
How To Get Out of Debt!

Special Report

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How to Manage and Eliminate Debt

So you've got debt, and you want to do something about it.

Well, congratulations! You *can* manage and eliminate that debt using the following three keys:

- Discipline
- A positive attitude
- An organized approach

The first two - discipline and a positive attitude - are up to you. The third - an organized approach - is what we're supplying here.

Ready to go? Good, let's get started...

Step 1: Figuring Out Where You Stand Financially

In this step, you need to analyze your current financial situation. The first question to ask yourself is: how much debt is too much?

There's an easy way to answer that question. It's called the debt to income ratio. It's a simple method of measuring your net monthly income against your debt.

For example, assume the following: Your net monthly income is \$2000. Your monthly debt payments are \$500. Divide \$500 by \$2000, and you've calculated your debt to income ratio:

$$500 \div 2000 = .25 \text{ (25\%)}$$

Financial gurus generally agree that debt expenses should be 25% or less of your income. A ratio of 10% or less is great. Anything above 25% is a red flag for you and may be for lenders. In that case, you definitely need to reduce or eliminate debt.

So, what is *your* debt to income ratio? Answer that question by doing the following:

- Look at last month's bills. Add up all the fixed expense items (rent, mortgage, car payments, child support, loan payments, etc.)
- Check your credit card bills. Add up the minimum payments owed on each card.
- Figure out your monthly take-home pay (net salary).
- Now divide monthly fixed expenses by monthly income.

What percentage did you get? If it's 25% or greater, it time to take action to reduce your debt. And that means it's time to take Step 2:

Step 2: Figuring Out A Budget

Budgeting means keeping track of *exactly* where your money is going so you know where to cut expenses.

To track expenses, you'll need a pad of paper, a calculator, and the discipline to itemize expenditures for one to three months. If you have access to a computer, this job can be made easier by using "money" software like Microsoft Money or Quicken. Such software is available at most computer or office supply stores.

Okay, so now you're ready to start itemizing those monthly expenses in three categories.

- Fixed monthly expenses
- Variable monthly expenses
- Nonessential expenses

NOTE- Immediately below you'll find some *sample worksheets*. Once you've reviewed our samples, it's time for you roll up your sleeves and get to work.

Print out our worksheets or create your own and track every expense for a *minimum* of one month. Tracking them for two to three months is even better. It will give you an even better idea of your spending patterns.

Once you've pinned down those expenses, add them up on each worksheet to see where your money is going. In particular, pay close attention to the nonessential expenses category because that's the area that's easiest to work on.

When reviewing the nonessentials category, ask yourself questions like:

- Do I really need to spend \$4.00 a day on coffee when I could make it at home and carry it to work? That's \$80.00 a month!
- Why are we eating out so much? It cost us \$150.00 in January!
- Why did we spend \$50 on beer/wine in February? We can reduce that expense or eliminate it completely.

You get the idea. Look at each item on that worksheet and ask the question: Do we really need this expense? You'd be surprised at how often the answer is "No".

Okay, let's assume you've tracked those expenses and found out where you need to cut costs. But what about those credit cards? We're willing to bet that credit card expenses are eating major holes in your budget. If that's true, then it's time to take *Step 3: Dealing With Credit Card Addiction*.

Step 3: Dealing with Credit Card Addiction

Credit cards eat your money and can create an addiction to spending. How do they do that? Here's how:

First, by using a credit card, you're essentially borrowing money from a lender. It's a loan on which you have to pay interest. And interest rates can be a killer. They can vary anywhere from 9% to 21% or even higher! This rate is called the Annual Percentage Rate (APR).

But, wait, there's also compound interest—in other words, interest charged on interest! Here's an example of how that works:

- Let's say you buy a camera for \$100.00 and charge it on a credit card with an interest rate of 18%.
- But you can't pay it all so you pay just the minimum of \$10 for the first month.
- So, now you're being charged interest on the \$90 you still owe.
- For every day you don't pay that \$90, the interest compounds.
- So, when you get the second bill, you'll be charged 18% on \$91.35, not \$90.
- If you take a year to pay off the bill, that \$100 camera ends up costing you approximately \$116

Second, because credit cards are soooooo easy to use, they give you a false sense that you have more money than you actually possess.

The Next Step:

So, you need to stop feeding those credit cards money in order to get control of debt. How do you do that?

And what if overspending and credit card addiction has burdened you with debt you know you can't pay off? Then it's time to consider debt consolidation.

For answers to dealing with serious debt, visit our website at:

<http://Debt-Elimination-4U.com>