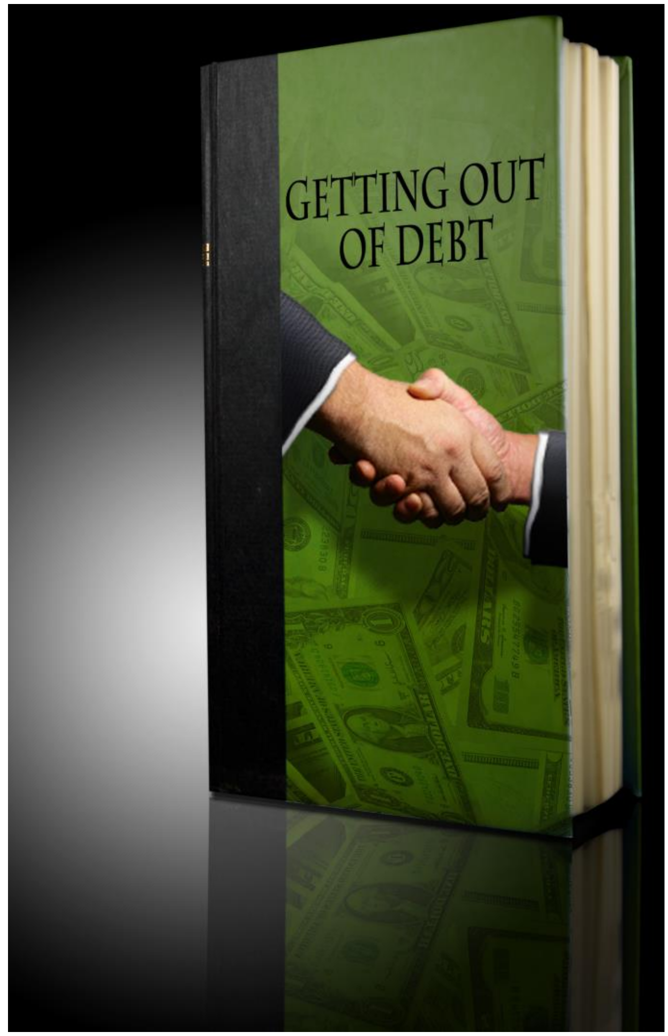
The Guide to Getting Out of Debt – and Staying Out



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Chapter 1: Big questions about debt

What is debt?

"Debt" is a big word in just four little letters. The dictionary defines debt as something a person owes to another person or company.

In historical times, people could go to prison for being in debt. Today, that is no longer the case. But for the millions of people who struggle every day with how to get out of debt – or even how to keep up with debt payments – debt can feel like a prison.

This guide will help you open the door to that prison and walk out to freedom. Read through it, pay careful attention to the guidelines and choices laid out, and then take action. In time, you can achieve freedom from your debts and create a healthy relationship with money.

America's debt situation

Money is ever-present in most societies today. We are bombarded with ads and desirable goods to buy. In addition, we have to buy life's daily necessities, which seem to be more expensive every week. Along with this growing emphasis on spending, debt is climbing in America.

Here is a snapshot of what that means to average Americans:

- The not-so-good news: The total outstanding balance of all debt owed by all U.S. consumers grew by nearly 13 percent from 2008 to 2013.[1]
- Better news: Consumer *revolving* debt, the amount of debt owed on balances that can change from month to month, such as credit cards, dropped by more than $170 billion dollars from 2008 to the end of 2013.[2]
- But there is a catch: Part of the reason debt declined during that period is that more consumers were totally unable to pay their bills. Credit card charge-offs – debt the credit card banks write off as never being paid at all – were almost twice as high in 2009-2010 than any previous time on record. These issues were due to the "Great Recession," which is generally considered to have ended in late 2010. (At last, consumers are now catching their breath, or have lost their credit, and charge-off rates have returned to near normal levels).[3]

1 Federal Reserve Statistical Release, Consumer Credit, retrieved Jan. 27, 2014, from http://www.federalreserve.gov/releases/g19/Current/.
2 Ibid.
3 Federal Reserve, Charge-Off and Delinquency Rates on Loans and Leases at Commercial Banks, retrieved Jan. 27, 2014, from http://www.federalreserve.gov/releases/chargeoff/chgallsa.htm.

- As of December 2013, one in every 1,136 homes was in foreclosure..[4] Clearly, consumers still are recovering from the pain of the Great Recession. Fortunately, however, foreclosure starts have declined by 29 percent since 2012, and bank seizures of homes have declined 40 percent in the last year.[5]
- Bankruptcy numbers climbed higher every year from 2005-2010, when Congress passed the bankruptcy reform law. In 2010, there were nearly 1.6 million bankruptcy filings in the United States, a number that was 9 percent higher than in 2009. In 2013, however, the number of bankruptcies filed declined 12 percent from 2012..[6] These changes are very good news, although they might reflect that most people who can declare bankruptcy already have done so. And still, they reflect some 1.75 million individuals being involved in bankruptcy filings every year.
- During the early 2000s, the U.S. unemployment rate hovered at or below 6 percent. The "Great Recession" brought unemployment nationwide close to 10 percent for three years. By year-end 2013, the unemployment rate nationally was 6.7 percent, but some of this decline was due to “discouraged workers” who had quit even seeking work. Another factor was that jobs were not being created quickly enough to offer places to new workers, such as new graduates.[7] In addition, some experts believe the employment rate might never return to the 4 percent days because companies have learned to do more with less and automated many systems.[8] Americans will feel the effects of the weak labor market for years to come, and people who have fallen into debt during these tough times may be working to pay off debt for years. Some will fall further and further behind.

People are still struggling with credit cards and carrying too much debt. The U.S. Census Bureau reports that in 2000, 159 million people in the United States had at least one credit card. By 2006, that number had risen to 176 million – but in 2009, it had dropped to 159 million. What happened? Again, the answer is that the “Great Recession” crippled people’s finances. More credit card banks closed credit card accounts, leaving people with lesser access to credit. By 2012, the agency predicted, 160 million people would hold credit cards.[9] Still, the fact remains that the average American is able to spend more than they can afford by using credit. It’s true that credit makes it easy for people to purchase big- ticket items like cars and homes. But it also means people who are not careful can easily build up big debt balances – and run into financial problems if the economy turns sour.

Carrying this type of debt, of course, has become epidemic in this country. The average US household that carries monthly credit card debt owes $15,270. [10] Fully 33 percent of Americans do not pay their bills on time.[11]

Read on to find out if you have too much debt – and what to do about it.

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4 Statistics retrieved Jan. 27, 2014, from http://www.realtytrac.com/statsandtrends/foreclosuretrends.
5 Ibid.
6 Statistics retrieved Jan. 27, 2014, from http://news.uscourts.gov/bankruptcy-filings-drop-12-percent-fiscal-year-2013.
7 Economic News Release: Employment Situation Summary, US Bureau of Labor Statistics. Retrieved Jan. 27, 2014, from http://www.bls.gov/news.release/empsit.nr0.htm.
8 Information retrieved Jan. 27, 2014, from http://www.marketplace.org/topics/economy/commentary/technology-blame-chronic-unemployment.
9 Retrieved Dec. 20, 2012, from http://www.census.gov/compendia/statab/2012/tables/12s1188.pdf
10 Statistics retrieved Jan. 27, 2014, from http://www.nerdwallet.com/blog/credit-card-data/average-credit-card-debt-household/.
11 http://www.nfcc.org/newsroom/FinancialLiteracy/files2012/FLS2012FINALREPORT0402late.pdf

Chapter 2: Do you have too much debt?

In a world where television commercials tell us cash is not king, and sometimes even tell us it is annoying to others if we pay in cash, it's easy to get mired in credit card debt. The rise of online shopping makes it easy to turn to plastic for payment. And incentives such as frequent flyer miles and "rewards" encourage credit card use. In addition, most people rely on credit to make big purchases like a home or car, to make travel reservations, and to pay for lifetime investments such as a college education.

If you have too much debt, you probably know it from the feeling of discomfort that you have when you think about your financial situation. These are some other indicators that you have too much debt:

- You can't pay your monthly bills, or you can only make minimum payments due.
- You are barely keeping up, and your credit score is suffering.
- You can't complete and pay for needs such as home repairs or medical care.
- You have no money left to save for retirement or other personal goals (like vacation).
- Creditors or collection agencies are calling.
- You must borrow from relatives or from a payday loan company to make ends meet.

If you are experiencing any of these situations, now is the time to take control of your debt! See Chapter 3 for more information about creating a budget, and Chapter 4 for strategies on how to get out of debt.

Healthy vs. unhealthy debts

Managing your debt is an essential part of money management. Just about everyone has some degree of debt. But it is important to understand the differences between "healthy" and unhealthy" debt. Yet no matter how "healthy" a debt is, remember that any debt you cannot afford can quickly swerve into the area of unhealthy debt.

Types of debt that can be considered "healthy" are:

1. **Student loans.** *Student loans further one's education and increase future earning potential. It is important, however, to borrow only for genuine needs, and make wise choices that minimize debt.*
2. **Mortgages.** *Home ownership is an asset that can build equity and net worth.*
3. **Necessary medical bills.** *Health always takes priority.*
4. **Business debts.** *Borrowing for business can be necessary to build a business and future earnings. Business debt can be healthy as long as you enter into it with a sound business plan in place.*
5. **Car loans.** *Most people need a car to get around, including getting to and from work. Sometimes, the only way to obtain a car is to finance the purchase.*

When we call a debt "healthy," we don't mean you should feel free to spend anything you want as long as it falls into one of these categories. Instead, keep these guidelines in mind:

- **Only take out student loans for education that furthers concrete goals.** Students who are unsure what they will study can always take a year (or more) off before they start school. Or enroll first in community or two-year college, where it is more likely that you can pay tuition and fees from the income from a part-time job. Then transfer to a four-year school when you know your goals.
- **Take out a mortgage only if you can afford it.** Don't buy a more expensive house than you need. In most cases, a house payment should total no more than 35 percent of your gross income. When you calculate the monthly house payment amount, include mortgage insurance and property taxes, as well as homeowner's insurance, maintenance costs and HOA fees.
- **Don't take on a car payment that eats up too much of your budget.** Instead of choosing a car based on what looks good, start with your budget. Determine how much you can afford to spend each month. Then use an online calculator or talk with your lender to determine the total lease or purchase payment you can afford. Only then are you ready to shop for a vehicle.
- **If you are running up debt to capitalize a business,** make sure you have a solid business plan, budget, and large emergency fund in place.

The dangers of unhealthy debt

Other types of debt can create more problems than they solve, especially credit card debt.

Credit cards are convenient and necessary in today's society. Even if you are not building up debt, most people will need a credit card to conduct online transactions, rent a car, or reserve a hotel room. But carrying credit card balances means you might be paying hundreds or thousands of dollars in interest and fees on top of the price of the goods you purchased.

Asking yourself if what you're buying has <u>lasting value</u> is a sure clue as to whether a debt is healthy or unhealthy. Healthy debt provides lasting value. It helps you achieve a long-term goal (for example, a mortgage enables you to become a homeowner). On the other hand, make certain that you do not use revolving debt (credit cards, personal loans, etc.) for things that lose value or will be "used up" (electronics, clothes, video games, food, etc.). These items will be gone long before the debt is – but you'll still have the obligation hanging over your head, and the interest you pay on these purchases inflates the cost.

Along the same lines, think about the real cost of an item paid for with a credit card when you cannot pay the entire bill off at the end of the month. Would you buy the item if you knew the <u>real</u> cost was not the price tag in the store, but the cost you pay including all the interest? Your $40 pair of jeans could actually cost you $80 if it takes you years to pay it off. To avoid unhealthy credit card debt, every time you make a credit card purchase, ask: Will I be able to pay the bill in full when it comes? If the answer is "no," then don't make the purchase. And remember: Even when you're sure you're making a good choice, never commit to more debt than you can afford to pay each month.

Chapter 3: Creating a budget

Although many people shudder at the idea of budgeting, it is the No. 1 way to spend and save smartly, and to get out – and stay out – of debt. A budget, or a spending plan, is simply a way to intentionally spend and save money to meet goals.

- Everyone has to spend money to cover necessities. (For some people, the necessities of life take up almost all of their income.)
- Some money should be saved.
- Some money should be used to pay off debt.
- Other money can be used to purchase discretionary (wants, not needs) items such as meals out, entertainment, vacations or other luxuries.

Here are some suggestions on how to create a budget that will allow you to meet your financial goals and avoid debt.

Creating a projected budget

We'll begin by calculating your income and expenses, so that you can make an estimate of where you will spend your money.

To get started, take a look at the personal budget worksheet in Appendix B (see pages 26-29 and review the categories listed. You will see a series of main categories, and then specific expenses listed within the categories. You will also see categories for gross income and taxes on income. Some of your expenses will be the same every month, and some will vary.

Your projected budget lays out how you want to allocate your money each month. Your budget should include provisions for emergencies and savings, as well as allocations for any bills that are paid annually vs. monthly (e.g., insurance and property tax). Ideally, your projected budget will not show a negative situation (also known as "in the red") at the end of the month. If you are concerned about accuracy, set up a short-term budget for a three-month period. After reviewing your results, you can proceed to a yearly budget.

Ideally, you'll have complete records of your expenses and bank records to review so that you can determine projected amounts. But do not be discouraged if you have incomplete records. You can start keeping thorough records from today onward.

Identify and categorize expenses

Expenses fall into several categories: fixed expenses (those that do not change each month) and variable expenses (those that do change each month). Understanding these two types of expenses are critical to creating a budget, paying down debt and avoiding additional debt.

First, identify all bills that represent fixed expenses. Examples of fixed expenses include rent or mortgage, health insurance, a car payment and some utilities. The costs for these expenses typically do not change significantly from month to month.

If you are unable to cover your basic, fixed expenses, or can cover them only by running up credit card debt, you are facing serious financial trouble. You may first need to identify some expenses that are actually not fixed, such as dinners out, and then eliminate them in order to stabilize your financial ship. Or you might need to consider debt relief solutions such as credit counseling and debt settlement. See Chapter 5.

Next, identify your variable-expense bills, which include payments for food, clothing, gasoline and entertainment costs. Remember to include a line for savings (even if it currently is zero). Aim to save 10 percent of your income, the first part of which will build an emergency fund to use for any unforeseen situation that arises, such as an accident or unforeseen medical expenses, or an annual bill that you did not account for in your budget worksheet.

In this process, if you can't come up with the exact amount for an expense, estimate what you spent as best you can. Pay particular attention to expenses that you pay annually or periodically. Because you do not spend money on them each month, it can be easy to leave them out. To calculate annual expenses, take the annual expense for an item and convert it into a monthly amount. For example, if your car insurance is paid once a year and costs you $900, divide by 12 to calculate the monthly amount, which would be $75.

Also, look carefully at expenses that vary on a seasonal basis, such as your utility bills. If you know the dollar amount listed for the most recent month is not representative of what you normally spend, use your best estimate for your average monthly expense and track that category carefully.

Enter expense figures

Once you gather all your bills, you can start filling in your worksheet. Enter your figures in the "projected" column. Don't worry about complete accuracy. The purpose of filling in the projected numbers is to compare them later on with your actual expenses.

EXPENSES		
	Housing	
Type	Projected	Actual
Mortgage Payment	$	$
Property Taxes	$	$
Rent	$	$
Home Insurance	$	$
Utility - Electricity	$	$
Utility - Natural Gas	$	$
Utility - Water/Sewer	$	$
Utility - Garbage Collection	$	$
Utility - Local Telephone	$	$
Home Upkeep	$	$
Housing Sub-Total	*$*	*$*

Enter projected income and taxes

Your next step is to fill in projected gross (pre-tax) income amounts. Your sources of income include your primary job, a second job, any interest or investment income, and any alimony and child support. Income can vary from month to month, for reasons such as reduced hours, overtime pay, bonuses, commissions or seasonal work.

To determine your income amount, collect your recent pay stubs. You want to use pay stubs for a one-month period that best represents your normal income. Make sure to include all sources of income. Then enter your actual gross income on the spreadsheet.

INCOME		
	INCOME (gross)	
Type	Projected	Actual
Income #1	$ 7,500.00	
Income #2	$ -	
Interest Income	$ 100.00	
Dividend Income	$ 200.00	
Investment Income	$ -	
Other Income	$ -	
Total Gross Income	***$ 7,800.00***	***$ -***

	INCOME (tax)	
Type	Projected	Actual
Federal Tax	$ 1,500.00	
State Tax	$ 600.00	
Social Security	$ 300.00	
Total Income Tax	***$ 2,400.00***	***$ -***

After your income, total all of the taxes that are deducted from your paycheck. Include your state and federal income taxes as well as your FICA (Social Security and Medicare) obligations. Include the taxes on any other sources of income such as interest or dividends. Estimate these taxes on a monthly basis.

Alternatively, if your paycheck is always the same, you can skip the tax lines and write the after-tax amount (your take-home pay) on the “income” line.

Calculate projected cash flow

Your projected income and expenses will show whether you are earning enough to cover your monthly expenses and avoid going into debt. In doing so, they will serve as a basis for you to learn about your cash flow, which is simply defined as all cash coming in (from wages, salary, sales, interest, gifts) minus cash going out (expenses). It is important to maintain a positive cash flow, and budgeting will help you do so.

1. Total your projected expenses – Calculate your total expenses by adding all the subtotal amounts of each expense category.

2. Total your projected net income – Calculate your total net income by subtracting your total taxes from your gross income total.

3. Balance your budget **–** Subtract your total expenses from your total net income. Do you have a surplus (positive cash flow) or a deficit (negative cash flow)?

Balancing the Books

	Your Cash Flow	
Type	Projected	Actual
Total Net Income	$ 5,400.00	$ -
Total Expenses	$ 4,850.75	
Difference	***$ 549.25***	***$ -***

Comparing projected to actual figures

Once you have entered your projected numbers, the next step is to keep accurate records of every expense you have, every day, down to the last coin in your pocket. Many people keep a daily spending log to track expenses. Enter your actual expenses each day or each week into the "actual" column in your budget to track and evaluate how your actual income and expenses compare to your projected income and expenses.

By comparing projected amounts to actual amounts, you will see areas where you have over- or under-budgeted, and where you are struggling with overspending. You can then modify your projected figures so that your actual amounts mirror those. Doing this on an ongoing basis is the process of budgeting.

Don't be discouraged if your numbers do not match initially. Instead, use the information to identify why you overspent or why you budgeted the wrong amount. Continue to compare what you planned and what you actually spent. Over time, this practice will improve your projected budget's accuracy and strengthen your discipline for sticking to your planned budget.

EXPENSES

Housing		
Type	Projected	Actual
Mortgage Payment	$ 898.50	$ 895.12
Property Taxes	$ 100.00	$ 95.58
Rent	$ -	$ -
Home Insurance	$ 50.00	$ 52.89
Utility - Electricity	$ 40.50	$ 55.13
Utility - Natural Gas	$ 10.50	$ 20.58
Utility - Water/Sewer	$ 30.00	$ 64.75
Utility - Garbage Collection	$ 20.00	$ 25.84
Utility - Local Telephone	$ -	$
Home Upkeep	$ -	$ 125.89
Housing Sub-Total	***$ 1,149.50***	***$ 1,335.78***

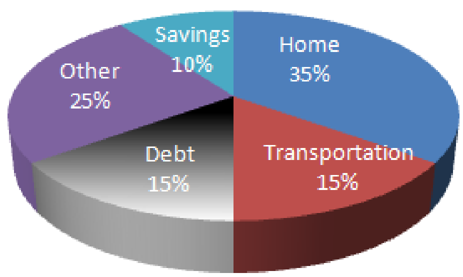
INCOME

INCOME (gross)		
Type	Projected	Actual
Income #1	$ 7,500.00	$ 7,500.00
Income #2	$ -	$ -
Interest Income	$ 100.00	$ 125.81
Dividend Income	$ 200.00	$ 145.68
Investment Income	$ -	$
Other Income	$ -	$
Total Gross Income	***$ 7,800.00***	***$ 7,771.49***

Evaluating where your money goes

The following chart provides a general guideline on how household expenses should break down, with percentages of total budget allocated to each of five major categories: Home, Transportation, Debt, Savings and Other. To calculate the recommended spending amount in dollars, multiply each expense percentage by your net income.

Recommended Allocation of Income



If you dedicate a higher percentage of your income to one category, review your expenses in that category and consider if there is room for you to cut back (with the exception of savings, of course).

If you need to make some changes, look first at reducing spending on items that are not considered necessary. Often, you'll find that with some work and dedication, you can reduce variable expenses. Carefully consider whether what you are buying is a luxury or a necessity.

Reducing other expenses can be more challenging. If you are way out of line in a big category like "Home" or "Transportation," you may want talk with a financial mentor or adviser to see if downsizing, moving, or getting a less expensive car are good ideas. While these expenses *can* be reduced, doing so requires serious change.

Understanding and using your budget

Congratulations! You have worked hard to prepare a detailed personal budget worksheet. Your first budget worksheet will not be fine-tuned. It is likely that you have left out some expenses. Your month-to-month adjustments will improve your worksheet's accuracy. Completing the worksheet for several months also gives you a solid basis for comparing your projected income and expense totals with your actual totals.

As you work through your worksheets, always keep an eye on if you are properly allocating resources to pay down debts and to build savings.

Cash flow and debt

Using your budget will help you determine your real cash flow, which is an important indicator of your financial situation. But it is possible to have a positive monthly cash flow and also have significant debt.

Most credit cards, for example, only require you to make minimum payments on your debt. If you are increasing your credit card debt, you may find yourself still able to make the minimum payments and remain cash-flow positive. But beware: Increasing your debt load will increase the amount you have to pay in interest and debt costs, and thereby increase your expenses. For more information on how to get out of debt, see Chapter 4.

Sticking to your personal budget

Developing your budget is only the first step toward an improved financial situation. Once you have established how much you plan to spend each month, the hardest part will be sticking to your plans. Take the following steps to help you stay on track:

1. Continue to track how much you spend – As discussed, keep tracking your expenses. See if you are still moving toward the goals you set. Make monitoring your financial health part of your routine.

2. Use online budget tools and bill pay – A spreadsheet, or simple paper and pencil, work well for budgeting, but many people prefer online tools. Whatever method you choose, stick to it and use it continually.

3. Keep accurate records – You can do it the old-fashioned way, by keeping copies of all your bills in manila envelopes. Have an envelope for each main expense category and develop a habit of putting all the receipts in the envelopes at the end of the day. If you're using an online tool, which requires you to link your bank and credit accounts to the online system, not all of your expenses will appear. You will need to manually enter cash purchases into the online system, so you need to keep those receipts in good order whether you use an online system or not.

4. Set reasonable goals – Don't expect to change your spending habits overnight. Set reasonable goals you think you can achieve. If you spent $100 on movies each month before, aim initially to cut it back to, say, $75 (rather than aiming for an unrealistic, drastic change such as $10). If you find your initial goal easy to achieve, set a harder goal for yourself next month. As you achieve your goals, you'll begin to gain momentum. In turn, you'll build the motivation you need to change your financial lifestyle and keep it in good shape.

5. Reward yourself – From time to time, reward yourself for meeting certain milestones. Of course, do not reward yourself excessively and dissipate your savings. For example, if you saved $200 by dining out less, treating yourself to a $200 wardrobe purchase as a reward will cancel out your accomplishment.

Budgeting for goals (without debt)

As you begin to feel comfortable using a budget, it will help you not only pay off debt, but also plan for long-term goals once you are in the habit of spending within your means and not accumulating debt.

Once you have identified your goals – which might range from retirement to funding a college education to taking a vacation – determine the timeline for achieving them, and then calculate how much you need to save each month. With that information, you can review your budget and begin looking for areas to reduce your spending and begin saving for your goal.

Goal Chart Example:

Goal	Timeline	Cost	Monthly Savings Required	Action Plan	Ranking
Down payment for mortgage	8 yrs	$45,000	$432.63	Save & establish credit	1
Pay off student debt	3 yrs	$10,000	$307.86	Increase monthly payments	2
Trip to Europe	10 yrs	$5,000	$37.66	Cancel cable TV package	4
Add to retirement savings (in addition to employer retirement plan)	35 yrs	$250,000	$175.47	Cut expenses	3

Chapter 4: How to get out of debt

Use your budget as a guide to reduce your expenses and become debt-free. If you are carrying a credit card balance, you should immediately use available cash to pay off the debt; it provides a better rate of return than almost any other investment.

Strategies for paying off debt

When you're looking at your credit card bill, you might be tempted to write a check or enter an online payment just for the minimum. Need inspiration to pay more? Consider these two points:

1. Imagine you have a credit card debt of $10,000 with a 19.9 percent interest rate. A standard minimum payment of 3 percent of the monthly balance in this case would be $300 per month. Paying only the minimum (which will decrease over time as your balance decreases, with a floor in this example of $50) will cost you $21,080 and take 15 years to pay off.

2. If you are able to pay more than the minimum payment, you can save hundreds or thousands of dollars in interest and will clear out your debt in far less time. For the same scenario above ($10,000 debt and 19.9 percent interest rate), a constant payment of $500 per month would cost a total of only $12,250 – and you would become debt-free in just two years. You would save almost $9,000 and cut off 13 years of payments.

If you are carrying balances on multiple credit cards and can afford more than the minimum payment, consider the following strategies.

Pay off credit cards – avalanche or snowball?

To be effective, both strategies require you to continue paying the same monthly amount toward your debt until all debts have been paid off. Once one credit card has been paid off, don't reduce how much you pay toward your overall debt. Keep paying the same monthly amount (or increase the amount if you can afford it). You'll get out of debt faster and reduce the total cost of your debt.

1) **Avalanche**—The avalanche method involves paying off your credit cards in the order of highest interest rate. First, decide how much you can afford each month. From that total, allocate enough money to make minimum payments on every credit card. Send any additional available money to the card with the highest interest rate. Repeat this process every month until that credit card has been paid off. Then add every dollar you were using to pay off the highest-interest card to what you were already sending to the second-highest-interest credit card. Keep following this strategy – paying the same amount each month toward your debt – until all debts have been cleared.

2) **Snowball**—The snowball method involves paying off the lowest debt amount first. First, just as you would with the avalanche method, budget enough money to pay the minimum on all cards. Then apply any remaining funds toward paying off the credit card with the lowest balance. Once you have paid off the first credit card, continue paying the same monthly amount you started with. Follow the same strategy as the first credit card: Pay only the minimum payments on all other cards while using all the remaining funds to pay off your second-lowest debt.

   The snowball method can be more costly than the avalanche method, because you might pay more interest. But many people believe that seeing small debts paid down helps motivate them to stick to the discipline of paying down debts. In fact, two marketing professors in Northwestern University's Kellogg School of Management recently studied thousands of people who were participating in a debt relief program and evaluated the results of their efforts to become debt free.[12] They found that the snowball method was more effective for more people, because small successes motivated people to keep working toward debt freedom. The study found that most people were inspired to keep working toward debt freedom when they knew they were completing part of the process, even if it was just a small part. Ask yourself which method might work better for you, and then plan to stick with it until you succeed.

Other alternatives

If you are struggling to pay even the minimum payments on your credit cards, other alternatives might help you become debt-free.

1. Use your savings and retirement funds to pay off as much debt as possible. Start by paying off the account carrying the highest interest rate, as in the "avalanche" method above. Then work your way down to the account with the lowest rate. Be very careful in any decision to use emergency savings or retirement funds. You should only consider tapping these funds if you have no other options to paying this debt down. As soon as you pay off the debt, begin saving again immediately.
2. Unless your employer matches your 401(k) contributions, stop contributing temporarily. It makes more financial sense to pay down your high-interest debt first. Pay as much as you can toward your high-interest debts with the money you were using to invest in your 401(k) plan. Paying off these debts can be the equivalent of earning up to a 30 percent return on your 401(k) investments! Just remember to stay disciplined. Stop using credit, and as soon as your debts are repaid, reinstate your 401(k) contributions.
3. If you own a home and have good credit, consider getting a home equity loan or even refinancing your mortgage to pay off your unsecured debts. In almost every case, this type of loan has a much lower interest rate than your unsecured debts. Also, mortgage interest payments are typically tax-deductible, which makes the effective interest rate even lower. Obtaining a home equity loan or refinancing can be

12 David Gal, Blakeley B. McShane (2012). Can Small Victories Help Win the War? Evidence from Consumer Debt Management. Journal of Marketing Research: Vol. 49, No. 4, pp. 487-501. Retrieved Jan. 16, 2013, from http://www.journals.marketingpower.com/doi/abs/10.1509/jmr.11.0272

challenging in today's economic climate. And at all times, if you are unsure if you can make payments, do not endanger your home by taking out an extra loan.

4. If none of the methods above are available to you, seek professional debt relief assistance. See chapter 5 for more information on these options.

Student loan debt

According to the College Board, in 2013 - 2014, the average cost of tuition and fees at a private college was $30,094 per year. In-state, four-year public universities averaged $8,893 per year.[13] Additional expenses come in the form of student housing, transportation and meal plans. As a result, the average college graduate of the class of 2013 owes $35,200 in student loan debt – a 5 percent increase over 2010.[14] In addition, many graduates accumulate significant credit card debt while in school.

Student loan alternatives

The only fail-safe way to handle student loan debt is to avoid it in the first place. The good news: More than $150 billion in financial aid is available to students and their families every year.[15] For those who have not yet accumulated student loan debt, the following alternatives may be helpful.

1. **FAFSA:** The starting point in financing post-secondary education is the Free Application for Federal Student Aid. FAFSA is the first step to financial aid for four-year institutions and community colleges. Start at http://www.fafsa.ed.gov.

2. **Scholarships:** Various individuals and organizations offer scholarships to qualified students. Scholarships are available for everyone from left-handed students to students whose parents work in certain professions – even students without sky-high GPAs. But you must search and apply for scholarships. Start at http://www.fastweb.com.

3. **529 education savings plans:** Long-term planners can start tax-free savings accounts when a child is young and save money until it is needed. The accounts earn interest, and interest and withdrawals to pay qualified educational expenses are tax-free in almost every state.

4. **Grants:** Grants are "gift" money that you don't need to repay. The most popular is the Pell Grant. Unfortunately, it usually won't pay for an entire education. Federal Pell Grants are limited to a maximum of $5,645 per undergraduate student in 2013-14.[16]

5. **Part-time work:** Most employers in college towns are willing to work with students.

6. **Prior learning credit:** Students can save money and time by earning credits outside of classroom hours. Some students earn Advanced Placement credit in high school. Others participate in the College-Level Examination Program (CLEP). These programs help students move toward a degree faster.

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13 Retrieved Jan. 27, 2014, from http://www.collegedata.com/cs/content/content_payarticle_tmpl.jhtml?articleId=10064.

14 "Class of 2013 grads average $35,200 in total debt," by Blake Ellis, CNNMoney, May 17, 2013, retrieved Jan. 27, 2014, from http://money.cnn.com/2013/05/17/pf/college/student-debt/.

15 Federal Student Aid, retrieved Jan. 27, 2014, from http://studentaid.ed.gov/PORTALSWebApp/students/english/funding.jsp.

16 Federal Student Aid, U.S. Department of Education, retrieved Jan. 27, 2014, from http://studentaid.ed.gov/types/grants-scholarships/pell.

7. **Transfer:** Starting at a two-year institution and transferring to a four-year school is a cost-effective choice. Public two-year schools charge an average of $3,264 for tuition and fees.[17] Students could save $11,000 over two school years.

8. **Skip credit cards:** The average college student graduates with thousands of dollars in credit card debt. But high interest rates (often 15-30 percent) make this debt difficult to pay off. In school, live within your means. Use loan funds, not credit cards, to pay for school-related expenses. The interest will be lower, as well as tax-deductible.

The cost of getting an education is a worthwhile investment in your future. But it is possible to get a great education without going into major debt with some planning.

Repaying student loans

Fortunately, many options can help graduates manage educational debt. The most important thing is to pay all bills – including student loan debt payments – on time. On-time payments are the No. 1 way to save your credit rating and save money on finance charges.

Look into every option for repaying student loans by considering these resources:

1. **Take tax benefits.** Most new graduates can deduct up to $2,500 per year in student loan interest payments.[18] Current students (or parents of dependent students) can deduct up to $4,000 of college fees and tuition (the deduction phases out for taxpayers with annual incomes between $65,001 and $80,000, or $130,000 to $160,000 for those filing joint returns).[19] Several tax credits can also benefit those who qualify. Ask a tax adviser to check your tax return to be sure you get all the education-related deductions and credits for which you qualify.

2. **Volunteer to earn loan repayment.** Some volunteer organizations offer loan repayment as one of the perks. AmeriCorps workers who serve 12 months can receive $4,725 to be used toward student loan repayment, in addition to a stipend of up to $7,400. Peace Corps volunteers, who serve two-year terms, may be able to defer Stafford, Perkins and consolidation loans, and volunteers can qualify to cancel 15 percent of each Perkins Loan per year of service, up to 70 percent in total. Volunteers in Service to America (VISTA) offers $4,725 to be used toward repaying student loans for workers who serve for 1,700 hours.[20]

3. **Some military service members can receive loan help.** Graduates who serve in the Army National Guard may be eligible for the Student Loan Repayment Program. SLRP offers up to $10,000 to repay loans.[21]

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17 "Trends in Higher Education," retrieved Jan. 27, 2014, from http://trends.collegeboard.org/college-pricing/figures-tables/tuition-and-fees-sector-and-state-over-time.
18 IRS, retrieved Jan. 27, 2014, from http://www.irs.gov/taxtopics/tc456.html.
19 "Tax Benefits for Education: Information Center," Internal Revenue Service website, retrieved Jan. 27, 2014, from http://www.irs.gov/uac/Tax-Benefits-for-Education:-Information-Center.
20 FinAid, retrieved Jan. 27, 2014, from http://www.finaid.org/loans/forgiveness.phtml.
21 Ibid.

Federal loan repayment programs also exist for service members in "areas of hostilities or imminent danger."

4. **Teachers in high-risk schools might be eligible for loan cancellation.** Full-time teachers in schools serving low-income students might be able to have part of their Perkins loans forgiven. The National Defense Education Act allows these teachers to qualify for forgiveness of up to 85 percent of their loan over five years. For a list of federal, state and other programs, see the website of the American Federation of Teachers.

5. **Legal and medical graduates can earn loan forgiveness for public service.** Many programs repay student loans for graduates in law or medicine. Qualifying fields include veterinary medicine, nursing and physical and occupational therapy in the public interest, in nonprofit positions or in underserved areas. For more information, contact your professional association or search the Internet for your field.

Chapter 5: Getting help with your debt

Options for debt help

Debt help can be a complicated and often-confusing business with several different options. In 2010, the Federal Trade Commission issued new regulations for debt relief companies, resulting in significantly increased consumer protections by requiring debt relief companies to tie their fees to the results they get for their customers.

If you are in debt, the following is an overview of your options to reduce and eliminate it. Carefully review this list to get an idea of what might work best for your situation.

1) **Paying down debt** systematically, also known as **independent debt reduction,** is the best resource for consumers who can make it work. The keys are to stop using credit completely and to always pay secured debt, such as a mortgage or vehicle loan, first. Borrowers then should pay as much as possible on the debt that has the highest interest rate (the "avalanche method" discussed earlier), while staying current with other debts by making minimum payments. When the first debt is repaid, consumers can use the same strategy on the next-highest-rate debt. Alternatively, consumers can pay as much as possible to their smallest debt, while staying current with other debts by making minimum payments. When they have repaid that smallest debt, they can move on to the next-smallest debt (the "snowball method" discussed earlier).

    a) **Pros:** Protects the credit score; does not accrue additional fees beyond interest on the existing account balances.

    b) **Cons:** Requires discipline to make payments on time and the ability to avoid using additional credit; demands that consumers be able to make at least minimum payments on existing debt, and ideally more than minimum payments.

    c) **Who it is best for:** People who have gotten into too much debt, but are able to make at least minimum payments.

2) **Negotiating with creditors directly.** If you cannot make even minimum payments on bills, you can try calling creditors and asking for temporary hardship status. Some creditors may work out payment plans. Creditors are under no obligation to negotiate, but it is often in their interest to do so.

    a) **Pros:** Protects your credit score; may create "breathing room" for people in debt; may make it feasible to pay off debts without outside help or additional fees.

    b) **Cons:** Does not always provide results; alerts creditors to hardship status; requires clear, full documentation of any agreement.

c) **Who it is best for:** People who have acquired too much debt due to a short-term situation, and who are recovering from the situation but need some additional time to repay debts. Must be willing to negotiate directly with creditors and deal with potentially antagonistic collection agents.

3) **Debt consolidation** combines multiple debts into one larger loan. After combining the debts, debt consolidation providers ask consumers to make one monthly payment. Debt consolidation can be in the form of an unsecured consolidation loan or a secured consolidation loan. In the latter, it uses new or increased secured debts (debts for some kind of collateral, such as a home or vehicle) to consolidate and pay off other debts (secured or unsecured). In this case, the loan tool might be a home equity loan, second mortgage, vehicle title loan or 401(k) loan. Consumers pay back 100 percent of the debt, plus interest. Several companies offer debt consolidation loans; new companies include Freedom Financial Network's FreedomPlus, which offers unsecured consolidation loans to borrowers who may be unhappy with options available from traditional banks.

   a) **Pros:** Can lower interest rate; can simplify bill paying, because it results in just one payment; transferring revolving debts into a single fixed debt with a payment schedule can help borrowers gain the discipline to repay the debt, resulting in significantly lower total interest over the life of the loan.

   b) **Cons:** Monthly payment may go up due to faster amortization of debt; in the case of secured debt, the collateral asset is at risk if the borrower cannot pay; borrowers must maintain discipline to resist taking on a consolidation loan and then running up cards again; fees can be high, and some services are disreputable; working with a debt consolidator may sacrifice freedom to open and use additional credit lines.

   c) **Who it is best for:** People who are able to pay their bills, but find it difficult to juggle multiple bills and payments. It is most advantageous when the debt consolidation offer includes a lower interest rate than most of the rates the consumer already is paying.

4) **Debt management companies,** also known as consumer credit counseling agencies, maintain pre-arranged agreements with credit card companies to lower interest rates on a consumer's existing debt to a creditor-issued "concession rate." Often, credit counseling agencies enroll consumers in a debt management plan (DMP). The agencies collect a monthly fee from consumers, as well as revenue from the credit card companies called "fair share" payments. Terms of repayment are typically five years.

   a) **Pros:** Debt management plans reduce monthly payments and may reduce interest rates, and do not necessarily have a negative impact on credit scores; reputable programs can help teach consumers better budgeting and financial management skills; consumers generally avoid harassment or collection calls, as bills are being paid. Monthly fees typically are $10-$15 per debt account enrolled.

   b) **Cons:** Since debt management plans do not reduce the total principal amounts owed, payments can be significant in order to pay off the entire principal balance plus interest within the five-year time period, and are usually only slightly lower than regular minimum payments; consumers who are unsure whether they can keep up with the payments should proceed cautiously; in many cases, consumers attempt a DMP, but eventually wind up filing bankruptcy because the payments are more than they can afford to pay; enrolling in a DMP can make it difficult to obtain higher credit lines, such as a for a home or auto loan; the low monthly fees add up over the course of the five-year program, often amounting to $3,000 or more (not including fees paid by the creditors to the DMP provider); since part of a credit counselor's revenue comes from the creditor based on the amount repaid, there is a conflict of interest between the provider and the customer.

c) **Who it is best for:** Consumers who would benefit from a lower interest rate, and who can stick with the program for five years. DMPs are best suited for individuals who are facing a less-severe financial hardship than a typical debt settlement customer (see No. 5).

5) **Debt settlement providers**, also known as **credit advocates**, work on consumers' behalf to lower principal balances due on existing debts. Final agreements often obtain savings of 50 percent of the total debt (before fees). The firm does not make monthly payments to creditors, but rather negotiates directly with the consumer's creditors while the consumer accumulates funds for the settlement through a monthly program payment. Debt settlement firms charge consumers a fee for their services, typically a percentage of the debt enrolled or a percentage of the debt reduced. These fees should be charged only after the firm has successfully negotiated the debt.

Designed for those in very serious debt hardship, debt settlement offers an alternative to debt management (credit counseling), debt consolidation and bankruptcy. Debt settlement programs help qualified clients who stay with the program fully resolve their debts, typically in two to four years. Debt settlement sometimes is called "debt resolution" or "debt negotiation."

a) **Pros:** Along with the potential of reducing total principal owed by 50 percent, debt settlement programs provide one monthly payment. This program payment is used to accumulate funds for the settlements, and is typically significantly less than minimum payments on your credit cards or the monthly payment into a DMP; consumers who stay with a debt settlement program typically can resolve all debt within two to four years, vs. five years for credit counseling. The rules enacted by the Federal Trade Commission in 2010 mandate that debt settlement companies can only charge fees associated with debts after they have resolved the debt for the client.

Programs typically provide better repayment terms than do Chapter 13 bankruptcy filings, and do not leave a permanent bankruptcy judgment on one's record; no conflict of interest exists with creditors, because the debt settlement provider receives no payments from credit card companies.

b) **Cons:** Debt settlement can leave a significant mark on a credit report; because consumers do not make payments to creditors while they are accumulating settlement funds, creditors or collectors are likely to pressure consumers during the settlement period (consumers should expect help with managing creditor calls from a debt settlement company with which they work); fees and interest will accumulate during the settlement period, and should be taken into account when calculating savings; creditors can take legal action against consumers for unpaid accounts during the program period.

c) **Who it is best for:** Individuals who are struggling with very serious debt, who cannot make required minimum payments, and who would otherwise be considering bankruptcy or credit counseling.

6) **Bankruptcy** is generally considered a last resort, as it destroys a credit rating for many years. Since the 2005 bankruptcy reform, bankruptcy is more difficult to obtain, and more expensive, especially Chapter 7, which eliminates most consumer debt. Chapter 13 bankruptcy filings, which require consumers to repay debt on repayment plans, are available to those whom their state determines, through its means test, have enough income to pay back at least some of their debt. Consumers considering a bankruptcy filing should speak to a bankruptcy attorney licensed in their state.

   a) **Pros:** Can eliminate most consumer debt, although Chapter 7 filings are difficult and expensive to obtain.

   b) **Cons:** Negatively impacts credit rating for as long as seven to 10 years; monthly payment amounts in a Chapter 13 filing are generally comparable to or less favorable than those found with debt settlement program payments; additional upfront legal fees are required to file bankruptcy; bankruptcy filings are part of the public record, meaning they are accessible to anyone who wishes to seek out the information; non-exempt assets may be liquidated as part of a bankruptcy.

   c) **Who it is best for:** People who are completely unable to repay their debt, and who either do not have, or do not wish to keep, non-exempt assets (which may include a home or car, depending on the state of residence) when they resolve their debt situation.

Options for student loan debt

If you cannot pay your student loan, immediately call your lender. Lenders would rather work with you than risk a defaulted loan. You will do less harm to your credit rating if you work out an arrangement and postpone payments for a while than if you default. Damage from defaulting could prevent you from buying a home or car or getting a job, apartment or insurance for years to come.

In the past, many people who could not make student loan payments would have considered filing bankruptcy. But the bankruptcy reform law of 2005 made it extraordinarily difficult to discharge student loan debt through bankruptcy. To have any student loan debt discharged, the filer is required to prove "undue hardship." The process can be expensive and difficult.

The bottom line: If your total debt is insurmountable, seek help from a reputable debt relief adviser, as noted above. A debt relief company cannot help with governmental issues or guaranteed student loans, but can possibly help reduce your total debt, including credit cards, medical debt and other loans.

Questions to ask a debt relief company

Understanding debt relief options is one thing. Choosing a company with which to work is another. When it comes to getting debt help, how can individuals and families choose a solid partner that will help them, rather than harm them? For those looking for a trustworthy organization to help win the battle against debt, the considerations in this section will help in choosing a reputable firm.

In their first step of conducting research, consumers can review the websites of debt relief companies, check their reputations online, ask friends or family for opinions or insights, and speak to the companies themselves to find out what they do and whether they would be a good fit.

Consumers should be wary of companies that make specific promises before they review an individual's situation, or that pressure consumers to sign up immediately or send money before an agreement is created. A trustworthy company will be honest and communicative with prospective clients.

1. **Compensation:** Does the company get any form of consideration or compensation from the creditors themselves? Companies – particularly credit counseling companies – that receive funding in the form of "fair share" payments from creditors (incentives to get consumers into DMPs) can set up a situation that is a conflict of interest between creditors' and consumers' interests.

   Does the company charge fees before a debt is resolved? The Federal Trade Commission issued new rules in 2010 that prohibit debt relief companies from charging any fee before a debt is resolved.

2. **Individualization:** Does the company provide actual consultations, and provide advice to consumers free of charge? Or is the company simply directing every consumer into a pre-determined plan, such as a DMP or debt settlement plan. Be especially wary of any company that tries to drive consumers directly into a DMP or debt settlement plan without a thorough review of finances.

3. **Free education:** Does the company provide educational material, including budgeting and financial advice, free of charge? Many firms consider educational material an additional fee source, not a benefit to their clients.

4. **Background:** What is the background of the management team? Look for good, relevant education and experience – not a team that jumps from opportunity to opportunity to make its fortunes.

5. **History:** How long has the company been in business? How many customers has it served? Determine if the company and its own employees are those who will actually provide service through the life of the program, or if they contract out to others once they have enrolled a client.

6. **Success:** What are the company's dropout and success rates? Request these statistics, and review them carefully, as they provide indications of how companies are able to structure resolutions and payment plans for clients.

The National Foundation for Credit Counseling (NFCC) has reported that credit counseling companies historically have had a success rate of about 26 percent, with 20 percent of enrollees leaving to “self-administer” a debt-reduction plan. This indicates that the remaining half of people who enter the programs are unable to complete them.[22]

The national rate of completion for confirmed Chapter 13 bankruptcy plans is about one-third of filings.[23] In contrast, debt settlement completion rates range from 35 percent to 60 percent, with the average around 45 percent to 50 percent.[24]

7. **Fees**: What are the fees, and how will the debt relief provider assess the fees? Credit counseling fees may sound minimal, for instance, but it is important to look at the whole picture. Monthly fees can be $10-$15 per debt enrolled, but over the course of five years – the typical length of time for a DMP – fees can easily mount to $3,000 (excluding fees paid by the creditor). In addition, credit counseling only reduces interest rate, not principal amount of debt owed. Original debt of $20,000 easily can end up costing a consumer $30,000 over five years in credit counseling, vs. approximately $14,000 in debt settlement, including fees.

8. **Additional services:** How will the company help with creditor calls? Will they provide assistance if a payment issue goes to court? Many debt relief companies will drop clients if a creditor sends a debt to a law firm for collections. Find a company that will work with you through the entire period, and all circumstances, of your debt resolution.

Above all, trust your instincts when evaluating debt relief plans. If a "gut feeling" says something isn't right with a company, move on. Numerous organizations can help consumers resolve financial issues – with integrity and with skill.

22 ”Credit Counseling in Crisis: The Impact on Consumers of Funding Cuts, Higher Fees, and Aggressive New Market Entrants,” retrieved Dec. 20, 2012, from http://www.consumerfed.org/pdfs/credit_counseling_report.pdf.

23 “Bankruptcy by the Numbers,” retrieved Dec. 20, 2012, from U.S. Department of Justice at http://www.justice.gov/ust/eo/public_affairs/articles/docs/abi082000ch13.htm.

24 “Study on the Debt Settlement Industry,” The Association of Settlement Companies, retrieved Dec. 20, 2012, from http://www.ftc.gov/os/comments/debtsettlementworkshop/536796-00014.pdf.

About Freedom Financial Network

www.freedomfinancialnetwork.com

Freedom Financial Network, LLC (FFN), provides comprehensive consumer credit advocacy services. Through the FFN family of companies - Freedom Debt Relief, Freedom Tax Relief, FreedomPlus, ConsolidationPlus and Bills.com – FFN works as an independent advocate to provide comprehensive financial solutions, including debt consolidation, debt settlement, debt resolution and tax resolution services for consumers struggling with debt. The company, which has resolved more than $2 billion in debt for more than 200,000 clients since 2002, is an accredited member of the American Fair Credit Council, and a platinum member of the International Association of Professional Debt Arbitrators.

Based in San Mateo, Calif., FFN also operates an office in Tempe, Ariz. The company, with more than 600 employees, was voted one of the best places to work in the San Francisco Bay area in 2008, 2009, 2012 and 2013, and in the Phoenix area in 2008, 2009, 2010, 2012 and 2013. FFN's founders are recipients of the Northern California Ernst & Young Entrepreneur of the Year Award.

Appendix A – Options for Consumers with $20,000 in Credit Card Debt

	Credit Counseling	Debt Settlement	Chapter 13 Bankruptcy	Chapter 7 Bankruptcy
Monthly PMT (% of debt)	2.0 - 3.0%	1.5 - 2.0%	Varies	$0
Monthly PMT ($)	$400 - $500	$300 - $400	Varies	$0
Fees + Interest	Approx. 9% per year, plus $50/month.	Success fee only – works out to 6-8% per year[25]	$2,000 filing	$1,500 filing
Typical Program Length	5 years	2-4 years	5 years	6 months
Typical Total Cost	$28,000[26]	$14,000[27]	$14,000[28]	$1,500
Completion Rate	21 - 26%[29]	40-50%[30]	30 – 35%[31]	N/A
Key Concerns:	• Certain creditors may not agree to concession rate. • IRS audit of industry has resulted in revocation of nonprofit status from many companies. • Minimal impact on credit score, viewed by credit issuers negatively.	• Payments are not made to creditors until sufficient savings balances have accrued; credit rating is impaired. • Collection calls and potential legal action on delinquent accounts.	• Severe credit rating impact.	• Severe credit rating impact. • Bankruptcy reform in 2005 requires means test – harder to qualify.

25 Based on 18% - 21% total fee, and a typical program length of 3 years.

26 Assumes credit card rates are reduced to 9%, and adds debt management program fee of $50 per month. Monthly payment is based on minimum for five-year completion.

27 Assumes average settlements of 50% and total fee of 20% of debt (on a success fee basis).

28 Assumes 60% of debt paid back, plus $2,000 filing fee.

29 *Credit Counseling in Crisis: The Impact on Consumers of Funding Cuts, Higher Fees and Aggressive New Market Entrants*, Consumer Federation of America and National Consumer Law Center, April 2003.

30 "Options for Consumers in Crisis: An Economic Analysis of The Debt Settlement Industry," American Fair Credit Council, Feb. 28, 2013.

31 "Bankruptcy by the Numbers: Measuring Performance in Chapter 13" by Gordon Bermant and Ed Flynn, Executive Office for the U.S. Trustees.

Appendix B – Personal Budget Worksheet

Personal Budget Worksheet

INCOME

INCOME (gross)		
Type	Projected	Actual
Income #1	$	$
Income #2	$	$
Interest Income	$	$
Dividend Income	$	$
Investment Income	$	$
Other Income	$	$
Total Gross Income	***$***	***$***
INCOME (tax)		
Type	Projected	Actual
Federal Tax	$	$
State Tax	$	$
Social Security	$	$
Total Income Tax	***$***	***$***
Total Net Income (Gross minus Tax)	***$***	***$***

BALANCING THE BOOKS

Your Cash Flow		
Type	Projected	Actual
Total Net Income	$	$
Expenses (from next page):	$	$
Housing	$	$
Other Household	$	$
Personal Care	$	$
Unsecured Debt	$	$
Health	$	$
Transportation	$	$
Pets	$	$
Entertainment	$	$
Misc. Financial	$	$
Total Expenses	$	$
Difference	***$***	***$***

EXPENSES

Housing		
Type	Projected	Actual
Mortgage Payment	$	$
Property Taxes	$	$
Rent	$	$
Home Insurance	$	$
Utility - Electricity	$	$
Utility - Natural Gas	$	$
Utility - Water/Sewer	$	$
Utility - Garbage Collection	$	$
Utility - Local Telephone	$	$
Home Upkeep	$	$
Housing Subtotal	***$***	***$***

Other Household		
Type	Projected	Actual
Food (Home/Groceries)	$	$
Food (Out)	$	$
Clothing	$	$
Cigarettes/Alcohol	$	$
Cable TV/Internet	$	$
Long Distance Phone	$	$
Cell Phone	$	$
Vacation	$	$
Other	$	$
Other Household Subtotal	***$***	***$***

Personal Care		
Type	Projected	Actual
Hair/Nails/Cosmetics	$	$
Gym/Sports	$	$
Dry Cleaning	$	$
Other	$	$
Personal Care Subtotal	***$***	***$***

Unsecured Debt		
Type	Projected	Actual
Student Loan Payments	$	$
Personal Loan	$	$
Credit Card #1	$	$
Credit Card #2	$	$
Credit Card #3	$	$
Unsecured Debt Subtotal	***$***	***$***

Health		
Type	Projected	Actual
Medical Insurance	$	$
Life Insurance	$	$
Out of Pocket Expense	$	$
Health Subtotal	***$***	***$***

Transportation		
Type	Projected	Actual
Car Insurance	$	$
Car Loan/Lease	$	$
Parking	$	$
License/Registration	$	$
Fuel	$	$
Maintenance	$	$
Bus/Taxi Fare	$	$
Transportation Subtotal	***$***	***$***

Pets		
Type	Projected	Actual
Food	$	$
Medical	$	$
Grooming	$	$
Other	$	$
Pets Subtotal	***$***	***$***

Entertainment		
Type	Projected	Actual
Movies	$	$
CDs/Videos/DVDs	$	$
Sporting Events	$	$
Books/Magazines	$	$
Concerts/Theater	$	$
Entertainment Subtotal	***$***	***$***

Misc. Financial		
Type	Projected	Actual
Retirement Fund	$	$
Savings/Rainy Day Fund	$	$
Child Support	$	$
Back Tax Payment Plan	$	$
Legal/Financial Fees	$	$
Charity	$	$
Gifts (birthday/holiday)	$	$
Other	$	$
Misc. Financial Subtotal	***$***	***$***

Appendix C – 12-Month Personal Budget Tracking Sheet

BALANCING THE BOOKS

	Projected	January	February	March	April	May	June	July	August	September	October	November	December
Total Net Income	$	$	$	$	$	$	$	$	$	$	$	$	$
Total Expenses	$	$	$	$	$	$	$	$	$	$	$	$	$
Difference	$	$	$	$	$	$	$	$	$	$	$	$	$

INCOME

Income (gross)	Projected	January	February	March	April	May	June	July	August	September	October	November	December
Income #1	$	$	$	$	$	$	$	$	$	$	$	$	$
Income #2	$	$	$	$	$	$	$	$	$	$	$	$	$
Interest Income	$	$	$	$	$	$	$	$	$	$	$	$	$
Dividend Income	$	$	$	$	$	$	$	$	$	$	$	$	$
Investment Income	$	$	$	$	$	$	$	$	$	$	$	$	$
Other Income	$	$	$	$	$	$	$	$	$	$	$	$	$
Total Gross Income	$	$	$	$	$	$	$	$	$	$	$	$	$

Income Tax	Projected	January	February	March	April	May	June	July	August	September	October	November	December
Federal Tax	$	$	$	$	$	$	$	$	$	$	$	$	$
State Tax	$	$	$	$	$	$	$	$	$	$	$	$	$
Social Security	$	$	$	$	$	$	$	$	$	$	$	$	$
Total Income Tax	$	$	$	$	$	$	$	$	$	$	$	$	$

EXPENSES

Housing	Projected	January	February	March	April	May	June	July	August	September	October	November	December
Mortgage Payment	$	$	$	$	$	$	$	$	$	$	$	$	$
Property Taxes	$	$	$	$	$	$	$	$	$	$	$	$	$
Rent	$	$	$	$	$	$	$	$	$	$	$	$	$
Home Insurance	$	$	$	$	$	$	$	$	$	$	$	$	$
Utility - Electricity	$	$	$	$	$	$	$	$	$	$	$	$	$
Utility - Natural Gas	$	$	$	$	$	$	$	$	$	$	$	$	$
Utility - Water/Sewer	$	$	$	$	$	$	$	$	$	$	$	$	$
Utility - Garbage Collectio	$	$	$	$	$	$	$	$	$	$	$	$	$
Utility - Local Telephone	$	$	$	$	$	$	$	$	$	$	$	$	$
Home Upkeep	$	$	$	$	$	$	$	$	$	$	$	$	$
Housing Subtotal	$	$	$	$	$	$	$	$	$	$	$	$	$

Other Household	Projected	January	February	March	April	May	June	July	August	September	October	November	December
Food (Home/Groceries)	$	$	$	$	$	$	$	$	$	$	$	$	$
Food (Out)	$	$	$	$	$	$	$	$	$	$	$	$	$
Clothing	$	$	$	$	$	$	$	$	$	$	$	$	$
Cigarettes/Alcohol	$	$	$	$	$	$	$	$	$	$	$	$	$
Cable TV/Internet	$	$	$	$	$	$	$	$	$	$	$	$	$
Long Distance Phone	$	$	$	$	$	$	$	$	$	$	$	$	$
Cell Phone	$	$	$	$	$	$	$	$	$	$	$	$	$
Vacation	$	$	$	$	$	$	$	$	$	$	$	$	$
Other	$	$	$	$	$	$	$	$	$	$	$	$	$
Other Household Subtotal	$	$	$	$	$	$	$	$	$	$	$	$	$

Personal Care	Projected	January	February	March	April	May	June	July	August	September	October	November	December
Hair/Nails/Cosmetics	$	$	$	$	$	$	$	$	$	$	$	$	$
Gym/Sports	$	$	$	$	$	$	$	$	$	$	$	$	$
Dry Cleaning	$	$	$	$	$	$	$	$	$	$	$	$	$
Other	$	$	$	$	$	$	$	$	$	$	$	$	$
Personal Care Subtotal	*$*	*$*	*$*	*$*	*$*	*$*	*$*	*$*	*$*	*$*	*$*	*$*	*$*

Unsecured Debt	Projected	January	February	March	April	May	June	July	August	September	October	November	December
Student Loan Payments	$	$	$	$	$	$	$	$	$	$	$	$	$
Personal Loan	$	$	$	$	$	$	$	$	$	$	$	$	$
Credit Card #1	$	$	$	$	$	$	$	$	$	$	$	$	$
Credit Card #2	$	$	$	$	$	$	$	$	$	$	$	$	$
Credit Card #3	$	$	$	$	$	$	$	$	$	$	$	$	$
Unsecured Debt Subtotal	*$*	*$*	*$*	*$*	*$*	*$*	*$*	*$*	*$*	*$*	*$*	*$*	*$*

Health	Projected	January	February	March	April	May	June	July	August	September	October	November	December
Medical Insurance	$	$	$	$	$	$	$	$	$	$	$	$	$
Life Insurance	$	$	$	$	$	$	$	$	$	$	$	$	$
Out of Pocket Expense	$	$	$	$	$	$	$	$	$	$	$	$	$
Health Subtotal	*$*	*$*	*$*	*$*	*$*	*$*	*$*	*$*	*$*	*$*	*$*	*$*	*$*

Transportation	Projected	January	February	March	April	May	June	July	August	September	October	November	December
Car Insurance	$	$	$	$	$	$	$	$	$	$	$	$	$
Car Loan/Lease	$	$	$	$	$	$	$	$	$	$	$	$	$
Parking	$	$	$	$	$	$	$	$	$	$	$	$	$
License/Registration	$	$	$	$	$	$	$	$	$	$	$	$	$
Fuel	$	$	$	$	$	$	$	$	$	$	$	$	$
Maintenance	$	$	$	$	$	$	$	$	$	$	$	$	$
Bus/Taxi Fare	$	$	$	$	$	$	$	$	$	$	$	$	$
Transportation Subtotal	*$*	*$*	*$*	*$*	*$*	*$*	*$*	*$*	*$*	*$*	*$*	*$*	*$*

Pets	Projected	January	February	March	April	May	June	July	August	September	October	November	December
Food	$	$	$	$	$	$	$	$	$	$	$	$	$
Medical	$	$	$	$	$	$	$	$	$	$	$	$	$
Grooming	$	$	$	$	$	$	$	$	$	$	$	$	$
Other	$	$	$	$	$	$	$	$	$	$	$	$	$
Pets Subtotal	*$*	*$*	*$*	*$*	*$*	*$*	*$*	*$*	*$*	*$*	*$*	*$*	*$*

Entertainment	Projected	January	February	March	April	May	June	July	August	September	October	November	December
Movies	$	$	$	$	$	$	$	$	$	$	$	$	$
CDs/Videos/DVDs	$	$	$	$	$	$	$	$	$	$	$	$	$
Sporting Events	$	$	$	$	$	$	$	$	$	$	$	$	$
Books/Magazines	$	$	$	$	$	$	$	$	$	$	$	$	$
Concerts/Theater	$	$	$	$	$	$	$	$	$	$	$	$	$
Entertainment Subtotal	*$*	*$*	*$*	*$*	*$*	*$*	*$*	*$*	*$*	*$*	*$*	*$*	*$*