freedom
DEBT RELIEF

Debt Freedom: You Can Be Debt-Free, Starting Today!

Budgeting & Financial Education Tools for Today's Consumer

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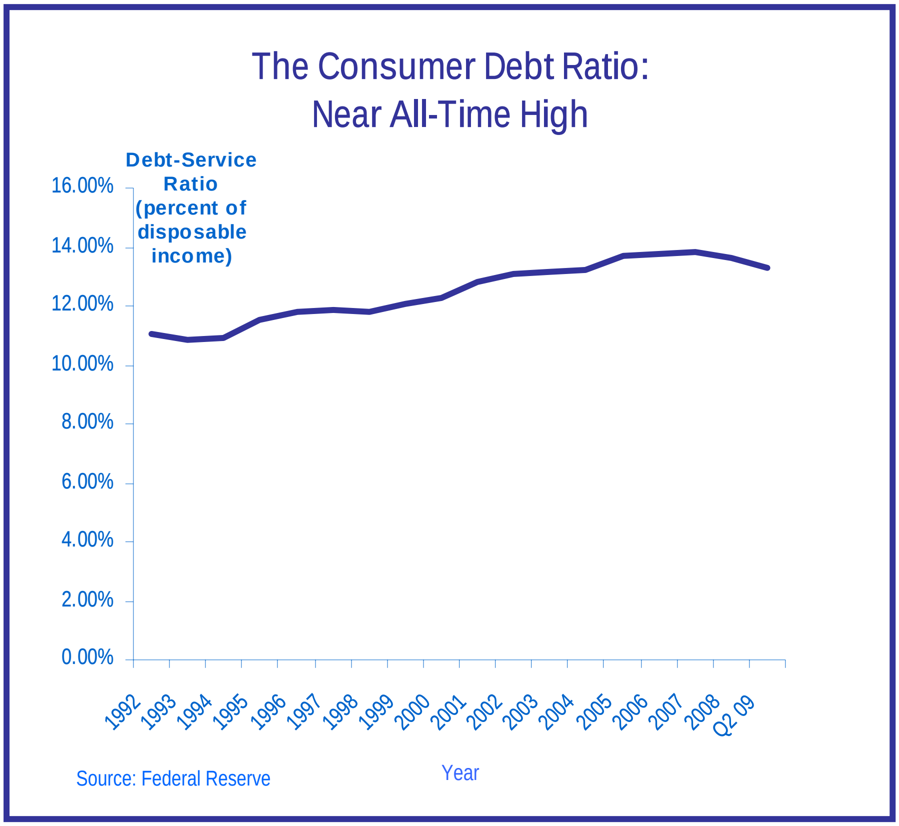
Introduction

American culture is founded on consuming. Some of our purchases are necessary—medical bills, education, rent or a mortgage—while others are things that we enjoy (vacations, dinners, movies, etc.). Both expense groups are important and necessary. Living in U.S. society, after all, requires us to spend money.



Managing your expenses within the framework of a budget is necessary to survive financially. A budget is the best way to break the crippling cycle of debt. U.S. consumer debt has reached epidemic proportions. According to the Federal Reserve, as of October 2009, Americans have accumulated $2.482 trillion in consumer debt (excluding mortgages) and have total revolving debt—primarily credit cards—of $888.1 billion.

The average American has close to a zero percent savings rate, with many families living paycheck to paycheck and carrying large credit card balances. This debt epidemic has reached the core of society and can even fragment the foundations of the American family: Personal bankruptcy is often cited as a leading cause of divorce.

We at Freedom Debt Relief have developed a simple system of guidelines to help consumers develop a budget. As the foundation of a strong financial game plan, this personal financial strategy can help you eliminate liabilities, accumulate assets and build a positive net worth. Ultimately, these steps are the keys to achieving your personal and financial goals.

Personal and Financial Goals

An important preliminary exercise in developing a budget is to detail your short-term and long-term goals, and then create a personal financial plan that is aligned with meeting these goals. This chart can help you determine your own priorities in life—which in turn can help you establish a roadmap to meet your goals.

CHARTING YOUR PERSONAL & FINANCIAL GOALS

Goal	Time-line	Cost	Monthly Savings Required	Action Plan	Ranking (1-5)
1.					
2.					
3.					
4.					
5.					

Here is an example of someone else's goals:

Goal	Time-line	Cost	Monthly Savings Required	Action Plan	Ranking (1-5)
Buy Home	5 yrs	$20,000 down	$333.33	Save & establish credit	(1)
Pay off Student Debt	3 yrs	$10,000	$277.78	Increase monthly payments	(2)
Trip to Europe	10 yrs	$5,000	$41.67	Cancel cable tv package	(4)
Add to Retirement Savings	25 yrs	$75,000	$250.00	Cut expenses	(3)
Budget Effectively	50+ yrs	n/a	n/a	Use My Cash Flow Statement	

The prospect of eliminating your debt, building equity, and managing your personal finances can be quite daunting. However, the best way to reach big goals without being overwhelmed is to break the goals down into monthly, weekly and daily steps. By taking small, manageable steps, you can reach your goals.

If you want to be debt free in three years, what actions must you take monthly, weekly and daily to get there? If you want to buy a home in five years, you need to start saving today. If you want to retire in a decade, you need to plan for the savings you'll require to support you through retirement. The only way to reach the top of a mountain is to take the very first step, and then continue to place one foot in front of the other.

Whatever your personal financial goals, it's important that you are passionate about the goal. More importantly, if your plan is realistic and progress can be measured, you will achieve your goal! Defining your goal (e.g., to be debt free) is the difficult part. Executing the goal (breaking it up into manageable parts) is the easy part of goal-making.

What are your own personal and financial goals? Do you have a plan for how you'll reach these goals? If not, keep reading. With a little work and discipline, you, too, can get on the path to achieving your primary goals.

Healthy Vs. Unhealthy Debts

While just about everyone has some degree of debt, only four types of debt can be healthy:

1. Student Loans—*Because they further one's education and increase future earning potential.*
2. Mortgages—*Because home ownership is an asset that can build equity and net worth.*
3. Necessary Medical Bills—*Because one's health always takes priority.*
4. Business Debts—*Because they are often necessary to build a business and future earnings.*

All other types of debt can create more problems than they solve, especially credit card debt. Credit cards are convenient and necessary in our society, and most people need to carry at least one credit card. However, multiple credit cards are unnecessary—and carrying a credit card balance means you are paying potentially hundreds of dollars in unnecessary interest fees for purchases with no lasting value.

This emphasis on lasting value is the surest determiner of healthy vs. unhealthy debts. Healthy debt provides lasting value and is aligned with a long-term goal (e.g., a mortgage enables you to become a homeowner). Even under these circumstances, you should not commit to more debt than you can easily pay from your monthly income.

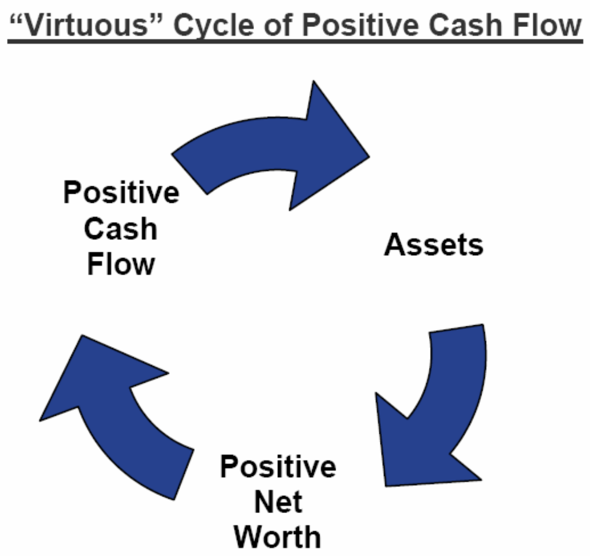
To avoid excessive credit card debt, ask yourself—before you make a credit card purchase—if you will be able to pay the bill when it comes. If the answer is "no," then don't make the purchase. You also should make absolutely certain that you do not use revolving debt (credit cards, personal loans, etc.) for assets that can depreciate or will be "used up" (cars, clothes, CDs, food, etc.). These assets will be gone long before the debt is, and the obligation still will be hanging over your head.

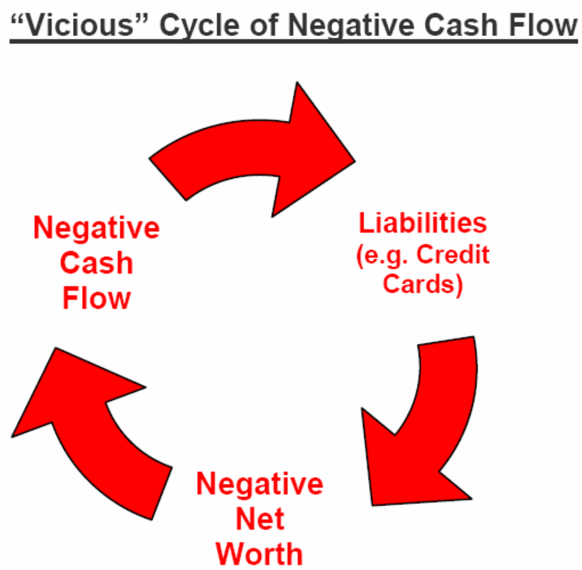
Personal Finance 101: Virtuous and Vicious Cycles

Fundamentally, personal finance is all about aligning your personal goals with your finances. Your personal budget can allow you to:

- Avoid spending more than you make.
- Create savings.
- Protect you against emergencies and unexpected financial events.
- Build a solid foundation of financial planning and discipline.

The main components of creating a solid financial strategy are positive cash flow (through budgeting) and positive net worth (when assets are greater than liabilities).





The objective is to manage your monthly income and expenses, so that you have positive cash flow … and then convert your positive cash flow into long-term equity and a positive net worth.

While this may seem complicated, it really boils down to three relatively simple steps:

1. Spend less than you make.
2. Invest your available cash flow in assets that appreciate to create wealth.
3. Continually evaluate and re-assess, so that your financial strategy remains intact.

Budget Basics

For most Americans, the first objective is to eliminate their personal debt (particularly unsecured debt, such as credit card debt and personal loans) as soon as possible. Credit card debt, especially, hurts you in two important ways: Interest and fees eat up your monthly cash flow, and debt is a liability that can place you in a negative net worth position.

We at Freedom Debt Relief partner with Americans every day to help them achieve this primary goal: getting out of debt as quickly as possible for the lowest cost. The following tools and ideas will help you manage your cash flows and budget effectively to build your own long-term net worth.

Determine your cash flow

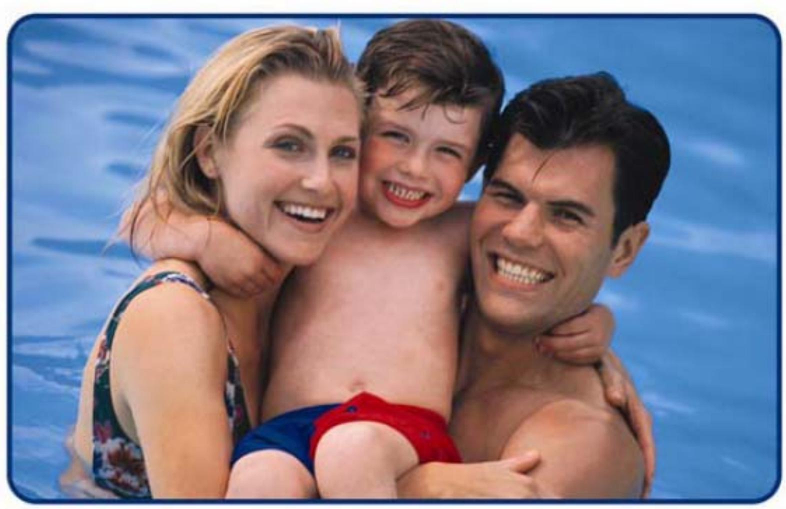
One of the first steps toward financial freedom is understanding how much money comes in and goes out of your bank account every month. The following budget basics will help you manage your money and cash flows.

This interactive exercise takes some hard work, but remember, your effort will be rewarded when you begin meeting your personal goals.

To start, you'll need to label manila folders or envelopes as follows:

- ONGOING BILLS (Fixed Expenses)
- MUST-BUYS (Variable Expenses)
- EXTRA CASH
- SAVINGS

ONGOING BILLS: These are bills that come in regularly every month. Rent, cable, telephone, electricity and water are examples of ongoing bills. These are also called "fixed expenses" because the amount generally is fixed and does not fluctuate significantly up and down every month.



MUST-BUYS: "Must-Buys" are necessities that vary in cost from month to month. These might include purchases such as food, gasoline, parking fees and medicine. They are "variable expenses" because they can fluctuate from month to month.

EXTRA CASH: This money is whatever cash is left from your paycheck after paying your ongoing bills and must-buys. Some people have no extra cash (or worse, negative extra cash). If your extra cash position is negative, you should seek help in lowering your expenses, raising your income and getting out of debt.

Calculating Extra Cash:
Extra Cash = Net Paycheck less Ongoing Bills less Must Buys

SAVINGS: Here, we specifically are addressing short-term savings. This "slush fund" is particularly helpful when an unexpected repair or medical bill occurs. The extra cash also may be used for the niceties of life such as going to the movies, eating out, etc. This is how you will begin saving for a new outfit, the latest gadget or a vacation. It is important to keep yourself happy with vacations and nice things—just be sure to plan for these expenses within your budget (more on this topic later).

If you're anything like we are, budgets, like diets, only work for a while. However, being financially fit (like being physically fit) demands consistent action. Begin by discovering what your spending habits are. Then, determine the best approach for solving the puzzle of becoming debt-free—instead of exhausting yourself trying to address the symptom of overspending.

Evaluate your finances: Your Cash Flow Statement

This section will help enable you to determine your financial situation. To start, answer the following questions:

- What is your annual income? $___________________
  If your annual income will change dramatically within the next 12 months, for the better or worse, enter that number instead of your current salary.
- What is your monthly income? (divide your annual income by 12) ___________________
- What is the amount of your NET MONTHLY income? $___________________
  Net means the amount of money you actually take home each month after all taxes and deductions have been removed from your paycheck.

Now, refer to the worksheet named "My Cash Flow Statement" (see Appendix A for a form you can copy and use). On this worksheet, you'll find places to include your Net Monthly Income and all other monthly inflows of cash you receive, including interest or dividends on your investments or income from other sources. The sum of all of these will be your (1) Total Monthly Income.

The next step on the path to future financial success is to determine your total expenses each month. This can be a challenge, as most people with money problems don't like to organize (or even look at!) their bills. That's why the next step is not simple, and it's not always quick—but it is vital in the race toward financial freedom.

Collect every single bill you received in the last twelve months. That's right—EVERY single bill. To know how to plan, you will need to know the costs of your average fixed bills on a monthly basis. If you are unable to locate all your bills, estimate your bills and start collecting them now. Hang in there! We promise this will be the beginning of financial freedom.

Return to "My Cash Flow Statement." Write in the amount you spend on each and every bill category monthly. If you know your total annual expense for an item, convert that into a monthly amount. For example, if your annual electric bills total $600, divide by 12, as illustrated below:

Bill	**Annual Total**	**Divide by 12 Months (600/12=50)**
Electricity Bill	$600.00	$50.00

Once these expenses are totaled, you will have your (2) Total Monthly Expenses. The last step is to calculate Net Cash Flow, which is your Total Monthly Income less Total Monthly Expenses.

(1) Total Monthly Income *less* (2) Total Monthly Expenses = (3) Net Cash Flow.

The total (3) Net Cash Flow represents the money you have each month for savings and building long-term net worth. Congratulations! You've taken the first step on the path to meeting your financial goals.

Understand your expenses

Calculate the total amounts you pay for major expense categories (Home, Transportation, Debt, Other, Savings). Then divide each expense amount by your income to calculate your expenses as percentages of your income. A good rule of thumb is that expenses should break down approximately as follows:

Home:	35 percent
Transportation:	15 percent
Debt:	15 percent
Other:	25 percent
Savings:	10 percent

Here's an example:

Bill	**Monthly Income**	**Divide Bill by Income (to get percentage)**
Mortgage = $1,500	Income = $4,400	$1,500/$4,400 = 34 percent *(This is below the 35 percent recommendation, so we are OK in this category.)*

Keep up your budgeting and try to do even better than the rule-of-thumb breakdowns stated above (that is, try to spend less than 15 percent of your income on debts and save even more than 10 percent!).

Help! My net cash flow is negative!

First, realize you are not alone. Many people have gotten out of debt and returned to a positive cash flow status. However, if your net cash flow is not a positive number, you MUST go on a financial crash diet:

1. Reduce your expenses (cut your leisure expenses first, and whittle down to the bone on all ongoing bills and must-buys).
1. Increase income (get a second job, more hours or a new career).
2. Get out of any credit card debt fast.

However small your net cash flow might be, it will have to do for now until your cash flow improves. Getting out of credit card debt is frequently the best way to increase this net cash flow amount—and you are on your way!

The Time To Start Is Right Now—Stop Using Plastic

Cash flow is the name of the game, and it is a game you can win. Once you begin to master your spending habits, you'll view the game as rewarding and even fun. But if you're not willing to monitor your expenses and make the necessary adjustments in your lifestyle, staying out of debt and building positive net worth will be very difficult. If you're worried about how you're going to pay your next bill, then please execute "plastic surgery" with your credit cards right now! Take out a pair of scissors and conduct a credit card elimination ritual: Chop them up. Credit cards are the enemy, and your cash flows are your only weapon.

To take your next step in the debt-free game, on your next payday, deposit your money into your checking account as usual. From here on out, though, you're going to change your ways.

1. First, set aside in your account the amount calculated in the "Ongoing Bills" category, and don't touch it.
2. Next, withdraw the amount you calculated for "Must Buys" in cash.
3. Do not use plastic. Your days of spending on credit cards should be permanently behind you.

From now on, you will no longer access your checking account between pay periods for cash. Instead, you will only write checks for your ongoing bills from the set aside amount in your checking account, and you will use the cash withdrawn for must-buys. After these amounts are gone, imagine this checking account doesn't exist. (How to budget the money you withdrew will be discussed shortly.)

Now that you have the cash in your wallet (or better yet, stashed safely in a drawer at home), identify the areas that are consuming your cash:

- Break down all your expenses, bills, savings, etc., into pay periods and monthly cycles. The "My Cash Flow Statement" form can be your primary reference tool for every pay period.
- Create a new "My Cash Flow Statement" for every month, and keep score at month's end to see how you did compared to what you had budgeted. If you beat your budgeted goal, treat yourself to a small (and inexpensive) reward!

The only way to be debt free is to live within your monetary limits. As much as everyone would like to have two cars, a huge house, every new gadget on the market, new toys, an expensive wardrobe, designer cosmetics, new carpeting, brand-name furniture, manicured nails, exotic vacations, private schooling, elaborate parties and expensive __________ (fill in the blank), you cannot sustain this lifestyle for long if you aren't living within your means.

Almost certainly, periods arrive in everyone's lives when we face personal and/or financial hardship. Freedom Debt Relief's goal is to help Americans overcome this financial hurdle. By working hard to achieve debt freedom, you should remain financially sound forever after getting out of your debts.

Quick Fixes

1. If you have debt problems and also have "liquid savings" available, use the savings to pay off your credit cards. The term "liquid savings" refers to money you have on hand, usually in a savings or money market account. Start by paying off the account carrying the highest interest rate (the higher the interest rate, the more of your money is being eaten up without paying off principal), and then work your way down to the account with the lowest rate. *Don't worry if you don't have liquid savings; most people in debt don't.*

   As outlined in Appendix B, if you have $20,000 in credit card debt, your minimum payment on that debt will be $600 to $800 per month. If you did not have this credit card debt and instead invested $800 per month into an investment earning a 10 percent annual percentage rate (APR), in approximately 18 years you would have saved over half a million dollars!

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, particularly when outstanding credit card balances are being hit with 25 percent interest or higher. Pay as much towards your high-interest debts as you can with the money you were using to invest into the company 401(k). Paying off these debts can be the equivalent of earning up to a 30 percent return on your 401(k) investments!

3. Consolidate your student loans with the lending institutions. If you have student loans and have never consolidated, the federal government subsidizes a consolidation program that lets you lock in low fixed rates for your student loans. While you only get to take advantage of this program one time, now may be the time.

4. If you own a home, consider getting a home equity loan. Using the proceeds from the home equity loan to pay your unsecured debts will dramatically help your financial situation. In almost every case, this type of loan will have much lower interest rates than your unsecured debts, and it typically is tax deductible—making the effective interest rate even lower.

On the Road to Financial Health

By now, you should have a better understanding of why unsecured debts are unhealthy and of the importance of being disciplined when dealing with your finances and living within your budget.

This guide provides basic budgeting tools to help you better manage your income and expenses. However, you must provide the most important ingredient: complete dedication to becoming debt free and living within the framework of a solid personal financial plan.

Take pride in getting on the path to building positive net worth using your positive net cash flow to get you there. Good luck!

Sincerely,

Your Friends at Freedom Debt Relief

Appendix A: My Cash Flow Statement

MY CASH FLOW STATEMENT			
INCOME		**ONGOING BILLS/FIXED EXPENSES**	
Net Paycheck #1		Home	
Net Paycheck #2		Mortgage Payment	
Interest Income		Rent	
Dividend Income		Home Insurance	
Commissions		Utility – Electricity Bill	
Gifts		Utility – Natural Gas	
Other		Utility – Water/Sewer Bill	
(1) Total Net		Utility Garbage Collection	
Net Paycheck #2		Utility - Local Telephone	
Interest Income		***Transportation***	
(1) TOTAL INCOME	**$**	Car Insurance	
		Car Loan / Lease	
		Parking	
MUST BUYS / VARIABLE EXPENSES		***Health***	
Home		Medical Insurance (Deductible)	
Home Upkeep		Life Insurance	
Transportation		***Debt***	
Gas		Student Loan Payments	
Vehicle Maintenance		Personal Loan	
Other		Credit Card #1	
Food (home/groceries)		Credit Card #2	
Food (out)		Credit Card #3	
Entertainment		Credit Card #4	
Cable TV Bill		Credit Card #5	
Long Distance Phone Bill		Other Debt	
Cell Phone Bill		***Other***	
Cleaning/Laundry		Retirement Fund	
Medical Bill / Medicine		Furniture/Appliance Loan	
Clothing		Child Support	
Gifts		Back Income Taxes	
Personal Care		Other	
Vacation		**TOTAL FIXED EXPENSES**	**$**
Other			
Expenses			
TOTAL VARIABLE	**$**		
(2) TOTAL EXPENSES (FIXED AND VARIABLE)		**$**	
(3) NET CASH FLOW (TOTAL INCOME less TOTAL EXPENSES)		**$**	

Appendix B: Statistics

If you are not carrying any problematic debt, consider yourself fortunate. But if you have debt troubles, you are not alone. The following eye-opening statistics illustrate the debt epidemic in our society.

- On average, today's consumer has a total of 13 credit obligations on record at a credit bureau. These include credit cards (such as department store charge cards, gas cards, and bank cards) and installment loans (auto loans, mortgage loans, student loans, etc.). Not included are savings and checking accounts (typically not reported to a credit bureau). Of these 13 credit obligations, nine are likely to be credit cards and four are likely to be installment loans. (myfico.com)

- The average interest rate on credit cards in December 2009 was 16.36 percent. (Index Credit Cards Credit Card Monitor)

- Sixty-one percent of workers live paycheck to paycheck. (Careerbuilder.com)

- Eighty-four percent of undergraduates had at least one credit card, up from 76 percent in 2004. On average, students have 4.6 credit cards, and half of college students had four or more cards. The average (mean) balance grew to $3,173, higher than any of the previous studies. Median debt grew from 2004's $946 to $1,645. (Sallie Mae)

- The median debt of 2007-08 bachelor's degree recipients at public four-year colleges was $17,700, a 4 percent ($710) increase in inflation-adjusted dollars over five years. Private-school graduates had median debt of $22,375, a 5 percent ($1,137) increase in inflation-adjusted dollars over five years. About 10 percent of all bachelor's degree recipients in 2007-08 borrowed $40,000 or more. (College Board)

- Individuals under 25 years old spent an average of $29,325 each in 2008. (Bureau of Labor Statistics) Teenagers spent nearly $189 billion in 2006. (Packaged Facts)

- Nearly half (46.1 percent) of Americans carried a balance on their credit cards in 2007. (Federal Reserve) About 12 percent of cardholders pay only the minimum due. (Gallup)

- The average outstanding credit card debt for households that have a credit card was $10,679 at the end of 2008. One year earlier, that average was $10,637. (Nilson Report, April 2009, via CreditCards.com)

- Roughly 5 billion credit card offers were mailed last year to approximately 200 million individuals in the United States. This means the average individual received about one offer every other week. The average household received more than one per week. (Cardweb.com)

- Individuals filed 1.1 million personal bankruptcies in 2008, up 31 percent from the year before. (U.S. Courts - the Federal Judiciary)

- Of American adults in committed relationships, 75 percent say money is a major source of conflict. (Redbook Magazine/Harris Interactive)

- If you have $20,000 in credit card debt, and you pay only the minimum payment (the higher of either 3 percent of debt or $30), it will take you more than 22 years to pay off the debt at a total cost of almost $44,000. If you did not have this debt, and instead invested $600 per month into an investment earning a 5 percent APR, you would have accumulated savings of almost $300,000 in the same time period. (Freedom Debt Relief)