

Zero Debt

By Lynette Khalfani

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Commentary by Leo Schreven

Debt is a big issue that affects many people, especially during these difficult economic times. I think it will be helpful this month to spend some time learning more about this important subject.

Debt—the single worst four-letter word in English language! It is also the least recognized form of modern slavery affecting people worldwide. Debt keeps you awake at night, it drives you to drink, to fight with your spouse, to experience anxiety and a host of other miseries. The purpose of this month's book is to help you move from financial anxiety to financial freedom.

Carrying a load of debt is like robbing yourself every week. So the first thing to change is your mindset. Zero debt is your goal. You want financial comfort and absolute peace of mind. This isn't a book about what you can't have, or about all kinds of sacrifice and pain. It's about making smart money moves, and getting a game plan so you can achieve financial freedom for life. It's about changing your thinking and learning some unconventional personal financial wisdom.

The first principle is that deprivation does not work. It's like someone you know who continuously diets and yet doesn't lose weight. The reason is simple—people can't deprive themselves for long periods of time. That is human nature.

Let's begin by analyzing who is in debt and why. Most people with heavy debt loads fall into two categories: First, over-spenders and poor money managers, and second, those who fall victim to the five dreaded "D's" divorce, downsizing, death, disability, disease. All of these can send a person's finances into a tailspin. It's important to realize this can happen to anybody, it's not just those people who are undisciplined, compulsive spenders. Ask yourself what would happen if you got a divorce, lost your job, or if the main breadwinner in your family dies, or became disabled and couldn't work? What if someone close to you became ill and generated a pile of medical bills? How long could you last without credit under difficult

circumstances? Could you keep up your current lifestyle without a paycheck? Asking honest questions like these really bring this truth home. Even if you don't owe a single dollar to a credit card company you need to be prepared for any of these possibilities.

Take a minute right now and think what financial freedom means to you—use your imagination to explore the possibilities. On the other hand, face the reality that you can't have financial freedom if you're burdened with debt, anguishing over your bills, living hand to mouth, and are not adequately saving. Recognize that the root of this problem isn't credit—the problem is learning how to manage credit. Let's face it, we live in a credit driven society and need credit and credit cards for many things. You can't rent a car or a hotel, or make online purchases without a credit card. It's not that credit is bad or destructive—rather it is learning to manage credit properly.

Currently, Americans have over \$2 trillion in personal debt and 1.6 million American households seek bankruptcy every year. The typical U.S. household has 13 credit cards with an average outstanding balance of \$13,000 and an average annual interest rate of about 15%. Worse yet is what we're doing to our children. Kids age 25 and under are the fastest growing segment filing for bankruptcy in America. Another problem with debt is that people are literally working themselves to death. It is breaking up marriages and is the number one cause of divorce. It's pushing retirement back five to 10 years for most people, and robbing them of peace of mind and financial freedom. For the Canadians listening to this, you are in worse shape than Americans. Your bankruptcies rose 12% in one year! Canadians carry debt equal to 104% of their disposable income, the highest level in history. It's a worldwide problem.

The bottom line is you have to change your behavior. Ask yourself, what is all that spending for anyway? To keep up with the Joneses? To live an extravagant lifestyle, or at least appear like you are? Take out your wallet or purse right now and count all your credit cards including those at home. How many do you have? Ask yourself, where did all my money go? I can answer that question. What you have been doing is taking part in the cravings of excessive consumerism which is in all of us. It is insanity. The cycle of wanting things, and spending more, then owing more, only to spend more and owe more is outrageous. What you're doing to yourself, your relationships, and to your family is pure madness. To stop being a slave to

debt you have to halt this vicious no win cycle of excessive spending. There is no other way. You have to stop once and for all.

Actually, the process of reducing your debt as quickly as possible is fairly simple and straightforward. It is done in three steps.

1. Stop digging. In other words stop piling on additional debt.
2. Renegotiate your current debts. Get your creditors to lower your interest, or drop late fees.
3. Apply as much cash as you can toward your debt by cutting back on expenses or generating additional income.

It is simple—there's no magic formula. But while reducing your debt may be simple, it certainly is not easy. The reason that it is not easy is because it has to start in your mind, not your bank account. It requires a plan and most people don't have one. But starting today you will.

Let me ask you a question. How motivated are you to turn your life around? Let me rephrase the question. How angry are you that you are not where you want to be or where you should be at your age? You should be angry at your current circumstances. Actually, you should be really ticked off! If there were a hospital for debt, it would be the worst cancer that exists in the world today. You need to see yourself that you have a huge problem—literally a chronic disease. Look at it as a physical cancer slowly eating your body away. Also it is very much like alcohol—in fact, the similarities between an alcoholic and someone in debt are similar. Both generate stress and physical illness, both tear families apart, both produce short-term euphoria or help people escape from their daily problems, both can be generational, both make individuals feel shame, guilt and embarrassment, both have underlying root causes for the behavior, both cause victims to feel out of control with their actions, both produce hangovers, both require individuals to change their habits, friends and the places they frequent to reduce temptation, and both have similar and preventable phases of deterioration.

You have to face the reality of this. If you are in debt you are no different from an alcoholic. The hardest thing for an alcoholic to admit is that he is an alcoholic! Most alcoholics live in denial and so do most people who are in debt. It requires intervention. Today is your intervention. Don't despair. You can kick your spending addiction. It won't be easy but you can do it if you apply the principles of this book. It can be done in 31 days, so let's begin.

Day 1. You stop the flow of credit card offers in your mail. If you want to end this, simply call 1-888-5-OPTOUT. (That is 1-888-5-678-088) This will force the companies to stop sending them. Why not reduce your temptation? While you are at it, why not also reduce the amount of junk mail tempting you to buy a bunch of stuff you don't need? Just write the Direct Marketing Association telling them you want your name on their Mail Preference list. You can also do it online for a \$5 charge. They are at www.the-dma.org.

Day 2. Make a resolution to, "Stop digging." If you find yourself in a hole, stop digging! You have to get serious about spending. So create a realistic financial plan. We have taught you to do that in previous books. Make a resolution that before you buy anything you will ask, "Do I really need this now?" "Needs" are things like healthful food, simple clothing, and shelter. You don't need to impress anyone. Watch your emotions. Many people tend to spend when they are angry, depressed or bored. So they spend to feel better. Watch your habits like smoking, TV, etc.

Literally, you need to go to war with your debts. No matter what, you will not spend beyond your means, or for the wrong reason, and you will not add any more debt in any form. Then write out your own, "Declaration to get out of debt!" Put it in a visible place and read it every day.

Day 3. Put all your debts in writing. Today, you are going to write down everything you owe everybody. Everything means including student loans, mortgages, credit cards, medical, auto, loans, etc. Beside each one write how much you owe, the interest rate, the total balance due, and the minimal monthly payment—you need this information in black and white. Then add it all up. Don't panic—let's systematically deal with it.

Day 4. Order your credit report and FICO score. Go to www.myfico.com to get your credit report. It will cost you about \$40 but it is critical for you to obtain all three of the available reports. The reason is that all lenders use credit scores. The scores range from 300 to 850. The website is also a gold mine of information which will help you get out of debt. It has a great feature called the score simulator which projects how you can improve your score, get lower interest rates, etc. Your credit score is of critical importance, so you need accurate information. Your payment history is 35% of your credit score, 30% is on the amount owed, 15% is on the length of your credit history, 10% is on new credit, and 10% is on the type of credit.

If you have blemishes on your credit history, you can report it and make it right by submitting a letter to the three main credit bureaus: Experian, Equifax, and Trans Union.

Day 5. Call your creditors and negotiate. Many people in debt feel powerless to negotiate but don't believe this. With the proper information you can win many concessions. Go through the list you created on Day 3 of those you owe money to. Contact each creditor and ask for a lower interest rate. If you have been making your payments on time, the credit card company does not want to lose your business. It is a competitive business. Tell them you have someone else offering you a lower rate and you want them to match it. Then do five other things.

1. Stop your late fees.
2. Eliminate your over-the-limit charges.
3. Upgrade your account to "current" status.
4. Remove a negative mark (if any) from your credit.
5. Ask if they will accept a partial payment of the total due.

Don't believe that credit card companies are big bullies who won't budge. They will, but you have to pick up the phone and be honest about your situation. It is important to learn how powerful this can be for you. Here is one example, let's say you owe \$3,000 on a credit card at 16.9% interest. By making minimum payments it would take over 16 years to pay off with \$507 being pure interest each year. Now, let's say you get the interest lowered from 16.9% to 5.9%. By making the same payment amount, that simple difference would pay the card off in one year, rather than 16! That is powerful!

The author also suggests 11 additional strategies to help you:

1. Call on a weekday morning, before the reps are burned out.
2. Be polite to establish good rapport.
3. If necessary, request to talk to the supervisor.
4. Mention the length of time you have been a customer.
5. Emphasize how much business you've done with the company.
6. Stress your willingness to pay what you owe.
7. Reveal any difficult circumstances you are going through.
8. If this is your first time, use that in your favor.

9. Talk about the competition—companies do not want to lose you.
10. Document all conversations in writing.
11. If there is a problem, work on it instantly without delay.

Day 6. Switch cards if necessary. There are two really good websites for this: www.cardweb.com and www.bankrate.com. These two sites will look at all cards available and can tell you every detail about them. Do remember however, that switching your card can hurt your credit score. The length of time you have a credit card is 15% of your FICO score.

Day 7. Always exceed the minimum amount due on the card. Most cards want 2% of the balance paid monthly, but this can keep you in debt for years. So, don't say I can't, instead say how can I? We will give you more strategies on this soon.

Day 8. Dispute any inaccuracies in your credit file. There is a Federal law called the "Fair Credit Reporting Act." This guarantees you the right to correct all mistakes on your report. Many surveys have shown that credit reports are horribly inaccurate in more cases than not. The most common areas are incomplete information, they have you confused with another person, juniors and seniors get mixed up, files are missing, and there is conflicting information. Taking the time to correct your file can increase your FICO score immediately.

Day 9. Educate yourself about your legal rights. You have a multitude of rights you may not be aware of. One of these is the "Fair Debt Collectors Practices Act" which protects you against harassment or unfair actions.

Debt collection agencies have been known to use every kind of tactic possible, legal and illegal. Threats, coercion, lies, deception, intimidation, fear, blackmail, harassment, etc. Do you know that all these are illegal? But if collectors think you are ignorant of the law they will use these things. So let's review 10 items you need to know.

1. They can't track you down by illegal means. This includes talking to third parties, mailing you anything, or using an envelope that lets others know you are being sought after, and they can't contact you after you have told them to contact your attorney.

2. They can't tell others your personal business. They can only call you between 8:00 a.m. and 9:00 p.m. They can't call you on the job. Other than you, the only person they can legally talk to is your attorney.
3. They are not allowed to harass you. This includes the use of violence or oppression in any way. They can't use obscene language, verbal or written, publish information about you, or constantly call you.
4. They can't use false or misleading statements, which happens often. They sometimes misrepresent the amount owed, will claim they are attorneys, tell you that you will go to jail, your wages will be garnisheed, property seized, or assets sold.
5. They cannot collect any money at all. They cannot take post-dated checks. They cannot make collect calls to you or do anything to incur charges in this way.
6. You have the right to validate and verify and dispute any debt that you are told about. During this period of time they cannot contact you.
7. They must follow your instructions about how you want the debts repaid. For example, which debt you will pay first on your outstanding balance.
8. Be aware that federal law limits where debt collectors can bring legal proceedings against people that owe money.
9. Debt collection agencies are prohibited from supplying you with misleading or deceptive forms to make you pay your debt.
10. If debt collectors break the law, they can be sued for failing to abide by federal rules and forced to pay things like the actual damages you sustained, and many other penalties. You can file a complaint with the state attorney's office and the Federal Trade Commission.

As a consumer you have to stand up for yourself when dealing with debt collectors. You owe the money, and you need to be legal about that, but that does not give them the right to harass you, or treat you unfairly.

Day 10. Stop collection agency harassment. If any debt collection firms are harassing you, you can make them stop immediately. Simply write a two-sentence letter advising them to cease all contact with you. The first sentence should say, "I am unable to pay this bill because... or, I refuse to pay this debt because..." and explain your reason. The second sentence should state, "I hereby assert my right under Section 805 C of the Fair Debt Collection Practices Act, to request that you cease any further communication with me." After they receive your letter, collection firms cannot contact you anymore. Many times collectors will threaten that

they are going to proceed with court action, but most of the time this is simply an idle threat. They'll also tell you your wages will be garnisheed, this is also another idle threat, don't listen to them. And don't let them scare you.

When you send your letter, make sure you send it certified mail with a return receipt requested. I can't begin to tell you how important this is, no matter what, don't break this rule.

Day 11. Prevent identity theft to protect your credit. There are at least 7 million cases of identity theft each year. To protect yourself, don't carry your Social Security card with you, leave most of your credit cards at home, shred sensitive mail, and watch the information you pass over the Internet. Believe it or not the majority of identity theft takes place within a person's own family. Next to this it takes place at your work. The biggest challenge with identity theft is that the person spends between 175 to 200 hours cleaning up the mess. There are multiple companies that sell identity theft insurance. I personally do not think it is important or worth the money—the best thing is to take proper precautions.

Day 12. Set up a good filing system. One of the best things you can do to get financially fit is to get yourself financially organized. To make an effective filing system, simply alphabetize your relevant documents by subject or category. You should only need 10 to 12 categories for things like banking records, which includes checking and savings accounts, bills paid, a budget for listing your expenses, income and assets, credit card receipts, statements and contracts, insurance, (like auto, health, life and property) investments such as your 401(k), your mortgage, receipts, and taxes.

You want to keep records for at least seven years because the IRS can audit you that far back. Add to that a simple filing system to sort your mail. One file for bills to pay, another for things to read, another for things to file, another for correspondence and for follow-up, and events and invitations. This will help you purge the amount of paperwork that you receive.

Day 13. Face the truth about your situation. This is the day you want to take responsibility for your life and mistakes. In some cases it's not what we have done but what we have procrastinated about or failed to do. Just

like in the physical, natural, or mechanical realm, there are laws that come into play here. On page 109 in the book you can fill out a sheet that will help you face the truth of your situation. There is also a quiz on page 111 that is helpful. I would really encourage you to do these two pages. Once you have examined your financial house and reflected on what you may have done or not done to cause your current situation you can then write out three things you're going to do to improve your finances. In the next 24 hours take one action. Within the next week take a second action and within the next month take a third action to turn this thing around.

Day 14. Create smart financial goals. You know the importance of written financial goals because we've talked about this over and over. You must have precise written goals, not just ideas in your head. Your goals should involve short, medium, and long-range goals. Short term goals are those you can accomplish in one year. Medium goals take two to 10 years to achieve. Long-term goals require 10 years or longer. These goals can involve many things—paying off student loans, eliminating all debt, building an emergency cash cushion, buying a new car, starting a business, saving for the down payment on a house or retiring comfortably.

Day 15. Today we want you to figure out where you're going to get the money to pay for your goals. Begin making a list of possible cash sources. Such things as salary and wages, self-employment income, tips, a second job, inheritance or gifts, borrowed money from the bank or family, alimony, pension, Social Security, savings, investments, selling items that you own, etc. Think creatively as you do this step today.

Day 16. Scrutinize your spending. The difficulty of this step is being in denial. Most people live a lifestyle that exceeds their income. They travel when they want, give money to people, purchase electronic gadgets, and continue to buy things they want, but do not need. People, like corporations need to downsize. I encourage you to get some perspective on your spending by looking at those things that may seem like necessities but are not. Look at each item and say, "I now spend \$____ every week or month or year on things that many people consider a luxury, or frivolous, or wasteful." Be as honest as you can then choose to eliminate or reduce those expenses. I've said it before—if you are in debt, and have a television with cable or satellite then you have no business

owning it. People have money lying all around that they could save in a hundred of ways if they chose to.

Day 17. Make a realistic budget. This poses two problems. First, people don't have a budget, or second they have a budget but don't stick to it. First, to avoid this use very precise numbers and don't underestimate your spending. For example your cell phone bill is \$50 a month, but you regularly talk beyond your allotted cell phone minutes so your real bill is \$80 a month. You may calculate your electric bill at \$50 a month, but in winter it goes up to \$200 a month. Second, don't buy on impulse. Wait 24 hours before you buy anything so your mind has time to process whether you need it or not. Next, annual bills are often forgotten—things like your homeowners insurance, your gym membership, or electric bill. If your home insurance is \$1,200 a year, then you need to budget \$100 a month for that. Most of all, don't forget to fund emergency or unexpected events.

Day 18. Find 10 ways to cut your spending. Instead of saying, it's not possible, put on your thinking cap. How about some ideas like doing your own home maintenance, bringing lunch to work every day rather than eating out—visit www.lowermybills.com and get some great ideas. Stop smoking or drinking, carpool, use coupons, buy in bulk, raise your insurance deductibles—remember saving money doesn't have to be a big hassle. You just need to think and put a little time and effort into this, and take the money you save and pay off those creditors.

Day 19. Adopt five lifestyle changes to save more money. We all have areas of our life that, with minor adjustments, we could save money. Consider less expensive options to how you are currently living your life. For example, when shopping, never pay full retail price, wait until it is on sale or buy it through another source like online. How about using your library for videos and books rather than buying them? Most people could save hundreds of dollars a year this way. Take advantage of free or low-cost attractions and events in your city rather than the more expensive amusement parks. Eat out less often. Walk instead of driving to any place that's within walking distance. Commit to live by these lifestyle changes every day to save money.

Day 20. At work, adjust your W-4 withholdings. The IRS says that the average tax refund is \$2,300. Go to your human resources department

and adjust your W-4 withholdings so your employer takes out less tax from your paycheck. Your next paycheck will be bigger. Use that extra money to pay down your debts. Even if at the end of the year you owe a small amount to the government, that's better than getting a refund because it means you had more cash to work with the previous year. Why give the government an interest free loan?

Day 21. Sell stuff you don't want or use. Hold a yard sale. Auction things on eBay. When you get money from your sales send it to your creditors to pay off your debt. What you can't sell, give away and get a tax receipt to lower your income taxes.

Day 22. Find a way to generate additional income. One option is to get a second job, even if it is temporary. A second job may seem like a sacrifice, but it is nothing compared to years and years of dealing with debt. How about turning a hobby into cash? If you don't like the idea of more work, why not have fun doing something you love? Whatever past-time you take pleasure in, chances are there's someone out there willing to pay you to do it. You need to seriously consider starting your own business right out of your own home. There are thousands of advantages to this that we discuss in the All Power Seminar #18 and I urge you to listen to this seminar again for some great ideas. How about leveraging the power of the Internet? From writing your own book to offering products and services, to desktop publishing, the list is endless and if you are willing to think creatively you will find there are many ways to earn extra income and take care of those debts much faster.

Day 23. Apply for a home equity loan or equity line of credit. If you have equity in your house it can be a wise strategy to use a home equity loan to pay off your credit card debt. A helpful source is Countrywide Financial. The interest you pay on a mortgage debt is tax deductible up to \$100,000 and your interest rate will be much lower than a credit card.

You should not take this decision lightly. You need to make sure that you have completely changed your spending habits and are sticking rigidly to your budget, and have complete control of your finances before you take a home equity loan. If you can control these, using mortgage debt to pay off consumer debt like credit cards and auto loans can be a very smart thing to do. An equity loan is best if you require a lump sum of money. With a line of credit you have access to funds up to your maximum credit

available but you don't pay back any money until you actually use the funds. If you are older, you could also consider a reverse mortgage. A reverse mortgage is still a loan against your house but it works the opposite way. Instead of you paying the bank, the bank pays you a fixed stream of money until you or the last surviving borrower dies or sells the home. With each cash payment you collect from the bank, your equity in the house is reduced. You have to be 62 years old and living in your own home in order to qualify for this. There are many resources that can give you information on this

Day 24. Refinance your auto loan. If you are making car payments, remind yourself that there has never been a car that has appreciated in value, therefore making it one of the worst loans you can ever have. Most people don't realize they can refinance their car loan just as they can refinance a mortgage. It is much easier and faster and is actually one of the best-kept secrets in personal finance. To lower your payments go to Capital One Auto Finance. The website is www.capitalonefinance.com. Refinancing takes just a couple minutes and can save you thousands of dollars over the life of the loan. The money you save can be used to pay down other debts.

Day 25. Put your debts in a priority strategy. There are different theories on this. Some say you should pay your highest interest debts off first. Others say pay the smallest debt off first so you see results and begin to build momentum. My personal opinion here is to attack the debt that gives you the most pain or stress. Put your debts in a priority list with number one as the debt you hate the most. That's the one you want to attack first. There is just something that we can't explain about human psychology, in that when we accomplish a goal, even a small one, it moves us forward and gives us confidence to do it again.

Day 26. Look at the pros and cons of using a debt management program. I would recommend this only for people who find themselves in such an extreme situation there is no other way out. Approximately 9 million people every year seek help from debt counseling agencies. But often these agencies make things worse for you. Recently, in a four-year period complaints about the credit counseling industry skyrocketed by 590% according to the Better Business Bureau. The entire industry has changed and you need to be aware of this. There was a time when you could go to a credit counselor and get quality advice. But today the vast majority of

credit card counseling companies are owned by the credit card companies themselves. They figure it is better to consolidate all your debts and receive a small monthly payment than to get no payment at all. Obviously they do not have your best interest in mind. What they care about is their money and how to make more money on you. It is very important to shop around and make sure you are with a reputable and reliable company.

Another common mistake is that people think if a credit card company is a nonprofit organization they will get better quality help. This is simply not true. Don't sign any contracts until you get detailed feedback in what the plan will look like and what your fees will be. Don't enroll in any program that costs more than \$50 to set up or has a monthly fee higher than \$25. Don't go with a company that seems to only be pushing debt management plans. Don't give your bank account information before you sign a contract. And don't respond to aggressive marketing pitches.

Day 27. Evaluate your existing insurance coverage. It is very important to make sure you have adequate protection for your home and auto, as well as life and disability insurance. Your life insurance should cover a minimum of five to seven times your annual salary. A great resource to shop for the best rates is www.quickquote.com. Term life insurance is your best option. We have covered this in previous All Power books and you may want to refer back to them. There are also some kinds of insurance you don't need such as hospital indemnity insurance, extended warranties or extended contract insurance, specific health insurance policies for cancer, strokes, etc., life insurance for children, or flight insurance.

Day 28. Draw up a Will. Again we have talked about this at length in other All Power Seminars and books. You need a Will if you have anything of value. You definitely need one if you have children. It is also critical to remember that there have been some major changes in this in the last few years. Wills are now subject to individual state law. So if you made a Will in California, then moved to Arizona, there may be multiple areas that Arizona law does not recognize. It is very important to have your Will reviewed by an attorney in your state to make sure it is up to date.

Day 29. Open a "hands off" account and set up an automatic savings plan. You want an account that is somewhat difficult or inconvenient to access your money so you are not tempted to withdraw it. Have your employer set up automatic payroll deductions that go into this account. Even if it is a small amount, start your automatic savings plan now.

Day 30. Prepare yourself to become a positive financial role model. It is interesting to note that 71% of Americans believe their kids should start learning about money in the first grade. Yet the majority of parents also admit they do not set a good example to their children on how to handle money. I would encourage everyone to join the National Association of Online Investors, which has great online study courses. Robert Kiyosaki also has some great resources to teach children. There are two other websites you will want to visit. The National Endowment for Financial Education, at www.nefe.org or the National Council on Economic Education at www.ncee.net offer lessons and interactive challenges to teach kids of all ages about money saving and investment.

For adults, one of the best websites is the SIA Investor Challenge at www.siainvestor.com. This is actually an interactive game and gives you access to experts who walk you through the basics of how to invest in the stock market. You get a hypothetical \$100,000 and can treat it as virtual money so you get to practice investing before putting your own funds at risk. This is also a great tool for your kids. Another great site I'm going to recommend is www.moneysavvygeneration.com. This is a super site for adults as well as kids. Sometimes people ask me about the piggy bank I use with my daughter. It has four slots for saving, spending, donating, and investing. You can get these big banks at this website.

Day 31. Address any other money problems credit issues or financial circumstances. After going through the steps of this book there are always other issues that come up in your financial life such as bankruptcy, delinquent taxes, lawsuits, and many other things. You can use the same principles that you have learned in this book to help you with the challenges of these other areas. I also encourage you to buy the book that we have been going through. On the last few pages of the book there are sample letters and resources that are very valuable, credit bureaus that are helpful, debt counseling firms that are good, sample letters to use, consumer resources and websites and books etc.

Okay, that is another book of the month. I hope you have found it very helpful and have picked up some tools to encourage you in the process. Be sure to go online and pick up your free copy of the transcript, because we have listed many websites and resources and you will find them in the script. Until next month, I wish you all God's blessings and the very best that life can offer!

Leo Schreven