What is WalletPath?

At WalletPath, we strive to educate the average consumer about their debt and how to ultimately reach their financial goals. Unfortunately, we feel that the current financial landscape is built on exclusionary, complicated strategies that prevent the average person from feeling confident in their ability to control their financial journey. Our goal is to push back against this trend by creating content designed to both inform and empower readers.

We aim to be approachable and fun, because we want you to feel comfortable turning to us when you have questions or find yourself in a financial pickle. We're built on experience - although we may seem like experts now, we've lived through our own financial struggles at one point or another - and that's what makes us a perfect fit for the average consumer. We're not here to talk down to or scold you for poor decisions, we're here to acknowledge that mistakes happen and then help you fix them without judgement. We've been in your shoes before, so you can trust we have your best interest in mind.

We also don't believe you need a degree in microeconomics to manage your personal finances, and that's why this guide was created. We wanted to create a simple, easy-to-understand guide for anyone suffering from credit card debt, paying off a mortgage, worried about paying their taxes, or just plain confused about this whole budgeting thing. We believe that we've succeeded, but why don't we step back and let you be the judge.

What Does Our Guide Offer?

You may find yourself in debt for the first time, or maybe you've been here before – after all, debt is something that can happen to anyone at any time. But it's also not a death sentence, and you are absolutely capable of digging yourself out and continuing on to reach your financial goals.

We're going to start you out with the absolute bare necessities: understanding your credit score and building a budget. While you may be tempted by bloggers offering miracle debt solutions, these just don't work. We've broken everything down into simple worksheets so that you don't need to worry about the math, just follow our steps and we'll point you in the right direction.

After we've armed you with the basics, we'll determine why you're in debt. We strongly believe that debt is just a symptom of a greater problem, and that identifying the source is the first step to being debt-free. You may already know why you're here, but if not we've designed a short questionnaire that will diagnose and prescribe you a financial treatment. Then you'll just need to read through and follow the suggestions in your assigned section - we've already done the legwork for you.

Finally, we'll look at the best offensive strategies for tackling that debt. This may involve following a strict budget, taking advantage of balance transfer deals and personal loans, negotiating, or bankruptcy. No matter what path you choose, we're here to support and help you along the way.

The Bare Necessities

Your Credit Score

If you already understand your credit score and how debt may impact it, you can skip ahead of this section for the sake of your attention span. If you have no idea how the world of credit works, we can help with that. Let's get started!

What IS a Credit Score?

It's a common misconception that you only have one credit score - there are actually countless organizations that track and calculate your credit history and what this says about you as a consumer. But we won't get into the nitty gritty of all these entities, because the be-all and end-all is your FICO score (which you've probably at least heard of.) The FICO score is used by nearly all lenders, so you shouldn't need to worry about any of the others.

FICO collects information from the credit bureaus to create one consolidated score that can be easily referenced by you, and by lenders who you are attempting to borrow from. There are only three credit bureaus you need to worry about: Experian, Equifax, and TransUnion. These credit bureaus are responsible for tracking your existing debt, overdue payments, and delinquencies that may indicate to lenders that you aren't an ideal borrower. Not all debt information is reported to the bureaus (and therefore never affects your credit score) which we'll cover in more detail below.

So what DOES affect your credit score?

Existing Debt

So this should be a given, but just in case: most existing debt will be reported to the credit bureaus. While your total debt is obviously a major contributing factor to your credit score, it makes up less than one-third of the calculation. Even if you are carrying a large amount of debt, there are several other factors that will determine where your credit score falls.

Outstanding bills like medical and utilities will likely only appear on your credit report if you've missed a payment - these typically will not count toward your total debt amount.

Credit Card Utilization

In addition to the total balance on your credit card(s), the percent of utilization will also be taken into consideration. The percent of utilization is the amount owed on the account in comparison to the credit limit on the account. For example (we'll keep the math simple): If you have a credit card with a $1,000 limit, and the balance on the account is $300, this credit card would have a 30% utilization.

The ideal credit card utilization is around 20% - this shows that you are actively using the account, yet you are not coming anywhere near the actual limit on the card. If your balances are consistently higher than this 20% benchmark, even if you don't exceed your credit limit, this high utilization will reflect negatively on your credit score.

Payments

Payments you make to your debt balances have the greatest power to help or hurt your credit score. If you are late to make a payment, you generally have 30 days to catch up on your account before the lender will report the missed payment to the credit bureaus. After a payment is 30 days late, it is common practice to report it, and the longer you go without paying the worse the impact will be on your credit score.

If you neglect to make payments for an extended period of time, especially on bills such as medical or utilities, your account will likely be turned over to a collections agency. Collection agencies have the option to register this debt with the credit bureaus, which will take an even greater chunk from your credit score.

Bottom line: do everything in your power to pay the minimum amount due on your accounts. Getting into this habit will save you a lot of financial heartache in the future.

Credit Inquiries

When someone checks your credit report for the purpose of a loan or credit card decision (such as a bank or credit union) this will appear on your report as a hard inquiry. An inquiry is a request from these organizations to view your credit report, and FICO considers several of these requests within a short time period to be an indicator of a high-risk borrower.

Hard inquiries for credit card applications are viewed more harshly than those from home, auto, or student loans. Don't be afraid to shop around for the best rates when considering these larger loans!

Soft inquiries are performed when you're pre-approved for a loan or when an employer performs a background check on you. You can also always check your own credit through FICO or the credit bureaus. These inquiries will not affect your credit score in any way, so don't worry!

Credit Score Checklist:

- [ ] Keep debt balances to a minimum and always aim to decrease your total debt amount.

- Stay as far away from your credit limits as possible. If you are carrying long-term balances on a couple cards, consider opening one or two new credit lines (but don't use them) to lower your overall percent of utilization.
- ALWAYS make payments on time - we really can't stress this enough.
- Avoid applying for several credit cards in a short period of time, especially if you are planning to shop and compare for a mortgage or other large loan in the near future.

Building a Budget

Every single financially independent adult should have a budget, whether they're making minimum wage or $200k per year. We're introducing this concept early because a budget really is crucial for any kind of financial planning, and we believe understanding how to construct and follow one is essential to the debt elimination process.

First things first, we need to figure out how much you really make. Break down your monthly and yearly income using the worksheet below - remember to account for unpaid vacations, fluctuations in hours (if paid hourly), and taxes. It is always best to round down if you are unsure.

Please complete Worksheet: What is My Take-Home Income? before continuing.

Next, we need to find out your monthly and yearly expenses. Focus on recurring payments or fixed expenses that happen on a regular basis (like prescriptions or oil changes,) we'll deal with all the little stuff later. Don't let these totals overwhelm you, it can be daunting for anyone to see all of their expenses compiled in one succinct place. Just know that seeing the big picture will be extremely helpful in the near future. Unlike the income worksheet, here you'll want to round up if unsure.

Please complete Worksheet: What are My Living Expenses? before continuing.

Alright, time to think back to elementary school math. Subtract the yearly total on the expenses worksheet from the yearly total on the take-home income spreadsheet. Are we still in the positive? Or have we already drained your income? Don't stress, even if things are already looking tight - that's why you're here, isn't it? Take a deep breath, we'll help.

Now, this part isn't as cut-and-dry at this step in the budget-making process. You know all of those little expenses we told you to forget about on the last worksheet? It's time to try and put those in writing. Ideally, once you've built and followed your new budget for a month or two, you'll know (almost) exactly how much you spend on the little things, but for now just try your best to guesstimate. Try to be honest with yourself here, we know it's tempting to lowball.

Please complete Worksheet: What are My Day-to-Day Expenses? before continuing.

You probably know what's coming next: subtract this yearly estimate of day-to-day spending from the total we got earlier by subtracting monthly expenses from your take-home income. How are things looking now? This should give you a rough idea of what your financial situation is without factoring in any existing debt. Again, and we can't say this enough, don't be overwhelmed by these numbers. You're several steps ahead of most of the population just by sitting down and figuring out what your situation actually looks like. From here we can make it better.

Armed with the information we've laid out above, we suggest that you get started with one of the many budgeting softwares currently on the market. You may choose to go the traditional pen-and-paper route, but if you're feeling overwhelmed it might be helpful to have a guiding hand by your side as you navigate this new budget.

Worksheet: What is My Take-Home Income?

Your gross income is the amount you make before any taxes are taken out - this worksheet will figure out what your actual take-home income is after any withholdings. Use pay stubs in conjunction with this worksheet to double-check your estimates. Use your best judgement when estimating things like unpaid time off (and how much income you are losing in this time) for each month. Automatic withdrawals such as wage garnishment or child support can be placed in the “Other” category. Let’s break it down:

	Gross Income	**Est. Taxes**	**Est. Unpaid Time Off**	**Other**	**Est. Take-Home Income**
January	**$**	**$**	**$**	**$**	**$**
February	**$**	**$**	**$**	**$**	**$**
March	**$**	**$**	**$**	**$**	**$**
April	**$**	**$**	**$**	**$**	**$**
May	**$**	**$**	**$**	**$**	**$**
June	**$**	**$**	**$**	**$**	**$**
July	**$**	**$**	**$**	**$**	**$**
August	**$**	**$**	**$**	**$**	**$**
September	**$**	**$**	**$**	**$**	**$**
October	**$**	**$**	**$**	**$**	**$**
November	**$**	**$**	**$**	**$**	**$**
December	**$**	**$**	**$**	**$**	**$**

Now, let’s add all these numbers up and take a look at the big picture:

	Gross Income	**Est. Taxes**	**Est. Unpaid Time Off**	**Other**	**Est. Take-Home Income**
Annual	**$**	**$**	**$**	**$**	**$**

Worksheet: What are My Living Expenses?

You'll be calculating everything according to a per-month cost on this worksheet, so you may need to break down quarterly or yearly bills. FIrst, make note of any recurring home-related expenses that you may have.

Mortgage/Rent	**Utilities**	**Home Insurance**	**Internet/Phone**	**Child Care**
$	**$**	**$**	**$**	**$**

Next, write down any travel (in the commuting sense, not in the vacation sense) expenses that you pay on a regular basis. Provide your best estimate for things like fuel costs.

Car Insurance	**Fuel**	**Car Maintenance**	**Public Transit Access**	**Misc.**
$	**$**	**$**	**$**	**$**

Don't worry about totals right now, just write down minimum payments in this section.

Credit Card Payments	**Student Loan Payments**	**Tax Payments**	**Auto Loan Payments**	**Misc.**
$	**$**	**$**	**$**	**$**

We obviously can't forget health expenses - again, make your best estimate for things like prescription and co-pay costs for a given month.

Health Insurance	**Prescriptions**	**Co-Pays**	**Medical Debt Payments**	**Gym Membership**
$	**$**	**$**	**$**	**$**

This section has a couple more suggestions for expenses you may have overlooked, as well as a few more Misc. boxes for those expenses we didn't even think of.

Subscriptions	**Pet Supplies**	**Misc.**	**Misc.**	**Misc.**
$	**$**	**$**	**$**	**$**

Monthly Total	**Annual Total**
$	**$**

Worksheet: What are My Day-to-Day Expenses?

For this worksheet, we're going to try and get a quick snapshot of your daily spending habits. You can either fill out this worksheet over the course of a week or sit down and tackle it all at once. If you have access to your purchase history on a debit or credit card statement, this will be a little easier, otherwise you can just think back and try to remember what you purchased on a given day.

You'll want to try and do this with your "typical" week - one without any unusual events or changes to your schedule. Go day-by-day and write down what and how much you spent on daily purchases, and we've provided space for you to make additional notes when you feel they'll be helpful for tracking your spending (ex: "coffee date with Mom" or "purchased graduation present for Steve.")

Examples of Day-to-Day Expenses:

- Coffee
- Restaurants/Fast food
- Going out (ex: drinks, taxi expenses)
- Movies
- Groceries
- Clothing/Retail
- Health products (ex: protein powder, vitamins)
- Hobbies (ex: hunting, gaming)

Monday

What? **How much?** **Why?**

Tuesday

What? **How much?** **Why?**

Wednesday

What? **How much?** **Why?**

Thursday

What? **How much?** **Why?**

Friday

What? **How much?** **Why?**

Saturday

What? **How much?** **Why?**

Sunday

What? **How much?** **Why?**

Budgeting Software

While a little pen and paper never hurt anyone, technology is here to make building and adhering to a budget that much easier. Just in case you aren't familiar with the budgeting software on the market, let's run through a couple of the industry leaders:

Mint by Intuit

Mint allows you to view all your finances in one place, and lets you categorize purchases so you can see exactly where your money is going. If your banking providers are supported by Mint (most major banks are, and more are being added every day) you can choose to automatically sync checking and savings accounts, credit cards, loans, and investments.

Mint also allows you to create a budgeting framework, by setting a percent of income or specific dollar amount for categories like "Restaurants" and "Travel." You can see where your money will be allocated before you even spend it, so you can make responsible choices instead of spending impulsively. If you're someone who loves watching data unfold, Mint is your guy. Mint has several features geared around creating visual representations of your spending and saving habits.

The automatic syncing has definitely been Mint's main advantage in the world of budgeting software (though competitors are catching up), but some people experience issues with purchases not syncing correctly. No software runs perfectly, but keep this in mind if you choose to sign up for and use Mint's budgeting features.

You Need a Budget (YNAB)

Frequently shortened to YNAB, You Need a Budget is an online budgeting *system*. In many ways, YNAB is very similar to Mint - it just rolled out automatic syncing, so Mint no longer has the true advantage in that field. But while Mint is a basic tracking website/app, YNAB comes with a whole budgeting philosophy that is meant to be supplemented by the software itself. If you aren't comfortable jumping into this budgeting thing all on your own (and we don't blame you, it can seem impossible at times), we really recommend looking into YNAB and how it can help you get on the right track and truly reshape your financial habits.

The big downer is that YNAB recently switched to a subscription service - in order to manage your finances, you'll need to fork over $5 a month or $50 a year. If you can afford it it's well worth the investment, but we know this really isn't an option for those in financial distress. YNAB's features will not make or break your finances, they will just help.

Tip Trackers

Are you a server, bartender, barista, or other tipped employee? Anyone who has worked one of these jobs knows how unpredictable your income can be, and how hard this can make budgeting for monthly expenses. These apps (and many others available for both Android and Apple) provide an interface where you can enter in data like total tips made, tip-outs for coworkers, and hours worked. Depending on the app, you'll also be able to see information like average tips for a day of the week or time of year, and predict what you will make in future shifts.

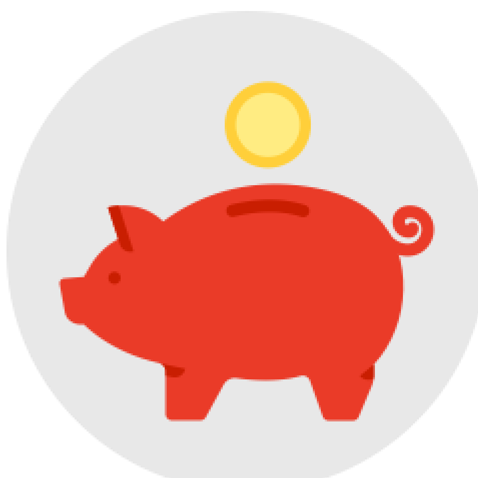
One of the downsides to these apps is that you will need to enter all of your tips manually, but the benefit of having this information right in your pocket is well worth the hassle. Once you've built up enough data you can start to design and follow a budget just like a salaried employee, and you'll never again need to pray for a busy night in order to make rent.

Budgeting Checklist:

- ▢ Determine your gross and take-home income.
- ▢ Calculate your fixed monthly and yearly living expenses.
- ▢ Estimate your day-to-day living expenses.
- ▢ Sign up for one of the recommended budgeting softwares according to your individual needs.
- ▢ Input all of this information into your chosen software program and get started on your new budget!

What is Your Debt Personality?

Overspending - You spend more than you earn, whether that's by $1 or $100. You may struggle with impulse spending or have monthly living expenses that exceed what you can afford.



Lost Without an Emergency Fund - You manage to make ends meet each month, but when the unexpected happens you don't have any emergency savings to turn to.

Secured Debt - You have a car loan, mortgage, or some other form of “collateral” debt that you are currently paying off.

Student Loans - You’ve graduated college and are now living the American dream, but your student loans are starting to catch up with you. You’re unsure what the best course of repayment is.

Tax Payments - You owed more in taxes than expected or you neglected to file your taxes in previous years and now owe the IRS more than you can afford.

Questionnaire

It's very likely that you took one glance at the list above and instantly knew which category you fall into, but if you're still unsure we've compiled a short questionnaire that will allow us to point you in the right direction. Even if you find the correct category through one of the first questions, we recommend reading through them all because many individuals find they identify with more than one!

Q1.a - Do you have credit card debt? Is this debt large enough that you feel it affects your life or happiness?

If yes, continue with Question 1.b.
If no, proceed to Question 2.

Q1.b - Do you use your credit card(s) for large, one-time expenses? Or do you use your card(s) for monthly bills like rent and utilities, or on daily purchases like coffee, restaurants, and groceries?

If you only use your credit card for large, necessary purchases, proceed to our section on Building an Emergency Fund.
If you use your credit card(s) for monthly bills or daily expenses, proceed to our section on Overspending.

Q2 - Do you have debt from medical procedures or other emergencies that you were unable to pay for out-of-pocket?

If yes, proceed to our section on Building an Emergency Fund.

If no, proceed to Question 3.

Q3 - Are you in debt because of a car loan, mortgage, or similar investment?
If yes, proceed to our section on Secured Debt.
If no, proceed to Question 4.

Q4 - Are you a student or recent graduate concerned about how you are going to afford your student loans? Are your student loans currently draining your finances?
If yes to either of these, proceed to our section on Student Loans.
If no, proceed to Question 5.

Q5 - Have you neglected to file your taxes in recent years? Did you attempt to file your taxes and discover the IRS is asking for more money than you currently have?
If yes to either of these, proceed to our section on Tax Payments.
If no, proceed to Question 6.

Q6 - Do none of these situations apply to you?
Congratulations, you are likely debt-free! We recommend looking through some of our general sections like How to Improve Your Credit Score, Building a Budget, and Planning for the Future so that you can stay that way!

While you may find yourself identifying with only one or two categories of debt, the advice within each section is extremely valuable knowledge for ANY financially independent individual. This information and advice can be applied to many different life scenarios:

- Even if you are not yet a homeowner, you may find insight into the world of mortgages by reading our section on Secured Debt.
- Are you a young adult looking to invest in your education? Our section on Student Loans will help you understand the sometimes-scary world of financial aid and life after college.
- You might take your financial security for granted, but learning the importance of an Emergency Fund may show you how fragile your living situation actually is.

Now, we'll be deconstructing these debt personalities one-by-one and recommending a personalized course of action to break yourself of these habits and end the vicious cycle of debt and financial insecurity.

Overspending

You have two options: make more money or spend less money. We really wish there was another way around it, but there's not. First, we want you to know that you're not alone: the average U.S. citizen spends $1.33 for every $1 they earn. This may not seem like a huge discrepancy, but adjust this number to the average salary of a college-educated adult and all of a sudden we're spending almost $60,000 for every $45,000 salary. This overspending adds up.

But you can quickly overcome this trend by sitting down and creating a budget for yourself - less than 50% of U.S. citizens have a personal budget, and less than 29% have a budget AND follow it the majority of the time. If you skimmed over our section on Building a Budget, go back and read it. Right now. The information in that section, and the structured budget you will create from it, will be absolutely invaluable.

Tips to Eliminate Impulse Spending

- Cash is king. At the beginning of each week, take the money you've budgeted for day-to-day spending out in cash. This is what you get to spend for the entire week, and once it's gone, it's gone. Leave all your cards in your glove compartment or at home - keeping them on your person will just make it that much easier to cave if you spend your cash too quickly.
- If you have one-click checkouts enabled on any websites, delete your payment information. If you have a Paypal account, have a trusted loved one change the password or disable it entirely.
- If having your credit cards easily accessible ANYWHERE is an obstacle for you, get your hands on a mint tin or other small container and freeze them, individually, in ice.
- If this still isn't enough of a barrier for you, you may need to consider destroying your cards. Once you have reached a point where your spending is under control and you have paid off your debt, you can always request new cards from the issuing credit card company.

We also understand that overspending is often a symptom of something greater, and that following these tips may not provide enough of the push you need to change your spending habits. Please reach out to a financial therapist if you think you have issues with impulse control, are using "retail therapy" as a form of self-medication, or feel you may turn to shoplifting if you are unable to purchase the luxuries you are used to. You can find several resources for compulsive spending online or through your local mental health professional.

But What if Overspending Isn't My Problem?

Sometimes the core issue isn't that you're spending frivolously, but that you're trying to live off less than a living wage in your area. While - yes - you are technically still spending more than you can afford, it is not because of impulse spending or an extravagant lifestyle.

The obvious answer is to find a higher-paying job, but this is easier said than done. This should be your long-term goal, but in the meantime you have a few options:

More Hours or a Second Job

It might not be glamorous, but food service and retail businesses are almost always looking for extra hourly employees. This can be a short-term fix while you work on lowering your monthly living expenses or finding higher-paying work.

Lower Your Monthly Living Expenses

Again, it's not glamorous, but if you look critically at your budget you'll probably find some excess spending. Here are some commonly suggested areas to cut costs:

- Phone/Internet/Cable Bill
  - If you're not required to have a certain level of service for your job, cut all unnecessary phone, internet, and cable services. You'll likely cut a good chunk out of your monthly bills and won't be missing anything you couldn't get through your local library.
- Roommates
  - If you are currently living on your own, consider bringing in roommates to significantly cut down the monthly cost of your rent/mortgage. Your rent should be no more than 30% of your take-home income, and even less is better.
- Groceries
  - Take full advantage of any discount grocers in you area (such as ALDI) and always go shopping with a planned list.
- Hold on, say it with us: COOK EVERY MEAL
  - We know this advice is tired and sometimes inconvenient, but the markups at most restaurants (even fast food) can be so high that you could easily eat for an entire day on the cost of one meal.

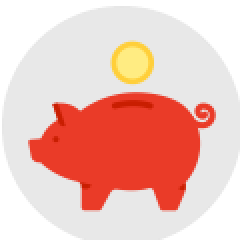
Why don't we advocate for get-rich-quick schemes?

Because while they may pad your wallet with a little extra beer money, they won't save you from long-term debt. Our goal is to prepare you for responsible spending and investing for the rest of your life - focusing on short-term fixes will just put a band-aid over the real problems affecting your finances.

Let us help you create a budget designed for your individualized resources so that you can get your spending under control, pay off your existing debt, and start planning for the future. You can break the cycle of overspending and credit card debt, but it will take some work evaluating your current habits and understanding that solutions won't appear overnight. But don't stress, we're here to help you along the way.

Overspending Checklist:

- ▢ Build yourself a budget and follow through.
- ▢ Identify impulse shopping and take our suggested steps to break this habit.
- ▢ Find ways to lower your living expenses or raise your income.
- ▢ Once your spending is under control, you can follow one of our strategies for eliminating your existing debt.



Lost Without an Emergency Fund

When you live paycheck-to-paycheck (a.k.a. spending as much as you bring in each month) a flat tire or trip to the emergency room can suddenly put you and your family in the red. A concerning number of people have no emergency fund set aside for these life events. An emergency fund is a savings account reserved for the worst case scenarios of life - the family car breaking down, a lost job, or a medical emergency are all examples of when an emergency fund would quickly become handy.

When you don't have an emergency fund and these situations come up, often the first response (and sometimes the only option) is to put these expenses on credit or take out a personal loan. There is no shame in doing this, but the debt can follow you for years to come and put greater stress on your family's financial situation. If a lack of emergency fund is why you've found yourself searching for debt relief, the first step to freedom is planning ahead so you don't find yourself in this position again.

We've put together a short guide on how to effectively build up an emergency fund:

Building an Emergency Fund

From this point on, your top priority is building your new emergency fund. Every extra penny, nickel, and dime is no longer spare change – it is one step closer to financial security. Your first goal should be setting aside enough to cover a month's bills: rent/mortgage, utilities, insurance, car payments, student loans. After this, build up to 3 months, and then 6 months. With this emergency fund in your back pocket, you will never need to put a failed transmission or a month without work on credit again. We suggest doing two things to help build your emergency fund: start collecting your spare coins and assign yourself an emergency fund "bill" each pay period.

You can use any kind of large container, even something like an old plastic milk carton, to collect spare change at the end of each day. Over time, these coins will add up to a significant amount of money, and you can turn them in for paper cash or deposit them straight into your savings account. While Coinstar offers convenient locations for exchanging your coins, please be aware that they take a large chunk (10.9%) for themselves unless you redeem the coins for a gift card. Most banks and credit unions should provide a free coin exchange service for their customers, so look into what your local branch offers before paying Coinstar's fees.

Going forward, you should treat adding to your emergency fund as a bill that needs to be paid just like rent or car insurance. Each paycheck, take out and deposit a predetermined amount to your emergency fund. Some employers may offer a direct deposit option that lets you automate this deposit, so you won't even have to lift a finger to see your emergency fund grow. Make sure that you are contributing a significant amount of money, but do not spread yourself too thin by saving too aggressively and having to take money back out of your emergency fund as a result. You want to maintain the mindset that this fund is untouchable.

Note that when building your emergency fund, aim to cover 6 months' worth of expenses, not your overall income. In situations where you are using these savings for an extended period of time, you should not be eating out, going to movies, or purchasing other luxuries - just focus on having enough to survive.

Once you have this emergency fund built up, where do you put it? We recommend that you keep this fund in an account that is not directly connected to your everyday checking or savings accounts. Credit unions that you are not already a member of (for their low maintenance fees) or online banks that do not allow you to quickly withdraw cash are good places to start. By stashing your emergency fund in an out-of-the-way, but safe, place you are less likely to use it for non-emergency expenses (even when they may seem like an emergency at the time.)

Emergency Fund Checklist

- ▢ Determine benchmarks for saving - what does one month of expenses look like for you? 3 months? 6 months?
- ▢ Open a savings account through a credit union or online bank that you are NOT already a member of.
- ▢ Allocate regular payments to this account by treating it like a bill that must be paid.
- ▢ Start saving spare change. Deposit these coins into your emergency fund whenever your selected container is full.

Secured Debt

So you were directed to this section because you're currently paying down a secured debt, most likely a mortgage or car loan - but what exactly is secured debt? Well there are two types of loans/debt: secured and unsecured. Unsecured debt is anything that does not have a direct, tangible form of collateral attached to it, like a non-specified personal loan or credit card debt. Secured debt is that which DOES have some tangible form of collateral - in the case of a mortgage, this would be the house or property, and in the case of a car loan this would be the car itself.

Secured debt is given this name because the lender basically has guaranteed recourse if the borrower defaults on their loan. Foreclosures are a common result of borrowers defaulting on their mortgages. The lending bank seizes the property and then sells it off in order to recoup the majority of their financial loss.

Borrowers with secured debt are also required to insure the “collateral” in case anything were to happen to the property or car. This is why new homeowners are required to maintain an insurance policy for their new home and one of the reasons why auto insurance is mandatory for many car owners. This way, if any damage occurs to the property the lenders will be reimbursed for the lost value.

Since mortgages and car loans are the most common types of secured debt, we’re going to focus on those in detail. But many of these tips can be applied to a variety of loan types, so don’t go too far!

Before You Jump In

We understand that you’re likely here because you already have some form of secured debt, but we also want to offer some guidance for those who either have not yet applied for a secured loan or who will be looking for another in the future.

1. Always shop around for the best rates. Remember that inquiries related to larger loans like these will not significantly affect your credit score, so take advantage of this opportunity to shop around for the best deal. It’s recommended that you collect information from several potential lenders before moving forward with a decision. You’re often able to access basic loan information online, so you can do a preliminary search without even leaving the comfort of your home.

2. Don’t just look at interest, be sure to ask each potential lender about whether these rates are adjustable or fixed, any additional fees that may apply to you, and their down payment requirements. Wait, while we’re at it, what’s the difference between an adjustable and a fixed rate loan?

Fixed - These are the more popular type of secured loan. Lenders offer a set interest rate and payment plan based on the amount and length of the loan. Your interest rates will not be subject to swings in the market.

Adjustable - Less common than fixed-rate loans, mostly because of their tendency to change with the financial market. Interest rates will likely be lower than a fixed-rate loan at first, but may grow if the market changes for the worse. Adjustable rate loans are a bit of a gamble, because you might be able to take advantage of lower rates but always run the risk of the market suddenly changing.

3. Once you've found a loan that works for you, make sure you get it in writing. While you may find the perfect loan, the lender has every right to change the terms if you have no proof of what you previously agreed to. Having a written record of existing offers will also be a powerful negotiating tool as you visit different lenders.

4. Don't be afraid to negotiate. Let lenders know that you are shopping around for the best rates, and that you won't hesitate to choose the loan that is ultimately best for your needs. Don't let niceties sway you into choosing a less-than-stellar loan, remember that you'll be living with this financial decision for years to come, and a free cup of coffee won't pay the bills during that time. Also, don't be afraid to walk away - a lender who is difficult to deal with before you even take an offer will not be any easier to deal with when it comes time to refinance.

How to Manage Your Mortgage

The most common type of mortgage is a fixed-rate, 30 year loan. While this payment schedule is the easiest option for most middle-class homeowners to budget for right off the bat, the sheer length of this loan means that interest ends up being a huge chunk of your final balance. While it's not feasible for the vast majority of new homeowners to choose the 15 year payment plan offered by most lenders, you will likely have the opportunity to refinance - which basically means moving the current debt from one set of terms to another at a time when you are more financially successful - during the time you are paying off your mortgage.

Even if you are unable to currently refinance, or simply choose not to, the best thing you can do for yourself and your mortgage is to pay it off as quickly as possible. This could mean shaving off a couple months' payments or several years, but you will save an astounding amount on interest just by doing this.

There are several recommended strategies for edging yourself ahead on your mortgage without crippling yourself financially:

- Round up your mortgage payments each month. While it may not seem like much now, these couple dollars will add up over the course of a 15 or 30 year mortgage.
- Even if you don't actually refinance, you can calculate and make payments on your 30 year mortgage like it's a 15 year one, and therefore pay it off twice as fast.
- At each financial quarter (March 31st, June 30th, September 30th, and December 31st) budget for an extra house payment. On a 30 year mortgage, this practice could shave 11 YEARS off of your payment plan and over $50,000 in interest. We're not joking.
- Allocate bonuses or other financial windfalls solely to your mortgage (assuming you have no other outstanding debt that needs to take priority.)

How to Manage Your Car Loan

Many of the techniques for paying off a mortgage successfully apply to car loans as well, just on a smaller scale. The industry standard for auto financing tends to be a fixed-rate 5 year loan, though these loans may offer more flexibility than a mortgage when negotiating terms.

Many popular car publications use this standard 5 year loan to determine the ultimate cost of a new vehicle, including estimated interest and maintenance costs during those 5 years.

All of the mortgage tips above can be used for a car loan, but we have one more tip that might make financing your new car a little less painful:

- Home equity is the value in your home that can be used for collateral. You may have heard home equity loans referred to as "second mortgages" - although they're similar, home equity loans are generally used for much smaller amounts than any mortgage. Right now, home equity loan rates are trending lower than car loans, so if you have equity in your home available for you to use it might be a better decision financially to use this for a new car purchase.

While you may feel bogged down by secured debt, remember to think of it as an investment in your future. Like any other large purchase, make sure you are shopping within your budget, opting for the best rates, and maximizing your down payment before committing to anything. As long as you are realistic about your finances, you can have a stress-free experience with your new home or car, and enjoy it for years to come.

Secured Debt Checklist:

- ▢ Always shop around for the best rates when applying for any type of secured loan.
- ▢ Refinance your secured loans to better interest rates when possible.
- ▢ Round up your payments or make additional payments in order to pay off your loan sooner.
- ▢ Enjoy your new property!

Student Loans

Choosing a Repayment Plan

As you may or may not know, you have about 6 months after graduation before you must confront your student loans. After this period, you'll be required to make a decision on how you'd like to repay them, and you'll be expected to follow through with this payment plan. There are two general types of student loan repayment plans: the traditional plan and the income-driven plan.

The traditional repayment plan calculates what you will need to pay every month in order to repay the loan in 10 years - your payments stay the same throughout the entire repayment period. Depending on the amount you owe from student loans, this calculation may result in extremely large monthly payments.

Income-driven repayment plans use your income to determine what your monthly payments should be, generally taking a set percentage of your earned income. Income-driven plans may operate only within a certain period of time, and if the loan is not paid in full at the end of this time period the remaining balance is forgiven. If you don't actively choose a repayment plan, you automatically be placed on the traditional one, but you can change this at any time.

It might sound nice, but income-driven plans aren't an easy way out. Your repayment plan will end up asking for 10-20% of your discretionary income, and forgiveness won't be offered until you've been paying this amount for 20-25 years. However, these plans offer eventual financial freedom for graduates who are deep in student debt with no other sign of escape.

Income-driven plans may be a good temporary option for graduates who are starting out with a lower income, especially if the traditional repayment plan would have them paying over 15-20% of their income. A warning to those who are considering this route: remember that your education is not the only investment you'll be making in your adult life, and that pushing off paying these loans may also push back home ownership, being able to afford a family, and retirement. Whenever possible you should be contributing more than this bare minimum to your debt repayment.

You also have the option to consolidate your loans. This allows you to take all of the individual loans you took out for each year/institution and combine them into a single payment you make to one organization each month. This may also lower the required payment, but keep in mind that this is not lowering your overall debt. If you plan to utilize this lower payment option for an extended period of time, just remember that it will take longer for you to ultimately pay off your loans and that you will accumulate more interest in the process.

Deferment and Forbearance

Deferment and forbearance are not technically the same thing, but they perform in much the same way. These allow you to stop making payments to your student loans for a predetermined period of time if something damages your financial situation (such as losing a job or prolonged hospitalization.) During deferment, you are not required to make any payments to the principal and your loans will not collect interest. During forbearance, you will either not be required to make any payments or your normal payments will be reduced, but your loans will still collect interest.

Requests for either of these special allowances should be made directly with your loan servicer (the organization that issued and handles your loan.) In the case of the Federal Perkins loan, you may need to get in touch with the Financial Aid office of the institution you attended.

Discharge and Forgiveness

Before we dig into the details here, please note that different criteria apply to different loans, so be sure to confirm what your specific loans qualify for (the Federal Student Aid website or your institution's Financial Aid office are good places to start) before moving forward.

There are a limited number of life situations that could qualify you for student loan forgiveness. One of these we already mentioned: reaching the predetermined time limit of an income-driven repayment plan. But let's talk about a few more:

TPD Discharge

A Total and Permanent Disability Discharge is granted when you have been physically disabled to the point of being unable to work. This is available to both service-injured veterans and civilians, but requires a vigorous verification process to ensure that you are fully incapacitated and unable to maintain gainful employment.

Death Discharge

This should be rather self-explanatory: if the borrower dies, the outstanding student loan balance will be discharged.

Discharge in Bankruptcy

Student loan forgiveness in bankruptcy is fairly rare, and requires proof that you a fully incapable of repaying your student loans without immense hardship and have made a good-faith effort to meet repayment. This is available when filing Chapter 7 or Chapter 13 bankruptcy.

Teacher Loan Forgiveness

If you are a full-time teacher who has served a low-income community for five consecutive years, you may be eligible for student loan forgiveness. This only applies to loans borrowed after October 1st, 1998, and a maximum of $17,500 will be forgiven.

Public Service Forgiveness

If you have completed 10 years of income-driven payments while working for a government or non-profit organization, you may be eligible for loan forgiveness. The loans must be in good standing, and only payments made after October 1st, 2007 will apply to the 10 years of repayment.

Just like secured debt, remember that your student loans are ultimately an investment in your future. If you are an incoming student who is hesitant about loans, take this information into account when deciding to take on additional expenses like meal plans or school-sanctioned travel. Student loans are very much worth it when handled responsibly, but make sure you are prepared for the consequences of borrowing more than you can afford.

Student Loan Checklist:

- ▢ Choose the repayment plan that best suits your post-graduation finances. Remember that you are able to change this repayment plan in the future if your situation changes.
- ▢ Follow through with this repayment plan, contributing more than the minimum whenever possible.

- ▢ Know your rights in the case of forbearance or deferment.
- ▢ Be aware of what student loan forgiveness you might qualify for in a worst-case scenario.

Tax Payments

Please note that this section covers United States taxes only.

Sometimes the IRS asks for a little more than you were expecting, or you neglected to file your taxes in previous years and now find yourself drowning in owed taxes. If you can't afford to pay out your federal or state owed taxes by April 15th of a given year, you generally have three options:

- You can pay by credit card, but this will carry the same risks to your credit score as any other charged purchase. The IRS may also charge an additional fee for paying by credit card.
- You can apply for a personal loan, this will be reported to the credit bureaus just like any other loan. If you qualify, personal loans will generally have a lower interest rate than using a credit card.
- You can pay by small installments, which will typically carry with them a fee or interest charge, but will not be reported to the credit bureau. Out of these three options, we recommend this one in most circumstances.

Whatever you do, pay your taxes. Non-payment will result in a tax lien, which will take a large, semi-permanent chunk straight out of your credit score. Trust us, the consequences of non-payment are much worse than setting up a payment plan.

The IRS has a negative rep, but they are always willing to accommodate financially struggling taxpayers as long you are upfront and willing to accept their terms. Finding yourself in a situation where you are unable to pay your taxes is scary, but attempting to ignore the problem will only cause it to escalate in the future.

When you sign up for a tax payment agreement, it will be treated very similarly to any other kind of debt payment. The IRS will determine a minimum monthly payment toward your tax debt, and if you do not meet these payments you will be at risk of defaulting. Any future tax refunds will be applied directly to this debt until it is paid in full. In many cases, the IRS will also waive fees or interest associated with this payment plan once you have paid your debt in full.

Tax Debt Checklist:

- Know how you will be filing for the coming year based on your employment, marital status, etc., and know when you are expected to file (quarterly? yearly?)
- Always file your taxes as early as possible.
    - Many online tax programs offer free state and federal filing, but these deals go away as the deadline draws closer (because these businesses know how many U.S. citizens procrastinate!)
    - Attempting to file early also gives you the opportunity to wait and budget for a higher-than-expected payment.
- If you are still unable to meet your owed tax payment, opt for the IRS' payment plan before charging the amount or taking out a loan.
- If you receive a refund, either allocate this money to debt repayment or include it in your structured budget. If you treat it like an unexpected windfall it will quickly disappear.

Now What? Let's Crunch Some Numbers

We determined your debt personality above, and provided strategies for changing your spending or saving habits in order to eliminate the source of debt. Now, we're going to discuss the best way to start eliminating the debt you have already accumulated. We'll explain these strategies in more detail later, but in this section of our guide you will learn to:

- Step One: Determine your credit score
- Step Two: Determine your monthly "debt burden"
- Step Three: Determine your total debt

Step One: Determine Your Credit Score

So earlier we broke down exactly what goes into your credit score (if you didn't read it, go back now and do so), but now we need to actually find out what your current score is. There are a couple ways you can access this information:

- Some credit card issuers will provide a free FICO score on your account statement. Check your most recent statements to see if any of your card issuers include this service.
- You can purchase your score through FICO itself.
- You can access a free credit score through a provider like Credit Karma.

If you are unable to view your credit score through you credit card issuer, we recommend looking into a free provider before purchasing any services directly from FICO. Do note, though, that you are typically limited in how often you can view your score for free through these providers, and that they will often try to sell you additional services such as fraud protection. You are under no obligation to purchase these services.

Now that you have your score, let's look at it more closely. While there is no set-in-stone rule for what is a good score and what is a poor one, there are some industry guidelines that you can use to determine where you fall in the world of credit. Keep in mind that these are very general and individual loan issuers will have their own standards for their products.

No Credit

This means that you have no credit history - nothing has ever been reported to the credit bureaus about you. Oftentimes you will be denied requests for credit due to your lack of history, so you may need to opt for a retailer-specific card, secured card, or co-signer in order to start building a credit history.

300-499

Scores in this range are considered very poor. You will likely be denied any requests for credit at this point, so your primary goal should be to improve your score.

500-659

These scores are considered poor to average. While you will likely be able to open a credit line with one of these scores, you may receive higher interest rates or a lower credit limit than those with a higher score. For personal loans a co-signer may be necessary.

660-850

This range covers scores ranked from above average to excellent. You will qualify for better incentives and rewards cards, have a lower interest rate, and be more likely to receive credit or a loan in general.

With this information in hand, you can begin to see where you fall on the credit score scale. Adopting better financial habits and lowering your total debt will automatically help boost a low score, but there are several other practices that will help you get extra mileage out of your credit score.

Step Two: Determine Your Monthly "Debt Burden"

For this step we're going to find out how much of your monthly income goes directly toward paying down down your debt, also know as your "debt burden." For this, you'll need your gross income (your income before taxes are taken out) and all of your monthly debt payments. This should include mortgage/homeowners' insurance, minimum credit card payments, car loans, student loans, tax payments, and anything else that applies to you. Don't include things like utilities or rent.

We know, we know – we brought you as far as we could without breaking out the calculator. But sometimes you really do need to do the math to figure out what the best course of action is:

$$\frac{\textit{MONTHLY PAYMENTS}}{\textit{TAKE–HOME INCOME (MONTHLY)}} \times 100 \ = \ \% \ \textbf{\textit{of debt burden}}$$

For example, if my take-home income is $1,500 per month, and I pay $250 per month on a car loan and have a credit card with a $36 minimum payment, my debt burden is 19%.

Generally, you want to keep this percentage under 36%, but the lower the better. Not only is this number useful for evaluating your own financial situation, but lenders will often use this same calculation when making an application decision. Keep this percentage handy while we finish up with the final step.

Step Three: Determine Your Total Debt

For this step, you'll need the current balance information for any tax payments or unsecured debt, so you can exclude things like mortgages and car loans. We're going to add up these totals into one big number, and then compare this to your income.

Grab your calculator again:

$$\frac{\textit{TOTAL DEBT}}{\textit{GROSS INCOME (ANNUAL)}} \times 100 \ = \ \% \ \textbf{\textit{total debt}}$$

While, again, your ultimate goal should be to keep these numbers as low as possible, anything below 50% offers several options. If your total debt is greater than 50% of your income, your finances are at risk. If your total debt is greater than 75% of your income, your finances are at serious risk.

Worksheet: Financial Overview

This worksheet will give you a convenient place to calculate and reference your current financial situation as we discuss suggested strategies based off these numbers.

Date: ____________

Your Credit Score: ____________________

Your Debt Burden: ____________________

Your Total Debt: ______________________

Calculating Your Debt Burden

$$\frac{\textit{MONTHLY PAYMENTS}}{\textit{TAKE–HOME INCOME (MONTHLY)}} \times 100 \;=\; \% \;\textbf{\textit{of debt burden}}$$

$$\frac{\qquad\qquad}{\qquad\qquad} \times 100 \;=\; \qquad \%$$

Calculating Your Total Debt

$$\frac{\textit{TOTAL DEBT}}{\textit{GROSS INCOME (ANNUAL)}} \times 100 \;=\; \% \;\textbf{\textit{total debt}}$$

$$\frac{\qquad\qquad}{\qquad\qquad} \times 100 \;=\; \qquad \%$$

So What do These Numbers Mean?

So now you should have three numbers: 1) your FICO credit score, 2) your monthly debt burden, and 3) your total debt percentage. These numbers work together to tell us how you can successfully get out of debt and what measures will be necessary to achieve this.

If you:

- **Have an excellent credit score, and your debt burden/total debt is below 50%**
  - We recommend jumping to our section on Balance Transfers
- **Have an above average credit score, and your debt burden/total debt is below 50%**
  - We recommend jumping to our section on Personal Loans
- **Have a poor or average credit score, and your debt burden/total debt is below 50%**
  - We recommend following our guide on How to Improve Your Credit Score
  - And in the meantime jumping to our section on Paying Down Your Debt
- **Have any credit score, and your debt burden/total debt is above 50%**
  - We recommend jumping to our section on Negotiation & Bankruptcy

Balance Transfers

Many credit card companies offer sign-on bonuses for consumers looking to transfer a balance from an existing card to a new one. These deals may give you the opportunity to pay off, or at least shrink, your total debt without worrying about high interest accumulation.

There are some limitations to balance transfers, though:

- They only really work for credit card debt.
- Oftentimes, a one-time fee will be applied to any incoming balance transfers.
- After any promotional periods, the interest rate on a balance transfer will increase based on your credit report. This rate is often equal to or higher than the purchase interest rate on the card.
- If you have a significant amount of credit card debt, you may not be able to consolidate all of this debt onto one card.

If any of these factors are a turn-off for you, or if the majority of your debt is not on a credit card, we suggest skipping ahead to the next section on Personal Loans. If you think a balance transfer is a good place to start eliminating your debt, let's get started.

You'll need the most recent statement balance, the APR, and the issuing bank for each of your credit cards. These can all be found on a copy of your statement, but you may also be able to find them through your online account or by calling your credit card company. We've included a worksheet on the next page for you, or you can make note of this information in a secure document or notebook.

Your Statement Balances

You will want to note the total statement balance, but if you also have cash advances or promotional rates (such as an introductory 0% interest rate that is still active) you will want to section each of these balances off before we get to the next step. As stated above, all of this information can be found on your account statement, and most credit card companies will section off each section's balance toward the bottom of your statement.

Your APRs

Again, you will want to write down the APRs for each individual section. Keep these numbers together, as we will be referencing which balance has which APR in the future.

Your Issuing Bank

The issuing bank is the actual organization that manages your credit card account - sometimes this information is hard to find, especially for retailer credit cards. For instance, Comenity Bank issues credit cards for Victoria's Secret, GameStop, Gander Mountain, and dozens of other retailers. You will need to know this because you can only transfer a balance to a different bank than the one currently managing it.

Worksheet: Balance Transfers

First, let's look at an example:

Card	Balance	Type	APR	Issuing Bank
Victoria's Secret	$340	Purchases	24.99%	Comenity Bank
Citi Simplicity	$2,100	Purchases	18.24%	Citibank
Citi Simplicity	$200	Cash Advance	23.24%	CitiBank

Now, it's your turn. For this one, let's just write everything down first:

Card	Balance	Type	APR	Issuing Bank

And now let's put this list in order from highest to lowest APR:

Card	Balance	Type	APR	Issuing Bank

Now that we have all of this information laid out in front of us, let's talk about strategy.

1. Compile a list of good balance transfer cards, looking at promotional deals, balance transfer fees, and interest rates after the promotional period is over. Be sure to note if you already have debt with a given bank. You can find reviews of the best balance transfer cards at WalletPath.com.
2. Begin applying to these cards, starting with the best offers. As long as you aren't planning to apply for a mortgage or auto loan in the near future, don't stress about the hard inquiries right now.
3. Once you have been approved for a card, begin by transferring the balance with the highest interest to this new card. If you did not receive a high enough credit limit on this first card to transfer your entire debt, continue applying.
4. Continue working your way down from your highest interest balance to your lowest. Remember if you have any balances at 0% there is no point in transferring them at this time.
5. Do not charge any purchases to these new cards. This step is very important!

Now that you have successfully completed your balance transfer(s) you can continue to our section on Paying Down Your Debt to learn the best strategies for getting rid of these balances all together.

Personal Loans

If your credit score is not high enough to qualify for a quality balance transfer card, or if the idea of opening another card is unappealing to you, there is another option. A personal loan is a bare-bones way to borrow money, and while they might not offer interest rates as low as some promotional balance transfers, their rates are typically much lower than the standard credit card APR.

First, you will want to look into the personal loan options offered by your bank or credit union. You can also access countless lenders online, and fill out a soft application (meaning it will not show up on your credit report) to learn what rates they will offer you. You will generally want to apply to and compare 3 to 5 different lenders to determine who is willing to give you the best deal. But remember that it's only a deal if they are willing to offer you a better rate than your current credit cards.

When comparing personal loan offers, there are three numbers to pay close attention to: the interest rate, the origination fee, and the APR. The interest rate is pretty straight forward. The origination fee is a one time fee applied at the start of the loan, which may be refunded if you pay it off according to the lender's schedule. The APR is a conglomeration of these two figures, which gives you an overhead view of the loan's rates. You should try and keep track of all these numbers separately, but the APR can be a quick reference when comparing these loans.

Once you have selected and been officially approved (you will need to fill out a more in-depth application after the initial soft inquiry) for a person loan, you will use this money to pay off your credit cards. Now, you will just be paying down the loan, and therefore collecting less interest.

Remember how we said that the origination fee MIGHT get refunded? Oftentimes personal lenders will penalize you for paying off a loan early by not refunding this fee. Essentially, they're using it to make up for the interest they lost by you paying the loan off early. So if you find yourself in a position where you are able to pay off the loan early, it's a good idea to sit down, break out the calculator, and figure out whether it will cost you more to pay this fee or pay the additional interest.

How to Improve Your Credit Score

If you have a poor or average credit score, you should constantly be working to bump this number up. This may seem like a daunting task, but don't worry, we'll walk you through it.

First you'll want to double-check your full credit report from all three bureaus. You can access these for free at AnnualCreditReport.com. You will be looking through these reports for any discrepancies - accounts you did not open, payments incorrectly marked late, or any other information that you may want to dispute. You can file a dispute through any of the credit bureaus websites. If your reports are clear of any incorrect information, we can move on.

Now, look for any negative information. This information can stay on your reports for 7 years, but you may be able to resolve some items. If you have any debt in collections, resolve these immediately - collection actions that have been fully resolved will no longer appear on your credit report. For any other negative information, you may just have to wait until it falls from your report.

Okay, the rest of this is going to feel like a snail's pace, but it's the only way to improve your credit score:

- Make all your payments on time
- Get your credit utilization as low as possible

These practices won't transform your credit score overnight, but they are absolutely necessary if you want to see it improve. As you pay off your debt your credit score will naturally increase, and once your score has risen high enough you can go back and use either our balance transfer or personal loan strategies for placing the final nail in your debt's coffin.

If you are interested in a more in-depth explanation of your credit score and how to improve it, you can learn more in our separate Credit Score Guide.

Paying Down Your Debt

Whether this you just completed a balance transfer or this is your first step, there's something to be said for doing things the old-fashioned way. While there are several useful tricks for breaking free of debt, when it comes down to the nitty gritty everyone needs to know how to make effective, strategic payments.

If you haven't already, you'll need to catalog all of your existing debt balances along with the associated interest rates. Once you have all of this information at hand, you can continue on to one of two strategies:

The Psychological

This is a rather famous strategy in the world of debt relief that relies on smaller rewards in order to keep our motivation up, but keep in mind that it will cost you more money in the end. With this strategy, you'll be starting with the smallest debt balance and working your way up - this allows you to eliminate the number of balances much faster than our other method. You will still pay the minimum payments for your other accounts, but all excess funds will be directed to your smallest account balance. Once this is paid off, you will move on to the next smallest, and so on.

1. Catalog your unsecured debt from smallest to largest amount.
2. Beginning with the smallest, pay as much as possible toward this balance every month, while continuing to pay only the minimum for all other debt.
3. After this has been paid off, repeat with the next smallest debt.
4. Continue until all debt is paid.

The Mathematical

This strategy might not offer the same emotional rewards, but it will save you the most money and get you out of debt faster. Using this strategy, you will be allocating all excess funds (aside from the minimum payments due on your other accounts) to the balance with the highest interest. You will continue to work your way down as you pay each balance off, until you are ultimately debt free.

1. Catalog your unsecured debt from the highest APR to the lowest.
2. Beginning with the highest, pay as much as possible toward this balance every month, while continuing to pay only the minimum for all other debt.
3. After this has been paid off, repeat with the next highest APR.
4. Continue until all debt is paid.

Negotiation & Bankruptcy

Before we go down this rabbit hole, let's make one thing clear: the steps we suggest in this section are a last resort for individuals whose debt burden/total debt are too high for them to feasibly pay off. These steps come with consequences, and should not be followed by individuals who have a sub-50% debt burden/total debt. With that said, we want those individuals who do have a high debt burden/total debt to know that there is a way out, and that you absolutely can recover from this and rebuild yourself financially.

If your debt burden/total debt are above 75%, you may be best suited by skipping ahead to the subsection on Bankruptcy. For everyone below this threshold, we're going to start by exploring how you can negotiate with lenders in order to improve your financial situation.

Negotiation

How we approach this will ultimately depend on your exact financial situation: whether you are up-to-date on your payments, delinquent, or your account has been transferred to a collection agency. Remember that these strategies only apply to unsecured debt, and do not include accounts moderated by separate federal laws (like student loans or taxes.)

You're Up-to-Date, but Struggling

First, let's look at this from the bank's perspective: if you are still making adequate payments to your account then why would they want to lose you? Of course, it's likely that these payments are barely covering interest, and you're struggling to make ends meet in other areas of your life because of this financial burden.

You'll need to reach out to your bank at this point. If you can speak to someone in-person, that's great, but you may have to rely on the customer service line provided by your bank. Explain that you are unable to continue meeting the minimum payments on your account (if there is some relevant circumstance, like a lost job, it would be appropriate to mention this) and that you would like to explore your options. It's likely that they will just offer a temporary forbearance on your account's principal, but always push for a more permanent solution. If they concede, great! But if not, you do have other options.

The next step will be a little scary, but it will open up these other options - you're going to stop making payments. This will put your account into delinquency, and will do serious damage to your credit score to the point where you will likely be unable to borrow anything for several years. However, it will give you the opportunity to rebuild from this point instead of continuing to spin your tires. Once you have completed this step, you can move on to the techniques outlined in our next section.

If you allow your account(s) to go into delinquency, and the bank feels you CAN afford to continue paying, there is a chance you will be sued. If the bank wins this case, up to 25% of your take-home income may be garnished and put toward your debt. Proceed at your own risk.

Your Account is in Delinquency

Once you have stopped making payments, your bank will typically hold onto your debt for 6 months before selling it to an outside collection agency. During this time, you'll have a chance to convince your bank to agree to a settlement regarding your debt balance.

During the first couple months of delinquency, your bank probably won't be overly eager to settle with you - in their eyes there is still a chance that you will resume payments. After two or three months, this glimmer of hope will likely disappear, and they will begin considering ways to cut their losses.

Now it's a waiting game on your end: calculate how much you are able to contribute to your debt and present this number to the bank. Stick to this number and don't agree to one you can't realistically pay. They may not accept it the first time but they likely will in the future, and if they don't a collection agency will.

Your Account Has Been Transferred to a Collection Agency

Collection agencies have much less at stake than the original lending bank did. When account balances are sold to collection agencies, they typically only pay a fraction of the face value - this gives you much more wiggle room for negotiation.

We recommend aiming for about 50% of the debt's original value when negotiating, but be warned that debt collectors are known for playing dirty. Do not allow them to threaten you or your family when negotiating, and be sure to read up on your consumer rights before confronting them (you can find this information at www.consumerfinance.gov). Here are some things to watch out for:

- Do not give bank account information directly to the debt collectors, they can and will withdraw money without your permission. When it is time to make the payment, create a separate account that will only be used for this transaction.
- Do not pay anything until you have the agreement in writing, and it is extremely important that the agreement states your account will be "closed" after this settlement. If the agreement does not state this, refuse payment until it does.
- Always keep a record of the settlement, payment, and any other relevant communication you've had with the collection agency. This information will be invaluable if they attempt to collect more from you in the future.
- If this or another collection agency tries to contact you in the future, deny any association with the debt. If you confirm that the debt is yours they may attempt to collect more on it.

If you are being wrongfully harassed by a collection agency for a closed or invalid debt balance, you can file a complaint at www.consumerfinance.gov/complaint. After 7 years of being in collection, an account will no longer appear on your credit report. At this time, collectors will no longer have the same rights when it comes to collecting this debt, and you can start your life fresh.

Bankruptcy

You may reach a point in your financial journey where bankruptcy is the only feasible option. Before we begin, let's look at the potential consequences of bankruptcy:

- Your credit score/report will be seriously crippled for 7-10 years depending on how you file.
- If you have a career in the financial sector, filing for bankruptcy may seriously affect your abililty to land a job.
- You may be totally unable to borrow any money for several years after filing bankruptcy. This can even extend to things like billed cell phone plans.

There are two different “types” of bankruptcy: Chapter 7 and Chapter 13. These different chapters are available to you depending on your financial situation, and your particular debt may dictate which type you opt for.

Chapter 7

A Chapter 7 bankruptcy will eliminate all of your eligible debt. Most unsecured debt is eligible, except for federally regulated debt like student loans, tax payments, or child support. WIth secured debt, you may have to choose between forfeiting or paying for the property. You may also be forced to sell property that you outright own in order to cover some of your debt obligation, though in most cases your primary home will be exempt. Chapter 7 bankruptcies remain on your credit report for 10 years.

Not everyone will qualify for a Chapter 7 bankruptcy, though. In order to qualify, your family’s income must be below the median for your state, or you must pass a means test. The means test looks at your income and expenses to determine if you’re capable fo repaying your debt. If the test determines that you are not, you may still qualify for Chapter 7 regardless of your income.

Chapter 13

With Chapter 13 bankruptcy, your debt will not be automatically eliminated. Instead, you will be required to pay monthly installments toward your debt until it is forgiven. Unlike Chapter 7, Chapter 13 can be much easier to qualify for, and can actually make it easier to keep things like your home or car that would otherwise be repossessed. Chapter 13 bankruptcy will stay on your credit report for 7 years, but the credit bureaus assign this the same severity as Chapter 7 (so while the bankruptcy is on your report it will do the same amount of damage as Chapter 7 would.)

In order to file for bankruptcy, you are required to meet with a non-profit debt counselor first. Even if you are unsure about filing, these counselors can be an important resource when determining what the best course of action for your particular situation could be.

While bankruptcy can be a rough road to go down, it really is the first step to a fresh start. After you have filed for bankruptcy, neither the bank nor a collection agency will be able to collect on the accounts, and after several years you will be able to rebuild your credit score. Bankruptcy could be the difference between owning a home, car, and being financially responsible or continuing to make minimum payments to a stagnant debt 7 years from now.

Protecting Your Future

We've reached the home stretch! We understand that you likely stumbled across this guide because you were struggling with existing debt, but we also want to leave you with a plan that will prevent you from sliding back into debt in the future. So before we let you go, let's recap:

- **Create and Follow a Budget:** This is honestly the most important step out of this entire guide. Without a budget you're just relying on blind luck when allocating your money to purchases, investments, and luxuries. We understand that budgeting seems overwhelming at first, but with the tools we've outlined in this guide it will very quickly become second nature.
- **Build an Emergency Fund:** Even the most stringent budget can't save you from an unexpected emergency. Follow our section on Building an Emergency Fund to prepare yourself for the worst. (Hint: include regular contributions to your emergency fund in your monthly budget. Ta-da! Two birds with one stone.)
- **Don't Be Afraid of Borrowing Money:** We know that borrowing is the last thing you want to do after paying off a large debt balance, but sometimes life happens. Once your credit score has recovered from any financial missteps in your past, we recommend applying for a low interest credit card for emergency situations. This should not replace an established cash emergency fund, but should simply supplement it.
- **Save, Save, Save:** Once you find yourself in a more stable financial situation, you can start planning for the future. Begin contributing to a 401k or IRA as soon as possible, and be sure to investigate what kind of matching your employer might offer.
- **Most Importantly:** Don't let money continue to be a black cloud over your life. Yes, you might have made some financial mistakes in the past, but you are clearly working to correct these and move forward with your life. As long as your are following your budget and saving for the future, don't restrict yourself from the basic luxuries of life like enjoying a weekend away or a new outfit. Money is to be managed responsibly, but that doesn't mean it can't still be enjoyed.

Still Confused? We'll Help!

WalletPath offers many additional resources for both the financial newbie and the investment savvy. We want you to feel comfortable going out into the financial world alone, but we also want you to feel like you have a safety net in us. Our content is constantly being updated and improved for relevancy to you, the consumer, whether you're trying to get out of debt, apply for a mortgage, or invest your money wisely. Here are a just a few of the services we offer:

- Up-to-date information on the best credit card offers and promotions
- Reviews on the industry's top travel and cash-back rewards cards
- Guidelines for approaching your first mortgage or auto loan
- Crash courses on the ins-and-outs of investing
- And much more

Thank you so much for choosing us as a resource in your journey to financial freedom. We wish you luck and hope that you'll turn to us with all your future financial needs and questions!

Sincerely,

WalletPath