credit card debt.

Fortunately, there's a better way.

If you're going to use credit cards, here are four "rules of the road."

1. Use credit cards only for pre-planned, budgeted items. If you have $50

budgeted for clothing this month, you can charge $50 worth of clothing.

2. Record your credit-card purchases as if you paid cash. Electronic budget tools such as Mint.com will do this for you. But if you use a paper and pencil budget, record your credit-card spending when you make each purchase. If you charged $50 worth of clothing purchases today, write it down today. It counts against this month's clothing budget.

3. Always pay your entire balance in full each month.

4. If you can't follow rules 1-3, don't use credit cards!

To understand what lenders take into consideration when deciding whether to extend credit, you need to know a few basics about credit scores.

Your credit score matters greatly in determining if you will qualify for a mortgage and how much you'll pay.

FICO credit scores range from 300-850, with the lowest loan rates going to those with the highest scores. (FICO stands for Fair Isaac Corporation, the company that created the credit score.) To obtain the best rate on a mortgage, you'll need a score in the mid 700s or higher.

If you think your score may be on the low side, it's worth paying to find out before applying for a mortgage. (As maddening as it may be, your credit *report* is free, but not your *score*.)

You have three credit scores, one from each of the three credit reporting bureaus. At www.myfico.com, you can purchase your scores from two of the three—TransUnion and Equifax—for $19.95 each. The third bureau, Experian, does not sell its score. (Also go to www.annualcreditreport.com where you can get your free credit *reports* from all three of the bureaus.)

The two credit scores you buy should be within about 50 points of each other. If not, something may have been misreported to one of the bureaus, so go over your credit reports with a fine-tooth comb.

If your scores are lower than you think they should be, look for indications that you have paid your bills late. If so, and if you know that information is incorrect, contact the creditors in question and ask them to change how that information was reported to the bureaus. Next, look at your credit utilization. That's the percentage of available credit you use. The best scores go to those who use 10% or less per line of credit and across all lines of credit. If yours is much higher than that, start using less. For example, if you have a credit card with a $10,000 limit, spend no more than $1,000 per month on that card. (Of course, pay your bill in full each month).

If you and your spouse apply for a mortgage together, all six of your scores will be reviewed (each of you has three). Lenders typically choose the lower

of both of your middle scores.

If you are applying for a mortgage that will require only one income (more on this wise decision later) and the person whose income you will use has a score in the mid 700s or higher, you don't need to worry about the other person's score, at least not for the purpose of applying for a mortgage. It is fine to apply in only one spouse's name. In most cases, though, it's best to *title* the house in both spouses' names.

To save on interest costs, many play the "transfer game."

You've probably heard about this—transferring an existing balance to a new card in order to get a lower introductory interest rate. Some people shuffle their balances from one card to another when the introductory period expires. By doing this, all of their payment goes toward reducing the debt's principal, rather than paying interest. Since this reduces their profitability, credit card companies are making the process more expensive. Many are now charging "transfer fees" or treating transfers like cash advances.

Financial author Matt Bell, in his book *Money Strategies for Tough Times*, suggests a cautious approach to employing a transfer strategy, and offers a few shopping tips:

> *Whenever I teach workshops about getting out of debt, someone always asks about the wisdom of transferring their high-interest credit card balances to a new card offering a low or even 0 percent interest rate. This sounds like a smart idea, but watch out. It comes with numerous hidden snares. Keep in mind that making this transfer won't necessarily change the amount you have to pay each month, unless the new card bases its minimum-required payment on a lower percentage of the balance than your current card.*
>
> *When considering a balance transfer, here's what to look for in the fine print:*
>
> • ***Is there a transaction fee?*** *Some cards charge a fee based on a percentage of the transferred balance.*
>
> • ***How long will the 0 percent rate be in effect?*** *Some cards offer the rate for only a short "introductory period."*
>
> • ***What money does the low rate pertain to?*** *With some cards, it applies only to the transferred balance. The card company may then require you to make a minimum number of purchases with your card each month, with those purchases subject to a higher interest rate. Any payments you make each month will not apply to those new charges until you finish paying off the transferred balance. Unless you pay off the entire transferred balance and your new charges, you'll rack up interest charges.*
>
> • ***What happens if you don't follow all the rules?*** *If you make one late*

Recommended Resource

If you follow all the steps in this chapter and still can't make even the minimum payments on your debts, it may be time to get in touch with a credit-counseling agency. Here's some good advice on how to do that from financial teacher Matt Bell:

Among other services, these agencies offer debt management plans (DMP), in which they negotiate with creditors on your behalf, usually lowering the monthly payments and often stopping additional late and over-limit fees. You send the credit-counseling agency one check each month, which the office will divide among your creditors. When you begin working with a credit-counseling office, many collection activities will stop.

There are thousands of such offices around the country. Be careful in choosing one, however, as a number of unscrupulous players have entered the field. Find a local office associated with the National Foundation for Credit Counseling (NFCC). Founded in 1951, the NFCC is the oldest and largest network of community-based, nonprofit credit-counseling agencies in the nation.

All NFCC counselors are certified credit counselors, and all of the agencies are accredited by an independent third party. You can search for an office near you on the NFCC website at www.DebtAdvice.org or by calling 800-388-2227.

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payment or exceed your credit limit one time, will the company raise your rate to its standard rate or higher?

One other factor to consider is the potential impact on your credit score, that three-digit number that affects everything from your ability to get a job to how much you pay for insurance. Opening any new account gives you access to more credit, which can lower your score. Also, make sure your debt-to-available-credit ratio does not get too high. A good rule of thumb is to keep that ratio at 10 percent or below (this advice even pertains to people who pay their balance in full each month), so know what your credit limit will be on the new card and see what percentage of that limit your transferred balance will constitute.

Once you are well on your way to escaping the credit-card pit, a few additional steps remain.

• **Close old accounts.** As you pay off and transfer balances, close unnecessary accounts immediately. Your total available credit line will be analyzed to determine your credit risk to a given credit card company (which in turn affects the interest rate they're willing to give you). There's a possible exception, however. If you've always been prompt in your payments and have a good standing with a credit card you've used for a long time, that can improve your credit score—you may not wish to close such accounts.

• **Take advantage of online payment convenience.** To avoid late payments, you may want to try paying your bill online as soon as you receive it. Most banks allow you to specify when the payment will be posted (that is, charged) to your account. This allows you to handle the paperwork on the bill immediately (so you don't forget), but set the payment due date, which may be weeks away, in the future.

• **Beware cash advances.** Most cards charge a cash advance fee of 2% or more of the advance amount. They may throw in a flat dollar amount as well, as in 2%/$10. This means the fee will be the *greater* of 2% or $10. If you pay $10 to get a $200 advance, that's a 5% fee. And that's just for handing over the money. In addition, upon taking the advance, interest begins to accrue immediately at a rate that is typically *higher* than your regular interest rate. Lastly, any payments you make will be *applied to the lower interest balances first*!

• **Stay on top of things.** Credit card companies can change their terms by written notice, so pay attention to everything they send you. They may decide to increase your interest rate because they determine your risk has increased. Watch out—increasing your credit limits or making late payments (to them or any other creditor) may qualify you for a rate hike! Make sure to check your credit report annually.

Once you find a local office accredited by the NFCC, go a step further and check with the Better Business Bureau via its website (www.bbb.org) to see if any unresolved complaints have been filed against the office. If you can't find a credit-counseling office near you or prefer not to visit the office in person, check for one that offers its services online or over the phone.

Once you select an office, get all fee information up front and in writing. Typical debt management plan fees include a one-time setup fee of about $50 and monthly fees of $35. If your finances are really tight, you may be eligible to work with an agency at no cost because one of the NFCC's standards for membership is a willingness to work with people regardless of their ability to pay.

One sign that you're talking with the wrong agency is if they require much higher fees. Another warning sign is if the agency tries to put you into a "debt management plan" (DMP) without first looking for other solutions to your situation, such as helping you find ways to lower your expenses or increase your income. According to Gail Cunningham, spokesperson for the NFCC, "If we've pared the budget, explored income options, and there still isn't enough money to service living expenses and debt obligations, then we'll consider a DMP as one of the resolution options."

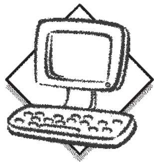
A debt management plan can be used with only certain unsecured debts, such as credit card and medical debt. Student loans cannot be renegotiated through credit-counseling offices. Whether tax debt can go through a DMP depends on where you live. At the least, a credit-counseling office can provide guidance about tax debt. You will have to keep making your mortgage and vehicle payments separately. However, the NFCC also has a large number of certified housing counselors who can help you with foreclosure-prevention assistance.

— From "Money Strategies for Tough Times" by Matt Bell

• **Celebrate as you go!** You're following a long, hard road, so it's important to celebrate when you've reached certain milestones, such as paying off an account or reaching the halfway point. Be creative—get the family together for a bill burning or bake a cake!

As we wrap up our discussion of credit cards, take a moment to consider why you use credit cards.

Determine how the use of credit cards affects your ability to stay on your budget, and by extension, your ability to reach your goals. Identifying any unhealthy tendencies is the first step towards overcoming them. Ask the Lord to show you practical ways to improve in your handling of credit.



Credit Counseling

One of the most well known credit counseling organizations is The National Foundation for Consumer Credit. The Atlanta office of the Consumer Credit Counseling Service is a member. Visit them at www.cccsatl.org.

One *alternative* to credit cards—that sacrifices little of their convenience—is using debit cards. These cards are a hybrid of credit cards and checks. You use them like credit cards, but the funds are automatically withdrawn from your checking or savings account, as they would be if you'd written a check. By treating these plastic purchases like a check, you save yourself the end of the month trauma of discovering long-forgotten charges on your credit card statement.

Since debit cards access your money directly (and immediately), you may be in for some headaches if your card number is stolen and you don't realize it quickly. Until the problem is resolved, you may have bounced checks and corresponding fees. Fortunately, your debit card theft-liability protection is similar to that of a credit card. For more information, visit the "consumer protection" section of the Federal Trade Commission web site at www.ftc.gov. ◆