



Get the Monkey Off Your Back

Reduce Your Debt for a Guaranteed Investment

Tackling your debt will not only reduce stress in your life, it will increase the amount of money you have for savings and other planned expenses.

Many people feel as if they will never be out of debt, and are tempted by credit card offers with low introductory rates or an ad urging debt consolidation into one easy payment. If you feel like you're on the debt treadmill with no way of getting off, you should know there is a better way. The solution to too much debt is not more debt.

Understand the costs of credit card debt:

If you had three credit cards with an average interest rate of 16% and balance totaling \$7,700.

What would happen if you made only minimum monthly payments? It would take you 32 years to pay it off!

On \$7,700 you would pay \$14,059 in interest for a total of \$21,759!

Here's another way to look at it. How far will that tank of gas get you?

Method of Purchase	Terms	Ending Total
Cash	Pay now	\$50.00/week =\$200/month
Credit Card	Paid off over 12 months with 21% interest	\$220.45/month in total payments =\$30/month minimum monthly payment

OBJECTIVE

To learn a debt-reduction technique that reduces the burden and stress caused by debt.

Consider the following... You may be too deep in debt if:

- Your mortgage purchasing power is limited because of debt
- You use more than 20% of your take-home pay, excluding housing costs, to pay off your loans
- You need to take out loans or use credit cards to pay for regular living expenses
- You can't keep up with your monthly utility payments and other bills
- You have to rely on co-signers for loan approvals
- You often borrow from one lender to pay another

Debt Consolidation

Perhaps you've heard ads encouraging you to consolidate all of your debts into one easy payment, telling you this is the way to get rid of your debt. Before you take that road, there are some important questions you should ask.

- What's the rate of a debt consolidation loan? It may only be one rate, but if it is higher than your other rates, that's no bargain.
- Is the interest rate adjustable? Perhaps it's a good rate now, but where will it be in a year? or two from now?
- What is the term of the loan? How long will it take you to pay it off? Will it take longer to pay off than if you paid the individual debts on your own? If so, you'll be paying more interest over the long term.
- Are there prepayment penalties? If you'd like to pay off the loan early to save yourself some of the interest, will you have to pay a fee?
- What are the terms and cost of the loan? Study them carefully, do they really benefit you?
- Does it fix the problem or extend it? Are you locking yourself into a situation where you will be forced to pay more interest over a longer period of time, which would extend the debt?



FITNESS TIP

A good rule of thumb is to never borrow money for something that doesn't provide lasting value. Mortgages and student loans can boost your earning power or your net worth. Loans for items like vacations, clothes, and furniture just cost you a lot of money.

Power Pay

There is a better way! **Power Pay** is a no-nonsense way to reduce your debt and your stress along with it.

- When you power pay your debt away, you focus on paying down one debt at a time while making minimum payments on all the others.
- First, incur no new debt and stop using your credit cards.
- Free up whatever additional money you can from your budget. This is your initial power pay amount.
- Focus on paying down one debt at a time. What works for you: shortest term, highest interest rate, or the debts identified by the home purchase advisor that would help you increase your purchasing power? Use that additional power pay amount to pay down that debt even faster.
- Don't forget to continue making minimum payments (or what you can afford to pay above the minimum) on your other obligations!
- When your first debt is paid off, take one month to build in a reward by using the extra cash for savings or a treat for yourself. Celebrate the fact that you paid off one debt—you deserve it (but don't go overboard)!
- Now focus on the next debt. Use your initial power pay amount plus the minimum amount you were paying on the first debt as your new power pay amount.
- Remembering your goals along the way will help keep you motivated.
- Be cautious and thoughtful about adding new debt as it will extend the time it will take you to pay off all debts.

Let's work through an example on the next page to see how this works.

Reduce Your Debts and Your Stress

1. Write down each debt in column 1, the total balance due in column 2, the interest rate in column 3, and the bill's minimum monthly payment in column 4.
2. Divide the total balance by the monthly minimum payment and put the answer in column 5. Example: $4,800 / 200 = 24$. This does not represent the months it will take you to pay off the debt. The division answer is necessary to help you prioritize which debts have the shorter term for paying them off.
3. Prioritize your debts in column 6 by starting with the lowest division answer in column 5.
4. Column 7 is to show your power pay amount (minimum amount + power pay amount).
5. Column 8 is to calculate how many months it will take to pay each debt off using the power pay amount + the monthly minimum payment.

1. NAME OF DEBT	2. TOTAL BALANCE	3. % RATE	4. MONTHLY MINIMUM PAYMENT	5. DIVISION ANSWER	6. PAY OFF PRIORITY	7. POWER PAY AMOUNT	8. MONTHS TO PAY OFF DEBT
CAR LOAN	\$4,800	9%	\$200				
STORE CREDIT CARD	\$240	24%	\$30				
CREDIT CARD	\$540	18.9%	\$45				
BANK LOAN	\$1,000	13%	\$100				

See page 6 for answers.

At www.powerpay.org you will find tools that will help you with the calculations and allow you to play around with different numbers and options. You will also find other helpful financial tools. Sign up on the website or download the mobile app.

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Power Pay Answer Key

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CAR LOAN	\$4,800 \$3,000	9%	\$200	24	4	\$200 + \$225 \$425	8
STORE CREDIT CARD	\$240	24%	\$30	8	1	\$30 + \$50 \$80	3
CREDIT CARD	\$540 \$405	18.9%	\$45	12	2	\$45 + \$80 \$125	4
BANK LOAN	\$1,000 \$300	13%	\$100	10	3	\$100 + \$125 \$225	2

Examples add an extra \$50 a month toward PowerPay to pay down debt.

Store Card - minimum Monthly Payment of $\$30 + \$50 = \$80$

Card paid off in 3 months

Credit Card - three months have passed, $3 \times \$45$ minimum monthly payment = \$135 paid on card

$\$540 - \$135 =$ new balance of \$405 on this credit card

Min. Monthly Payment of $\$45 + \80 (from previous debt) = \$125

Card paid off in 4 months

($3 \times \$125 = \375 , we need one more month to pay off the \$30 balance)

Bank Loan - seven months have passed, $7 \times \$100$ monthly payment on loan = \$700 paid on loan

$\$1,000 - \$700 =$ new balance of \$300

Monthly Payment of $\$100 + \125 (from paid off cards) = \$225

Loan paid off in 2 months

($\$300 - \$225 = \$75$ balance, so we need two months to pay off total due)

Car Loan - nine months have passed, $9 \times \$200$ monthly payments = \$1,800 paid on loan

$\$4,800 - \$1,800 =$ new balance of \$3,000

Monthly Payment of $\$200 + \225 (from paid off debts) = \$425

Loan paid off in 8 months

($7 \times \$425 = \$2,975$, leaving a \$25 balance so it will take 8 months to pay in full)