



Paying Down Debt

Presented by UMassFive

One of the greatest satisfactions in life is having a sense of control over your finances.

Through careful planning and use of simple money management techniques, you and your family can feel more confident about your ability to live within your means, handle emergencies, reduce debt, and save for the future.

Debt can be a powerful tool to help you accomplish goals and increase liquidity of assets. However, it can also be a burden. This booklet will help you:

- Understand the difference between well-managed debt and uncontrolled debt
- Determine your current borrowing habits and connect them to your financial well-being
- Fully list your current debt
- Learn important strategies for reducing your debt.

Remember: **You Can Do it.**

It will take some effort to follow these steps completely. The process may require making some changes, and these changes, whether big or small, may seem difficult or awkward at first. Remember that in addition to remaining both flexible and realistic during this process, you must also be honest with yourself, believe in yourself, and be open to alternatives. **You have the power to take control of your money.**

STEP 1: ASSESS YOUR FINANCIAL SITUATION

In order to improve your financial outlook, you'll need to have a good idea of where you are right now. On the next few pages we've included some handy quizzes and worksheets that will help you **create a budget, identify expenses**, and see where your debt-to-income ratio stands.

STEP 2: ISOLATE HABITS THAT NEED CORRECTION

Once you've written it all down, we'll offer some tips on ways you can correct bad behaviors that may help your overall budget, and get you on track to paying down your debt.

Is your credit use under control?

Credit is one of the most important financial tools you have. Used wisely, credit can be very effective, but mismanaged, it can cause financial hardship and severe stress.

Credit Management Skill Assessment

PLEASE CIRCLE

- | | | |
|--|-----|----|
| 1. Are you borrowing money or using credit cards to pay for items that you formerly purchased with cash? | YES | NO |
| 2. Is more than 20% of your net income going to pay debts (excluding home mortgage payment)? | YES | NO |
| 3. Are you paying bills with money intended for something else? | YES | NO |
| 4. Are you dipping into your savings to pay current bills? | YES | NO |
| 5. If you or your spouse lost your job, do you have less than three months' take-home pay in a savings account? | YES | NO |
| 6. Can you usually make only the minimum payment on your credit cards? | YES | NO |
| 7. Are you extending repayment schedules? (i.e. paying bills late or requesting deferments)? | YES | NO |
| 8. Are you near, at, or over the limit on your credit cards? | YES | NO |
| 9. Do you take out a new loan before the old one is paid off or take out a new one to pay off an existing loan? | YES | NO |
| 10. Are you unsure of how much you owe (within \$50)? | YES | NO |
| 11. Do you habitually pay your bills late? | YES | NO |
| 12. Do you charge more each month on credit cards than you make in payments? | YES | NO |
| 13. Do you use a cash advance on one credit card to make payments on other credit cards? | YES | NO |
| 14. Has a collection agency called recently about an overdue bill? | YES | NO |
| 15. Are you being threatened with repossession of your car, cancellation of your credit cards, or other legal actions? | YES | NO |

TOTAL: YES _____ NO _____

Number of "Yes" answers.

0: You have very good borrowing habits. You are not overspending and, if you keep these habits up, you are likely to maintain very strong control over your debt.

1-4: There are a few habits you can identify that will need adjustment. If you act soon you should be able to reverse these issues while making only minor changes to your spending.

5+: There are solutions that you can and should make to your financial situation in order to return to a more stable financial footing.

Create a Budget

When reducing debt, it is important to identify the total you can set aside for debt payments. With some strategy, you will be able to save significantly on interest payments, leaving you debt free sooner than you may have thought possible.

Record Monthly Income

Document your monthly income on the **Income Worksheet** on the next page.

- Using your sources of paychecks (**section 1**), list all sources of monthly earned income of all individuals living in the household involved in the family budget, including full-time, part-time, and self-employment income.
- Calculate your Gross Income and your Net Earned Income (**sections 2–4**) – This means listing your taxes and deductions. This is good practice because while your budget is based on your Net Income, this is a good opportunity to review your deductions. If you regularly receive large tax refunds, you may be able to review your tax forms in order to free up more money per paycheck to pay down your debts.
- Other Monthly Income (**section 5**) – List other monthly income. Examples: Social Security, Rental Income, Disability Compensation, Temporary Assistance to Needy Families, Alimony, Industrial Compensation, Annuities, Stock Dividends, Child Support, Royalties, Allotments, Boarders, etc.
- Additional Periodic Income (**section 6**) – Divide any income that you receive less than once a month so that you get the monthly amount. For example, if you receive one check every quarter, multiply by four and divide by 12.
- Calculate your Total Monthly Net Income (**section 7**) – If you do not have anything listed in sections 5 and 6, this should be the same as your Net Earned Income.

Record Monthly Expenses

Recording monthly expenses means documenting and tracking exactly how you spend your money. Although some expenses occur more frequently or less frequently than once a month, it is important to track each expense as a monthly total. For the purposes of this workbook, we will be looking at expenses as Basic vs Discretionary.

- **Basic Expenses** cannot be eliminated but can frequently be reduced.
- **Discretionary Spending** is optional. This is your opportunity to find new savings to pay down your debt.



Income Worksheet

	Household Paycheck #1	Household Paycheck #2	Household Paycheck #3	Total
1. Sources of Paychecks				
2. Monthly Gross Income				
3. Deductions				
Federal Income Tax				
FICA/Retirement				
Medical Insurance				
Life Insurance				
Dental Insurance				
Co. Stock Purchase				
Payroll Deduction Saving (401k)				
Union Dues				
Child Support				
Other				
Other				
4. Monthly Net Earned Income				
5. Other Monthly Income				
6. Additional Periodic Income				
7. Total Monthly Net Income				

Expense Worksheet (Basic vs Discretionary)

Basic Expenses

Housing

- Mortgage/Rent \$ _____
- Groceries \$ _____

Utilities

- Internet \$ _____
- Oil \$ _____
- Gas \$ _____
- Water / Sewer \$ _____
- Electricity \$ _____
- Phone (Cell and/or Landline) \$ _____
- Garbage Collection / Recycling \$ _____

Transportation

- Public Transportation \$ _____
- Vehicle Loan Payment \$ _____
- Gas \$ _____
- Parking & Highway Tolls \$ _____
- Vehicle Repairs /Maintenance \$ _____
- Inspection / Registration \$ _____

Insurance

- Homeowners / Renter's Insurance \$ _____
- Medical Insurance * \$ _____
- Vehicle Insurance \$ _____
- Vision / Dental Insurance * \$ _____

Taxes

- Federal Income * \$ _____

Child Care

- Child Care \$ _____
- Child Support / Alimony * \$ _____
- Clothing \$ _____
- Health Products / Prescriptions \$ _____

Personal

- Clothing \$ _____
- Dry Cleaning / Laundromat \$ _____
- Cleaning Supplies \$ _____
- Health Products / Prescriptions \$ _____
- Barber / Hair Stylist \$ _____
- Savings \$ _____
- Retirement * \$ _____
- Medical / Dental Co-pay / Out of Pocket \$ _____

Pet Care

- Food & Supplies \$ _____
- Veterinary Appointments \$ _____
- Prescriptions \$ _____

Discretionary Spending

Utilities

- Cable \$ _____
- Netflix / Hulu/ HBO Subscriptions \$ _____

Entertainment

- Dining Out \$ _____
- Music / Audiobook Streaming Services \$ _____
- Hobbies / Lessons \$ _____
- Movies Out \$ _____
- Sporting Events \$ _____
- Vacations \$ _____

Fees

- Bank / Credit Union Charges / ATM \$ _____
- Charitable Expenses \$ _____

Misc

- Coffee \$ _____
- Alcohol / Tobacco \$ _____
- Gifts / Holiday Expenses \$ _____

Other Discretionary Spending

- _____ \$ _____
- _____ \$ _____
- _____ \$ _____
- _____ \$ _____
- _____ \$ _____

Add it up!

Monthly Basic Expenses Total \$ _____

(+) Monthly Discretionary Spending Total \$ _____

(=) \$ _____

(-) Monthly Net Income (left page) \$ _____

(-) Additional Loan Payments \$ _____

(=) Surplus / Deficit (+ or -) \$ _____

* Leave blank if this is already deducted from your Monthly Net Income on the previous page.

Debt Repayment

Now that you have your income and expenses listed out, it is time to identify opportunities to save money. Every dollar saved in your budget can go directly to paying your debt so your surplus / deficit line item equals zero.

If you have a Surplus (+):

- Are you saving enough? Even when your primary goal is to pay down debt, it is important that you are saving for an emergency fund. If you do not, then a single bad week could cause you to increase your debt or prevent you from making a debt payment, causing a major setback.
- The remainder of this excess should go towards additional loan payments.

If you have a Deficit (-) but you can still cover your basic expenses:

- First, make sure you are consistently covering your basic expenses. If this is the case, paying down your debt may be as simple as removing, or drastically cutting one or more discretionary expenses.

If you have a Deficit (-) and you cannot cover your basic expenses:

- It may be time to start asking yourself questions regarding lifestyle changes. The following section, "Tips for Lowering Basic Expenses," will help.

Tips for Lowering Basic Expenses

Some of the following suggestions are meant to help you think about things differently. This may be necessary if you cannot cover your basic expenses, and it can be helpful if you are simply looking for additional funds to pay off your debt more quickly.

- Consider seeking additional income. You don't need to make enough to quit your day job, just enough to make your goals.
- Look at competitor's prices for insurance and utilities to see if you can save money by switching.
- Look at your cell phone usage to see if you are always paying for much more data than you use.
- Explore refinancing options for your auto loan or mortgage.
- If you are a meat eater, consider using less meat in your meals and mixing in beans or other legumes (vegetable protein is much cheaper than animal protein, stretching out your budget).
- Always shop with a list. Before grocery shopping, make a schedule for the meals you're going to make. This will help ensure that you are buying foods that make sense, and are realistic to cook given your daily routine.
- Only purchase clothing on sale.
- Shop in your closet before purchasing new clothing.
- Host or attend clothing swaps with your friends.
- Explore less expensive but equally effective health and beauty products; try new hairstyles that are easier to maintain in between appointments.
- If you rent, look for more affordable apartments or homes. If you own and have an extra room, consider renting it.

Debt Load Worksheet

If you think that your debt load is preventing you from reaching your goals, start now to reduce your debt. Determine exactly how much you currently owe. Use the space below to list all outstanding debt: credit card, car, student, mortgage and personal loans—including any which you have stopped paying. Arrange your accounts in order from the highest to the lowest annual percentage rate (APR) charged OR from the lowest to highest balance.

	Creditor	Account #	APR	Current Balance	Minimum Payment	Due Date
1						
2						
3						
4						
5						
6						
7						
8						
9						
10						

Paying Your Debt Down Faster

Add any additional money you have set aside to pay off debts to the total minimum payments for the loan at the top of your list. When one account is paid off, use that money to increase the payment of the next account. Make at least the minimum payment each due date on all outstanding accounts and continue this process until all debts are paid in full.

Debt To Income Ratio

How do you determine what level of debt is reasonable to carry at your income level? An easy way is to look at the relationship between your monthly debt and your income. Use this simple formula to calculate your debt to income ratio. Fill in your amounts on lines below.

Your Total Monthly Debt Payments divided by **Your Total Monthly Gross Income** equals **Your Debt to Income Ratio** (minimum, including rent or mortgage)

\$ _____ ÷ \$ _____ = _____ %

If your resulting percentage is:

- Under 40% Your debt to income ratio is within an acceptable range.
- Over 42% You may want to reduce your current debt load.
- Over 50% You may be heavily indebted and should make strong efforts to reduce your current debt load.

STEP 3: TAKE CONTROL

You've determined your budget, and you know how to get where you want to be financially. To help ensure success, ask everyone in your household to follow this personal money management commitment:

Communicate: Take the time to talk about each other's needs and wants so that everyone feels a part of the plan.

Cooperate: Be prepared to compromise and work cooperatively. Agree within the family that everyone will take turns getting what he or she wants and even giving up something that is wanted. Work toward a financial partnership.

Control: Every family member must exercise control and avoid unnecessary spending. Strive to live within the family's income and to limit the use of credit to preset limits. Make savings a family priority. Then together, you can take control of your financial future.

Helpful Links

Financial Resources

www.greenpath.com

www.mint.com

www.moneymanagement.org

Credit Report Information

By law, everyone is entitled to a free copy of their credit report from each of the three credit bureaus once per year. The first year you request your report you should ask for all three, but moving forward, it may be beneficial to request one at a time. Staggering your free reports in this fashion allows you to keep a closer eye on your report throughout the year. Note: your credit reports will not list your numerical credit score.

www.annualcreditreport.com

To contact the three credit bureaus directly:

www.equifax.com

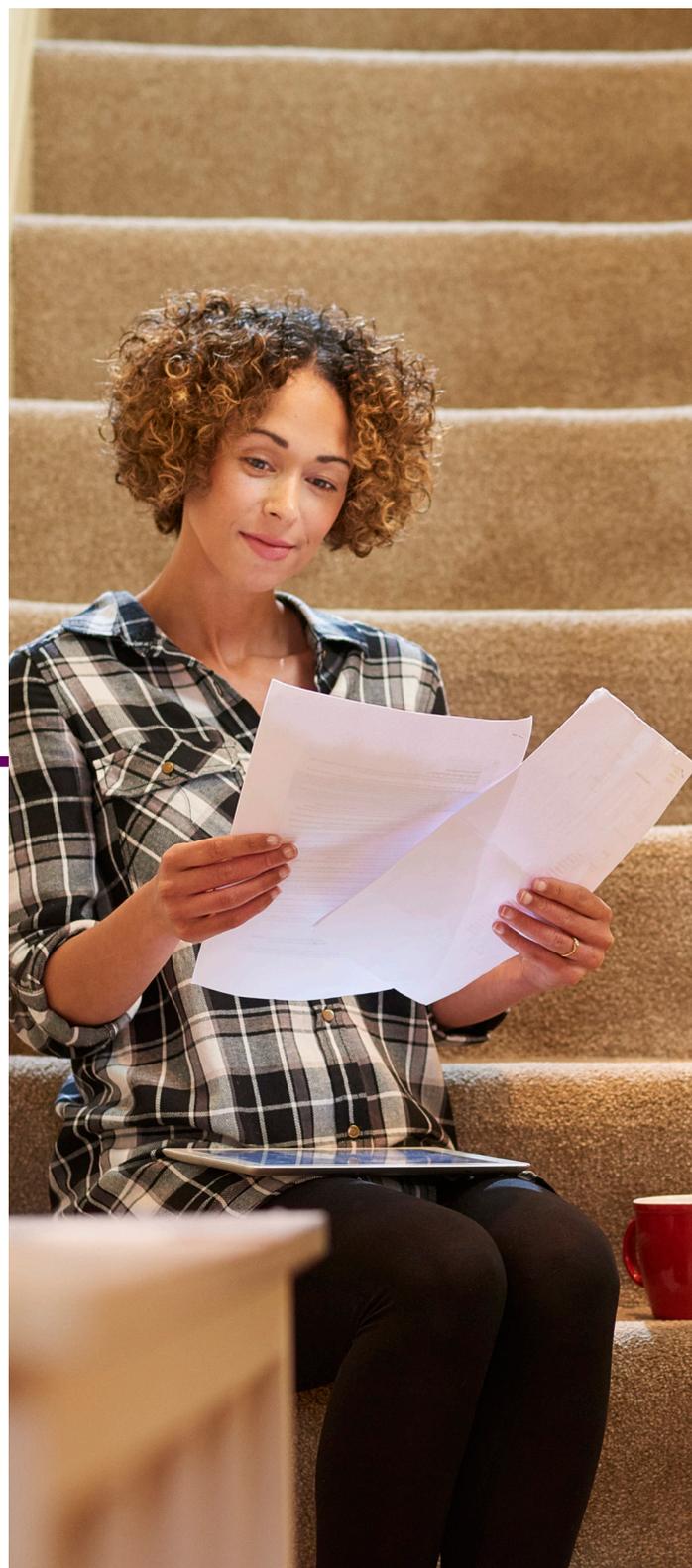
www.experian.com

www.transunion.com

To be taken off credit card solicitation lists

www.dmachoice.org

www.optoutprescreen.com



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