



EAGLE MOUNTAIN
International Church

Top 10 Debt-Freedom Strategies

John Copeland and Pastor George Pearsons

A. Debt-Freedom Strategy #1: Get a Plan

1. Write a vision statement with short-term financial goals and long-term financial goals. Keep it simple. (See example 1.) You can adjust it as you go, but stay the course on debt freedom.
2. Track your spending. To ensure you understand where all your money is going, track all spending for 30 days. If your bank has online features, it may have most of the information you need. Use our budget spreadsheet to record your spending. (See Example 3; also available at www.kcm.org/budgetworksheet.) Compare your spending percentages to our averages and see what adjustments need to be made.
3. Create a budget. Use your spending data to create a monthly budget. Adjust your spending to be in line with your vision and goals.
 - a. Use apps like:
 - i. Easy Envelope Budgeting Aid (EEBA)
 - ii. www.mint.com
 - iii. Expense Tracker
 - b. Software like:
 - i. Quicken
 - ii. Microsoft money
 - iii. Many free programs on the Internet
 - c. Online resources like:
 - i. www.mint.com
 - ii. www.mvelopes.com
 - iii. www.crown.org

B. Debt-Freedom Strategy #2: Review Spending for Potential Savings

1. Evaluate what could be removed from your lifestyle for a season to accelerate the reduction of debt. Consider reducing the number of meals you eat out by \$50 per week. This \$50 can be applied toward debt reduction!
2. Consider refinancing your home. Move forward if the total paid over the life of the new loan would be less than you would pay over the rest of your current loan. Look at a shorter term loan. The interest rates on a 15-year mortgage are lower than on a 30-year mortgage.
3. Shop around for cellphone providers, cable/satellite providers, auto/home insurance, charge card providers, etc., for savings. If you haven't reviewed these items in a while, chances are you are leaving money on the table. Prices on these items can be negotiated, but do your homework and talk to other providers before calling your existing providers.

C. Debt-Freedom Strategy #3: Commit to “No New Debt” and Saving \$1,000

1. Stop using charge cards. Break the cycle of debt. Cut up your charge cards or leave them at home when you go out. Interest rates on charge cards can be up to 33 percent a year. Making minimum payments is not the way to acquire assets. It makes the item two to three times more expensive than if you would have paid cash. Adding no new debt allows you to focus on eliminating the existing debt.
2. Saving \$1,000 in an emergency fund will stop the cycle of new debt that often arises from unexpected emergencies. Keep this money in a savings account and do not use it unless there is an unexpected emergency (e.g., car breaking down, unexpected medical bills).

D. Debt-Freedom Strategy #4: Make a Charge Card Plan

1. Charge card debt is an area many struggle with. Because cards are convenient and payments are deferred, we do not see the problem until it is too big. Studies have shown that shoppers spend up to 18 percent more when they use charge cards vs. cash. Consider using cash. Only use your charge card if you have the cash in the bank to pay it off.
2. Charge card companies have to disclose the interest rates they are charging you and how the interest is calculated. The majority of charge card companies charge daily rates while others charge monthly rates. This makes the timing of your payments very important.
 - a. If you have a daily rate card, make payments as soon as you can during the month or multiple payments throughout the month. Use your charge card companies' online payment process to make the payments as easy as possible.
 - b. If you have a monthly rate card, make payments before the due date. This will ensure excess interest and late fees are not added to the amount owed.
3. Call and talk to each of your charge card companies and ask if they can give you a better interest rate than the one you have now.
4. Consider a balance transfer if you have a charge card with a lower rate and you have enough credit available. Confirm that the “balance transfer” interest rate is the same as the interest rate for “purchases.” Be aware of short-term balance transfer rates that may go up significantly after a period of time. Be sure to close the original account once the balance is transferred by calling the company, then destroy the card.

E. Debt-Freedom Strategy #5: Use Cash for Areas Where Spending Fluctuates

1. Set aside cash every paycheck for essential and nonessential areas, making spending more predictable and avoiding the need to borrow in the future. Use separate envelopes that are clearly marked to keep cash separated. This allows you to see where you stand in spending at any time during the month.
2. Essential areas: Groceries, clothing and car maintenance. (Studies show that we spend more when we shop hungry/tired and up to eight percent more if we pay with a debit/charge card vs. paying with cash.)
3. Nonessential areas: Dining out, entertainment, birthday and anniversary gifts, and Christmas presents. To plan effectively, estimate annual spending and divide by your number of paychecks.

F. Debt-Freedom Strategy #6: Use a Debt Snowball to Pay Off Debt Faster

1. Write down all of your debts, excluding your house debt, from smallest to largest. Add up all of the minimum payments into one big payment, which is being made to different places. (See Example 2.) This is critical to understand. Once a debt is paid off, your payment amount does not go down. Instead, you take the amount you would have paid and apply that to the next debt. You continue to pay the same amount every month until all debt is paid off.
2. Make the minimum monthly payment on all debts, while using all extra available cash to pay down the smallest debt. This will accelerate the payoff of the smallest debt. When the smallest debt is paid off, do not change your overall payment amount. Instead, add the amount you have been paying toward the smallest debt to the minimum payment on your next smallest debt. Continue until you have paid off all your debt.
3. Consider paying off an installment loan first (automobile or student loan) if there are six or less payments remaining. This will free up the largest dollar amount on a monthly basis to use to pay off other debts.

G. Debt-Freedom Strategy #7: Generate Extra Cash

1. If you regularly receive a large income-tax refund, consider adjusting your payroll withholdings. For example, a \$3,000 income-tax refund equates to an extra \$250 per month to add to the debt snowball. (Link to IRS Withholding Calculator: www.irs.gov/Individuals/IRS-Withholding-Calculator)
2. Use the 12-month rule. If you haven't used something for 12 months, it may be time to sell it. Consider a garage sale or using Craigslist. This extra cash should be added to your debt snowball.
3. Use additional income—part-time jobs, bonuses, raises, etc., to accelerate the debt snowball.

H. Debt-Freedom Strategy #8: Pay Off Your Mortgage

1. Once all other debt is paid off, use the money you no longer pay to charge card companies, student loans, etc., to pay off your house debt. Pay the one big payment amount we talked about in step #6 to your mortgage company. You will need to check your loan documents or with your mortgage company on how to ensure the additional payments you are making are being applied to principal.
 - a. For most fixed rate loans today, payments above the normal payment are applied to the last payment of the loan.
 - b. Keep a copy of all extra payments made and track the loan balance to ensure you are getting credit for your additional principal payments.
2. Make a half payment every two weeks. This equates to one extra payment per year. Check with your mortgage institution; they may offer a “biweekly payment plan.”
 - a. Knocks seven years off a 30-year mortgage! At \$800 per month, that comes to \$67,200 savings!
 - b. Knocks three years off a 15-year mortgage! At \$800 per month, that comes to \$28,800 savings!
3. If a significant amount of the total loan amount has been paid down, consider talking to your mortgage institution about reamortizing the loan. This will allow for the money

paid in advance to have the most impact. It will cause your loan to be paid off quicker, because the prepayments you made are impacting your compound interest calculation.

I. Debt-Freedom Strategy #9: Avoid Car Debt

1. After your car is paid off in the debt snowball, begin saving the monthly payment.
2. The average monthly car payment is \$425. Saving the payment: 3 years = \$15,300; 2 years = \$10,200; 1 year = \$5,100.
3. Continue a pattern of saving. Buy a newer used car with cash every three to five years.

J. Debt-Freedom Strategy #10: Staying Out of Debt

1. When all debt is paid off, begin increasing savings from \$1,000 to three to six months of living expenses. This will allow you to have a little more freedom in your spending.
2. Here is the fun part! Begin saving to make an extravagant offering or to sow a debt-free seed into a family/ministry.
3. Begin saving for college or vacations and other large expenditures.
4. Make investing a non-negotiable. Save 10 percent or more every paycheck. Think long term. (Proverbs 13:22 says, “children’s children.”) Think in terms of 40+ years. Saving \$450 per month for 40 years earning nine percent = \$2.1 million.

Top Ten Debt-Free Strategies

Supplemental Notes

A. Things to Consider:

1. In 2012, the average household in the U.S. had an income of \$50,223 and eight to 10 charge cards totaling \$15,204, student loans of \$33,005, and mortgage debt of \$148,818—for a total household debt of over \$197,000. That’s almost four times the income!
2. In our experience, people who fully commit to a spending plan and attacking debt will achieve debt freedom (excluding a mortgage) in 10 to 14 months.
3. Including a mortgage, the worst situation we’ve seen will achieve total debt freedom in 10 years.

B. Example 1: Vision Statement, Short-Term and Long-Term Goals

1. Vision statement: To be a good steward of the finances God gives me
2. Short-term goals
 - a. Save \$1,000
 - b. Pay off MasterCard
 - c. Pay off VISA
3. Long-term goals
 - a. Pay off student loans
 - b. Pay off mortgage
 - c. Buy car using cash

C. Example 2: Debt Snowball—Manage One Large Monthly Amount to Multiple Places

Debt Reduction Plan Example									
<i>Additional payment added each month to reduce debt faster!</i>									
Name	Balance	Interest Rate	Minimum Payment Monthly	Additional Payment \$100	Pay-off Time (Approximate)				
					3 Months	6 Months	10 Months	24 Months	29 Months
Target	\$250	22.9%	15	\$115	Paid off!				
Discover	500	18.9%	25	25	\$140	Paid off!			
Dr. Brown	800	0.0%	20	20	20	\$160	Paid off!		
VISA	2,755	15.9%	50	50	50	50	\$210	Paid off!	
Car Loan	8,500	7.0%	290	290	290	290	290	\$500	Paid off!
Total	\$12,805		\$400	\$500	\$500	\$500	\$500	\$500	\$0

D. Example 3: Sample Budget Spreadsheet (next page)

Household Budget Spreadsheet

Monthly Income	January	February	March	April	May	June	July	August	September	October	November	December	Annual Total	Projected % of Income
Take-Home Pay													\$ -	0%
Bonus / Commission													\$ -	0%
Income-Tax Refund													\$ -	0%
Total Monthly Income	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	0%
Monthly Variable Expenses														
Cable / Internet													\$ -	0%
Charity / Gifts / Donations													\$ -	0%
Childcare													\$ -	0%
Clothing													\$ -	0%
Charge Card Debt													\$ -	0%
Dry Cleaning													\$ -	0%
Electricity / Gas													\$ -	0%
Entertainment													\$ -	0%
Gasoline													\$ -	0%
Groceries													\$ -	0%
Medical													\$ -	0%
Telephone													\$ -	0%
Vacation													\$ -	0%
Water / Waste Mgmt.													\$ -	0%
(other)													\$ -	0%
(other)													\$ -	0%
(other)													\$ -	0%
(other)													\$ -	0%
(other)													\$ -	0%
Total Variable Expenses	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	0%
Monthly Fixed Expenses														
Tithe 10% (on gross income)													\$ -	0%
Automobile Insurance													\$ -	0%
Automobile Payment (1)													\$ -	0%
Automobile Payment (2)													\$ -	0%
Homeowners Insurance													\$ -	0%
Mortgage / Rent													\$ -	0%
Personal Loans													\$ -	0%
Investments													\$ -	0%
(other)													\$ -	0%
(other)													\$ -	0%
(other)													\$ -	0%
(other)													\$ -	0%
(other)													\$ -	0%
Total Fixed Expenses	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	0%
Under / (Over) Budget	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	0%