# Get Out of Debt Here!

Tired of "too much payment at the end of the paycheck"? Well you are NOT alone. Statistics show that the average American family is severely handicapped by consumer debt that seemingly NEVER goes away! Good News! Debt is manageable and you can PAY it off quicker than you ever imagined!

In the SBC's, **Digital Church Kit**, you will find, **It's A New Day for Financial Freedom (IAND) Workbook** (www.sbc.net/stewardship).

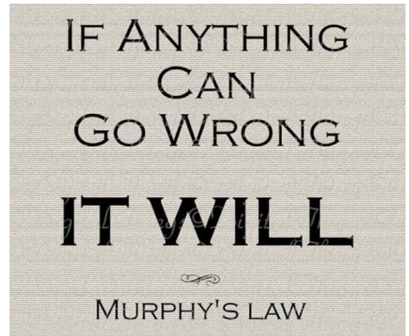
This six (6) week (four lessons each week) lesson plan is easily available for you to use as individuals, couples, or small groups at church. Do this online, or download for print and do this in a small group at church. Each lesson in the 6-week series is very practical and includes a video summation at the close of every lesson.

So, in the **IAND Workbook**, getting out of debt is the focus of Lessons 13 and 14, pages 50 – 61. These two chapters bring a sharp focus on the most practical and orderly way to pay off consumer debt in the shortest amount of time.

Using the **DEBT SNOWBALL** plan, affectionately called **Aggressive Payment Plan (APP)** in Lessons 13 and 14 (see below), you will pay off your debts in order – one by one – by rolling your payments over like a snowball from one debt to the next. It's called a "debt snowball" plan because you take the payments you were making to a paid-off debt and apply them to the next debt on your list. Your payments, therefore, grow with time and build momentum and effectiveness – much like a snowball rolling down a hill.

# Lesson 13

## But What About Murphy?




My best research tells me that Murphy's Law morphed out of a statement made by Captain Edward Murphy at Edwards Air Force Base, CA in 1949. Today's version is usually quoted as "If anything can go wrong, it will." Does that hold true with your personal monthly budget? Let me answer the question this way: I will be shocked if Murphy's Law takes a pass on your budget. There are just too many moving parts, and as we all know, life happens. Having said that, let's not forget the truth we learned earlier from **Proverbs 16:3, "Commit your works unto the Lord, and your plans will be established."** The Lord is now the One we depend on to help us implement our plan and to help us with the inevitable problems. At the same time, we know the enemy will try hard to steal our peace and joy.

Should we become discouraged and throw in the towel knowing that our best planning will more than likely experience a few wrecks along the way? Absolutely not, **because having the plan in place gives us a far greater chance of overcoming the setbacks than having no plan at all.**

Let's look at a couple of examples: First, you're cruising along; you've been working the budget for a few months and you're making progress. You're working toward Milestone 6 (paying off a car loan), when your spouse is unexpectedly laid off, reducing your Usable Income (UI) by 40%. What do you do? Answer: Immediately have a family meeting and explain the situation. Implement the GTW process and continue the GTW until the income is restored. I don't mean to oversimplify the situation, but you have a plan in place and tools to use at your immediate disposal. This fact is far superior to winging it and panicking when things go wrong?


Or let's say you're working toward Milestone 3 and have $800 in savings. The refrigerator that has been temperamental for months decides to quit, and the frozen food is rapidly thawing. Now what? Answer: Maybe a few options – a trip to a discount furniture or appliance store to find a refrigerator for $800 or less that will give you a few years service, or a quick search on the Web for someone trying to sell one in the process of a move. You then reengage the GTW process, if necessary, to quickly replenish your savings account. **What you don't do is grab the credit card** and buy a $2,000 refrigerator, because as you will see later, it will cost you far in excess of the purchase price.

Once again, you have a plan. You take the necessary steps to address the short term problem and you stay on track to meet your future Milestones. Is it discouraging to take a step backwards? Probably, but you know that **if you stay the course the long term benefits far outweigh the temporary setbacks.**


I hope you noticed that the two previous examples would have been minor bumps in the road if adequate savings had been available to meet the emergency. That's why in the Bible the Lord provides us the savings guidance that He does.

**He knows that if we will follow His plan, the big crises become minor crises and the Holy Spirit is then free to flood us with His peace.**

So, how can we accelerate the Milestone process and **get to the point where Murphy's Law is a moot point?** For most people, the answer lies in eliminating the nagging debt. When debt is no longer an issue, all of the dollars that were diverted to servicing debt can be diverted to servicing our savings or investing accounts.

In the next lesson, we will develop the process of accelerating debt reduction. But first, let's look at why consumer debt is a problem in the first place. I used the term "consumer debt" in the previous sentence because you may hear some people propose that some debt is "good debt"; that it can be used to leverage your position in investing and other business ventures and actually help you build wealth faster. Let's leave that discussion for another day, but for the purposes of this study **consumer debt is always bad debt**, for a few reasons.


First of all, interest on consumer debt (credit cards, department store accounts, furniture/appliance loans, car loans and any other loan on a depreciating asset) only benefits the creditor. There is zero benefit for the consumer. Most consumer debt carries with it high interest rates (10% or more and, often, much more). In addition, consumer debt can be insidious. The marketplace is very skilled at diverting the consumer's attention from the long term effect of consumer debt and persuading the purchaser that the monthly payment will be very low and manageable.

It is very important that you are aware of two of the most deceiving aspects of debt. I call the first one, the **Monthly Payment Illusion**; the second is the amount of interest you are paying the creditor each month just to service the debt.

Remember the $2,000 refrigerator used in the example a few paragraphs earlier?

The chart in **Figure 1** illustrates why you don't fall for the salesperson's pitch about the low monthly payments and buy it when you don't have the full purchase price. In Figure 1, I'm using the current interest rate of several popular department stores that sell appliances (25%+/-). If you use the credit card offered by the store and buy the refrigerator, you will have two primary choices when you receive the bill the following month – either pay the bill in full or send in a minimum monthly payment. Credit card companies are now required to include the total cost of the monthly payments, but most people don't pay attention to the information. The chart shows you the difference between what you would actually pay for the refrigerator if you paid for it when the bill was due ($2,000 plus tax) vs. the total cost ($5,680) and the time to payoff (10.5 years) if you chose the minimum payment option.

**Figure 1**

| Monthly Payment Illusion | | | | | |
|---|---|---|---|---|---|
| Price | Minimum Payment | Interest Rate | Time to Payoff | Total Cost | Difference |
| $2,000 | $45/mo | 25% | 10.5 yrs | $5,680 | $3,680 |

**My question to you is simply this: When you were shopping for the refrigerator and the $2,000 price tag had been replaced with a $5,680 price tag, would you have been motivated to buy it knowing that it would take you over 10 years to pay it off?**

Unlikely, right? But we pay that kind of price for stuff when we are tricked by the illusion that a monthly payment is an acceptable method to pay. Obviously, the cheapest way to pay for the refrigerator is to pay the bill in full when it is due. Let's say you already find yourself in the above situation and don't have the money to pay the full amount. Watch what would happen if you doubled the monthly payment (paid $90 instead of $45 per month).

Notice in **Figure 2** that by paying $90 per month rather than $45, **the payoff time is reduced by 8 years!** And the refrigerator costs $714 more than if you had paid cash, rather than $3,680 more! **This is a perfect illustration of the time factor of money.** Remember this: when interest is compounding and working against you, you want to reduce the payoff time as much as possible (preferably to zero by paying in full); when interest is compounding and working for you (saving and investing), you want to extend time as much as possible. Compounding interest is a powerful tool as you will see in later lessons; **the key is that we want it to work for us rather than against us.**

**Figure 2**

| Monthly Payment Illusion | | | | | |
|---|---|---|---|---|---|
| Price | Minimum Payment | Interest Rate | Time to Payoff | Total Cost | Difference |
| $2,000 | $90/mo | 25% | 2.5 yrs | $2,714 | $714 |

The second deceiving aspect of debt that is missed by most consumers is **just how much interest is being paid monthly** for credit cards and loan accounts. Another reason companies offer "low" monthly payments is that a huge amount of their profits comes from interest the consumer is paying.

In the previous $2,000 refrigerator example, initially only $3 of the $45 payment goes toward the price of the refrigerator. That means you are "donating" $42 in interest to the company for the privilege of receiving another statement the next month showing that you now owe $1,997! What if that scenario is multiplied a few times each month by other credit card bills, furniture loans, car loans, etc? The amount of interest many people are paying each month is staggering. Do you remember Melissa's situation from Lesson 9 of last week? Just the interest portion alone on her monthly credit card payments were more than $1000! You and I derive no benefit whatsoever by paying consumer debt interest – the only beneficiary is the creditor. This issue was the biggest motivator in my life to encourage me to get out of debt years ago. When I saw the amount of money I was paying each month in interest, it made me sick. I concluded that I had rather take that same amount of money and use it for more constructive purposes.

Maybe debt is not an issue for you, but if it is, I want you to determine how much total interest you are paying each month. Hopefully, it will be as much of a motivator for you as it was for me to get out of debt as quickly as possible. A **Monthly Interest Calculator** is available for you at the link provided on page A-6. The illustration below will explain the concept. You will need two pieces of information for each creditor: the current balance and the annual interest rate. This information is available on your monthly statement (either the printed statement or on-line).

The calculator allows you to enter the name of the creditor, the current balance and the annual interest rate. The amount of monthly interest in the far right column is computed for you. There is a Subtotal amount for all consumer debt (excluding mortgage(s)). In this illustration, the subtotal (almost $381 per month) is being paid in consumer debt interest. That amount doesn't include the mortgage and equity line interest because the mortgage generally represents an appreciating asset (obviously not guaranteed).

| **Monthly Interest Calculator** | | | |
|---|---|---|---|
| Creditor (non-housing) | Balance | Annual Interest Rate | Monthly Interest |
| Credit Card 1 | $ 6,000 | 18% | $ 90 |
| Credit Card 2 | $ 4,000 | 21% | $ 70 |
| Department Store | $ 2,500 | 12% | $ 25 |
| Auto | $ 8,000 | 8% | $ 53 |
| Auto | $ 16,000 | 6% | $ 80 |
| Student Loan | $ 15,000 | 5% | $ 63 |
| **Subtotal non-housing** | $ 51,500 | | $ 381 |
| Creditor (housing) | Balance | Annual Interest Rate | Monthly Interest |
| Mortgage | $ 175,000 | 4% | $ 583 |
| Equity Line | $ 10,000 | 5% | $ 42 |
| **Subtotal housing** | $ 185,000 | | $ 625 |
| **Total** | $ 236,500 | | $ 1,006 |

If a concentrated effort was made to aggressively eliminate the consumer debt, you would essentially receive a $381 per month after tax pay raise! That money would then be available to help fund other areas of the budget or, preferably, be directed to savings to reach Milestone 6.


**REFLECTION:** Spend some time in prayer asking the Lord to sustain you through any Murphy Law interruptions. Think about the advantage you will have once sufficient savings are in place to reduce Murphy's impact. How will that encourage you to faithfully continue with your plan? How motivated are you to reduce debt and eliminate wasteful monthly interest payments? In what way does the paying of interest each month reflect on your stewardship of the Lord's resources? Identify and prepare to discuss with your group the statement or concept that was most meaningful to you in this lesson.

**Record your thoughts:**


**ACTION STEP:** Using the Monthly Interest Calculator (download from link on page A-6), compute your monthly interest cost. Determine how you will use the equivalent amount of money once the consumer debt is eliminated. Continue tracking your daily expenses using the spending areas listed on page A-4.

Video

sbc.net/newday13

# Lesson 14

## Let's Put the Pedal to the Floor!

If you are up to date with the action steps from the previous lessons, you should be at least to Milestone 2 – you've constructed your budget, which should keep you from overspending. **Consequently, you have broken the credit cycle – a huge step forward.** If you needed to employ the GTW process you should be well on your way to Milestone 3 (at least $1,000 in savings). You are beginning to sense an easing of the pressure and the needle on the Financial Condition and Stress Meter is beginning to move toward the left. In short, you are making progress. If you feel you are still behind the power curve, don't sweat it. Just be diligent and follow the process – remember, the Lord will help you establish the plan as you commit it to Him.

If you are not already at Milestone 4 (eliminating debt with interest rates at 10% or more), it will be your next target. There are two primary reasons people struggle with eliminating debt. First, they don't have a plan to stop it from getting worse. Think about this: **the quickest way out of debt is by not creating more debt** – the balance can only go down! Second, they don't have a plan to pay it off.

**Figure 1**

| Creditor | Balance | Interest Rate | Minimum Payment | Contact Information |
|---|---|---|---|---|
| Department Store | $ 395 | 25% | $ 20 | 800-555-1212 |
| Credit Card 1 | $ 825 | 18% | $ 20 | etc. |
| Credit Card 2 | $ 2,400 | 12% | $ 48 | |
| Credit Card 3 | $ 3,500 | 19% | $ 70 | |
| Credit Card 4 | $ 5,800 | 24% | $ 128 | |
| **Milestone 4 (accounts above are paid off)** | | | | |
| Auto Loan | $ 8,200 | 7% | $ 325 | |
| Student Loan | $ 12,000 | 5% | $ 125 | |
| Equity Line | $ 15,000 | 8% | $ 150 | |
| **Milestone 6 (accounts above are paid off)** | | | | |
| Mortgage | $ 180,000 | 4% | $ 860 | |
| **Milestone 9 (mortgage is paid off)** | | | | |
| **Total** | **$ 228,120** | | **$ 1,746** | |

The plan we'll develop to aggressively eliminate debt is probably similar to other plans you've read about. The difference is that we will do a bit more analysis to make the plan as efficient as possible. To make this process easier to understand and visualize, let's consider a situation where we have nine creditors, including five credit cards, an auto loan, a student loan, a second mortgage in the form of an equity line and a primary mortgage on the home. The first step is to organize the debt. The simplest way to begin is by rank ordering the debt from the lowest balance to the highest balance. You can see that has been done in **Figure 1**.

Reaching Milestone 4 requires that any creditor with interest rates of 10% or more be paid off. In this illustration, that will require paying off the first 5 creditors on the list. The next 3 creditors will be eliminated in the process of reaching Milestone 6, and then paying off the primary mortgage will position us to reach Milestone 9. Those Milestones are also illustrated on the chart. To summarize the illustration there are nine creditors with balances ranging from $395 to $180,000 and interest rates ranging from 4% to 25%, organized from lowest to highest balance. The total debt balance is $228,120 with a minimum total monthly payment to all creditors of $1,746. Paying at the minimum payment rate would result in reaching Milestone 4 in ten years, Milestone 6 in fourteen years and Milestone 9 in thirty years! There must be a better way – and there is. Let's adopt an Accelerated Payoff Plan (APP), which will be explained in the following paragraphs.

Since our first target is Milestone 4, let's initially concentrate on the top 5 creditors. The APP requires that we pay the maximum possible monthly payment to the creditor with lowest balance. In **Figure 2**, the Department Store's balance is $395. It is also the highest interest rate. Consequently, we will experience a double benefit to pay it first. For this illustration, we'll pay the balance in full ($395). If we didn't have the funds to pay the full $395, then we would pay the most we could put our hands on, but in this example let's say we could pay the entire $395. For every other creditor, we will pay the absolute minimum required. The minimum required would be the stated minimum payments due on the remaining credit card accounts and the minimum loan payments we could negotiate. For auto and home loans the minimum is usually the stated monthly payment. By paying the maximum to the lowest balance creditor we will eliminate it as quickly as possible and begin to see creditors drop off the list sooner. That, in fact, is our initial goal – reduce the number of creditors as quickly as possible. This does two things. First, it motivates us by seeing immediate progress. Second, it starts simplifying the process, because we have fewer creditors to deal with. By being aggressive we are paying a total of $661 each month toward our credit card accounts.

**Figure 2**

| Creditor | Balance | Interest Rate | Payment |
|---|---|---|---|
| Department Store | $ 395 | 25% | $ 395 |
| Credit Card 1 | $ 825 | 18% | $ 20 |
| Credit Card 2 | $ 2,400 | 12% | $ 48 |
| Credit Card 3 | $ 3,500 | 19% | $ 70 |
| Credit Card 4 | $ 5,800 | 24% | $ 128 |
| **Milestone 4** | | | |
| **Total** | **$12,920** | | **$ 661** |

Since we paid the full balance of $395 to the first creditor, the list looks like this (**Figure 3**) after 1 month – 4 credit card account balances instead of 5. Notice the balances on the remaining accounts have reduced by very little because of the low monthly payments and the high interest rates. The $395 that was paid to the department store is now available to be added to the Credit Card 1 minimum payment of $20. Then $415 (395+20) is available to be paid the following month to Credit Card 1.

**Figure 3**

| Creditor | Balance | Interest Rate | Payment |
|---|---|---|---|
| PAID (Dept Store) | $ - | | |
| Credit Card 1 | $ 818 | 18% | $ 415 |
| Credit Card 2 | $ 2,385 | 12% | $ 48 |
| Credit Card 3 | $ 3,484 | 19% | $ 70 |
| Credit Card 4 | $ 5,788 | 24% | $ 128 |
| **Milestone 4** | | | |
| **Total** | **$12,474** | | **$ 661** |

The total monthly amount being paid to all of the credit cards remains at $661.

After two additional months or a total of 3 months from the start of our APP, Credit Card 1 has been paid off as you see in **Figure 4**. Once again, notice how slowly the three remaining creditor balances are decreasing – that's what high interest rates do! Two creditors have been eliminated in just 3 months. Our emotional energy is high because we are seeing definite progress. Now that we have the energy high, it is time to do some analysis.

**Figure 4**

| After 3 Months... | | | |
|---|---|---|---|
| Creditor | Balance | Interest Rate | Payment |
| PAID (Dept Store) | $ - | | |
| PAID (CC 1) | $ - | | |
| Credit Card 4 | $ 5,764 | 24% | $ 543 |
| Credit Card 2 | $ 2,355 | 12% | $ 48 |
| Credit Card 3 | $ 3,452 | 19% | $ 70 |
| Milestone 4 | | | |
| Total | $11,571 | | $ 661 |

Continuing to focus on **Figure 4**, we can see the high 24% interest rate on the Credit Card 4 account. Even though the Credit Card 4 balance is greater than the other two, it would be to our advantage to eliminate it first. So we move Credit Card 4 from the bottom of the list to the next one on the list. We continue paying $661 total and this makes the Credit Card 4 payment $543 per month (we added the $415 to the original Credit Card 4 minimum payment of $128). We will continue to pay the minimum to Credit Cards 2 and 3. Since the Credit Card 4 balance is substantial, another 12 months are required to pay it off, but after a total of 15 months in the process, look at the progress.

**Figure 5**

| After 15 Months... | | | |
|---|---|---|---|
| Creditor | Balance | Interest Rate | Payment |
| PAID (Dept Store) | $ - | | |
| PAID (CC 1) | $ - | | |
| PAID (CC 4) | $ - | | |
| Credit Card 3 | $ 3,237 | 19% | $ 613 |
| Credit Card 2 | $ 2,050 | 12% | $ 48 |
| Milestone 4 | | | |
| Total | $ 5,287 | | $ 661 |

At the 15 month point (**Figure 5**) there are only two remaining credit card accounts with a balance and the analysis process continues. We see, once again, it would be to our advantage to pay Credit Card 3 before Credit Card 2 due to the interest rate difference.

We do that, and after 6 more months pass (the 21 month point since we started), there is now only a single credit card account remaining with a balance. (**Figure 6**)

**Figure 6**

| After 21 Months... | | | |
|---|---|---|---|
| Creditor | Balance | Interest Rate | Payment |
| PAID (Dept Store) | $ - | | |
| PAID (CC 1) | $ - | | |
| PAID (CC 4) | $ - | | |
| PAID (CC 3) | $ - | | |
| Credit Card 2 | $ 1,550 | 12% | $ 661 |
| Milestone 4 | | | |
| Total | $ 1,550 | | $ 661 |

Due to the size of the payment ($661), Credit Card 2 will be gone in short order. **As a matter of fact, after just over 23 months from the beginning of the APP, all credit cards have been paid off and Milestone 4 has been reached!** (**Figure 7**)

**Figure 7**

| After 23.5 Months... | | | |
|---|---|---|---|
| Creditor | Balance | Interest Rate | Payment |
| PAID (Dept Store) | $ - | | |
| PAID (CC 1) | $ - | | |
| PAID (CC 4) | $ - | | |
| PAID (CC 3) | $ - | | |
| PAID (CC 2) | $ - | | |
| Milestone 4 REACHED! | | | |
| Total | $ 0 | | $ - |

At this point, the APP can and should be continued to eliminate the remainder of the consumer debt to attain Milestone 6 and then continued to drastically accelerate the payoff of the home mortgage enroute to Milestone 9.

## If you don't get anything else out of this discussion, get this:

> The scenario laid out in this APP process would shorten the time to reach Milestone 4 from the ten years mentioned earlier to just less than two years; as the process continues you will reach Milestone 6 in less than four years instead of fourteen years and will reach Milestone 9 in eleven years instead of thirty years! In the process, almost $100,000 would be saved in interest, not to mention the fact that you would be totally debt free 19 years sooner!

I hope you see that the moral of this story is pretty clear. We develop a balanced spending plan that is called a budget; we then add to that an organized accelerated payoff plan. These two elements combined with disciplined savings will move us through the Milestones at a blazing pace compared to a month to month lackadaisical approach that barely keeps our head above water.


**REFLECTION:** If you could reduce the amount of interest you will pay over the life of your car loans, mortgages, consumer loans, etc by $100,000 and limit the amount of time you have any debt at all to 11 years, how motivated would you be to put such a plan in place? What obstacles do you see that would prevent you from starting such a plan this month? Identify and prepare to discuss with your group the statement or concept that was most meaningful to you in this lesson. **Record your thoughts:**


**ACTION STEP:** If you have more than one creditor, establish an accelerated payoff plan like the APP described in this lesson. If debt is not an issue for you, adopt the same aggressive approach and establish a definite monthly amount to aggressively build your savings to reach Milestones 5 or 6, as applicable. Continue tracking your daily expenses using the spending areas listed on page A-4.

Video

sbc.net/newday14