

Build Your Net Worth

News & Tools ~ December 2008



Stop Using Credit Cards

Sherry Ridge

If you only do one thing to improve your financial life

that one thing should be to **stop using credit cards**. I have been living a life with no debt for almost 10 years and I too sometimes fall under the lure of the easy access, getting it now, pay later, etc. We all can be vulnerable.

I've said it many times, we are creatures of habit and change does not come easy to most of us. Many experts say that doing something 21 times makes it a habit so we should choose to do good, productive, healthy things 21 times to make that habit. So let's try with not using our credit card for any purchase for the next 21 days or next 21 one purchases.

You know the truth about credit cards, we trade quick pleasure (I want it now) for long term pain (pay excessive amount of money in interest charges). I need new appliances, I can get them by noon tomorrow if charge it on my 18% APR, Annual Percentage Rate, Disaster Card. If I make the



minimum payment I will pay off my new appliances about 5 years after I need more new appliances, it will take me 21 years and 3 months to pay off the \$2,000 charge on my credit card. I will end up paying \$12,750 for \$2,000 worth of appliances. Who got the deal here?

This is what it comes down to...looking at the purchases we make in total cost, not just the fancy, bright light, get it today cost. Do you know anyone that is willing to pay more than 6 times the value for a product that depreciates?

So how exactly do we go from habitual credit card use to stopping? The same way you eat an elephant, one bite at a time.

First look at what you are charging. Are you using your card to pay for monthly expenses that come due before payday? If this is the case then you have to modify, change when you make those purchases, your spending. I worked with

a family that earned a six-figure income and would periodically get their utilities turned off due to non-payment. It was not that they did not make enough money it was when they were spending it.

You need to make a simple timeline, that shows when bills, expenses, debts need to be paid and from that time line put in your pay days and match them up until the amounts equal. It really is that simple.

Let's look at the previous family; they spent about \$700 a month on food for a family of 5. The first of the month mom would go out and



charge about \$500 when pay day was still 7-9 days away. Just

because it is the first of the month, or the 15th or the 30th doesn't mean you have to spend. You can only spend when you have the cash. So this family budgeted the same \$700 a month, but now when the first pay day of the month comes \$400 is put in a cash envelope that is labeled "FOOD", when Mom goes to the grocery store she can not spend more than what is in the cash envelope. The next pay day \$300 is put in the

envelope and no more charges on the credit card for food.

Inevitably when they would get their credit card statement sometimes they would have the cash to pay the charges, but things (unplanned spending) would come up and eat into that cash so a roll over balance would incur. In a one year period they racked up tens of thousands of dollars on their credit card for purchases they were going to pay off as soon as the bill came in...this thinking just doesn't work for most of us.

Sherry Ridge a National Sales Manager with Tower Financial Services™, conducts Transforming Debt into Wealth® workshops all over Lake County, Illinois. She eliminated over \$150,000 in debt in 7.3 years.

Clothing, vacations, entertainment, gifts these are all expenses we know we will have so why don't we plan for them? Just because I don't have any coming due this month, doesn't mean I should not budget for them. We need to look at what we spend annually in every category and divide that number by 12 the result is the amount of money that should be budgeted each month. Those months with no expenditure going out for a particular category needs to be set aside for later use. I recall a family that didn't like this idea of mine, because his monthly amount was more than normal, but in the long run his annual spending decreased. Because it was controlled, it was planned. For example this family would spend \$3000-4000 on Christmas every year and typically it was paid from taking money out of savings or putting it

on a credit card. We determined that \$3600 was the annual amount they would spend and we budgeted \$300 each month. Now when it came time to buy Christmas gifts they had the cash readily available. His concern was that we were increasing the monthly expenses by \$300 over what they did in the past, but he did not account for the overspending and the money they paid in interest when they charged the gifts. Sometimes this takes getting use to, which is planning for expenses. Yes the monthly amount is more, but it doesn't mean it is unrealistic. What it means is that you have agreed on amount you will spend for a particular expense (Christmas, vacation, gifts, etc.) and now spread that amount over 12 months instead of running around like chicken with your head cut off trying to figure out how to pay for it. It's called planning, budgeting.

Stop using your credit card, unless it is an emergency and you have no other way to take care of it. Decide on amount you spend on the flexible categories in your family, budget the amount each month,

utilize the cash envelope system for smaller and frequently used categories (food, gas, entertainment) and set the money aside in an interest bearing account for the bigger amounts, less frequently used (property taxes, Christmas, vacations, new appliances). This way when the expense/event comes due you have the money and will find no need to use your credit card. I know how I can save over \$600 a year...save and pay cash for my new appliances. What about you...how much can you save by living a lifestyle of no debt?

SHERRY DEBT FREEDOM SHOW

Tune in every Wednesday at 1 p.m. CST to WRLR 98.3 FM.

Can't listen via the radio? You can log in to the live video feed at
<http://www.wrlr.fm/tv.html>

You can also join the E Fan list to watch/listen at time convenient for you, email
Sherry@Sherrydebtfree.com.

Collin Wells wins a FREE copy DebtFree™ for Windows®



In just a few moments, DebtFree™ for Windows® will calculate and display your complete *Debt-FREE & Prosperous*

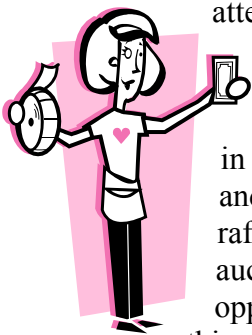
Living® debt-elimination plan - year by year, month by month, and payment by payment.

Last issue we asked for cost cutting ideas to share with our readers, the response was overwhelmingly successful. Those that shared ideas were put in a raffle to win a FREE copy of our DebtFree™ for Windows® software. Collin Wells from Rolling Meadows, IL was the winner. Below are just a few of our subscribers cost cutting ideas.

Cost Cutting Ideas from our subscribers...

Comparison Shop: We take our lunch to work a few days a week and then we also eat out, while using buy one get one free coupons that end up costing as much as the bring from home lunch. We know which places by our work have the best lunch deals and when. You have to shop around. We are saving money and still able to treat ourselves.
Carol D.

Support Your Community and Save money: So far this year I have bought 3 Christmas presents valued at over \$600, of which I only paid 1/3 of the price. We attend the many different events held by organizations in our community and they will have raffles and auctions. I take this opportunity to buy things I would have normally bought, but at a discount. A few months ago, I had



the winning bid for a \$300 color TV, for my daughter, I paid a little of \$100 for it. At the same time I am giving back to my community and we have a good time as well.
Cathy D.

Magazine Subscriptions for gifts:

For the last 5 years we have given



family gifts to our siblings and they have been magazine subscriptions. We can buy 7-9 gifts for under \$100 and it's something that they remember all year long.
Collin W.

Buy off Season: I always pay about 10-20% of the retail costs for clothing for myself and family. I just now bought our spring and summer clothes for next year and saved over 80% on each item. I also will use these sales to pick up gifts for my extended family.
Ameris C.

Double Check your EOB's: This year I have saved us over \$300 in medical costs, by checking and doubling checking my Explanation of Benefits

from my health insurance company for medical services we have received. By doing this I found over \$300 that the insurance company was supposed to pay and did not, I made a few phone calls and it was taken care of. I make this a standard practice now.
Mike A.

Different Ways to Pay for College

We've researched and come up with a few ways that most people wouldn't think to help pay for college. We share those we found most interesting and practical with you.

~ Utilize your Community College; you can save more than half the tuition by getting your Associates Degree at your local Community College, then transferring to 4 year University.

~ Market yourself to colleges that want you and prove it by giving you a fantastic scholarship package.

~ Ask the University you want to go to if they would lock in your tuition for the next four years. Many already do this as standard practice.

~ High ACT score helps to get a better scholarship offer.

Retirement Confidence Staff Writer

Recently on Good Morning America it was reported that only 18% of Baby Boomers surveyed felt confident that they will have enough money to retire comfortably.

How do you feel? How much do you have now and how much will you need? Visit www.Choosetosave.com and utilize their retirement calculators to see how you are doing.

REVERSE MORTGAGES: UNDERSTANDING THE BASICS

Stay in your home with peace of mind

Many older Americans facing retirement want to find a way to increase their monthly income. Today there are homeownership options that can help seniors optimize cash flow and promote peace of mind.

One option, a reverse mortgage, enables seniors to borrow against the equity in their home without repaying the debt for as long as they live there. That's the "reverse" part of this kind of mortgage loan. Instead of making monthly payments, you can opt to receive them. The loan proceeds can be used for any purpose, and taken out as a lump sum payment, fixed monthly payment, line of credit or as a combination.

"It's exactly what the name implies," said Anne Rigwood, Reverse Mortgage Consultant for

Wells Fargo Home Mortgage, unity to secure financial independence."

The loans are popular in the United States. Created in 1989 by the U.S. Department of Housing and Urban Development, HUD's reverse mortgage program is a federally-insured private loan. With a reverse mortgage, you turn the value of your home into tax-free proceeds that can be used to supplement Social Security. The senior can use the money for any purpose.

The feature that distinguishes a reverse mortgage from other loans – and makes it so valuable to many senior homeowners – is that no money has to be repaid until they die or move out of the home.

"As many seniors approach retirement, they begin to realize their major asset is likely to be their home," Rigwood said. "By the time the average person retires, they own a house that is usually worth more than they paid for it."

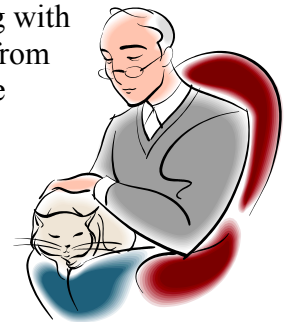
When you take out a reverse mortgage, nothing happens to your home. You remain the

owner for as long as you live there, and you will never be forced to move. If you decide to sell or move from your home, the outstanding balance of your reverse mortgage would become due, just as it would with a traditional mortgage. Unlike a traditional mortgage, however, your balance can never exceed the value of your home when you sell it.

The maximum loan amount for a reverse mortgage is based primarily on four factors: the age of the youngest borrower, the location and value of the home and the current interest rate. You must occupy the home as your principal residence for a majority of the year. The property must be a single-family or two-to-four unit dwelling. Town homes, detached homes, condominium units, planned unit developments and some manufactured homes are eligible.

The home doesn't have to be owned free and clear to qualify for a reverse mortgage. You may qualify for a reverse mortgage if the home has a low remaining mortgage that can be paid off at the closing with proceeds from the reverse loan.

"For those baby boomers nearing retirement age, now is a good time to talk to a tax or an estate-planning advisor to see if a reverse mortgage is in their best interest," Rigwood said.



To be eligible for a HUD reverse mortgage program, HUD requires that the homeowner live in the home as his or her primary residence, be at least 62 years of age or older and own the home free and clear, or only have a low remaining mortgage balance that can be paid off at the closing with proceeds from the reverse loan. As a key consumer protection, all borrowers are required to participate in a free educational session with a HUD-approved counselor in order to determine if a reverse mortgage is the best option.

Wells Fargo Home Mortgage is the leading retail originator of reverse mortgages in the nation, helping senior homeowners capitalize on the equity they have built in their homes.

For more information contact Sherry Ridge's favorite and trusted Reverse Mortgage Consultant, Anne Rigwood at Anne.M.Rigwood@wellsfargo.com

*Where have you
been all my life?
... the client
reaction!*

*Here is what some of our
clients are saying about
our debt elimination and
wealth building programs*

I attended your seminar several years ago and just wanted to let you know there is not a day that goes by that I don't think of how invaluable that seminar was.

Though we are not completely out of debt "yet" we have made such strides in the right direction that, at times, it blows my mind!!

Because of the shift in the way we manage our finances we were able to take a 3-week, 7-country European vacation last year on which I met several cousins and my mother's half-sister in Austria for the first time and we visited my mother-in-laws hometown in Ireland.

One of the best parts was that **we paid cash** for the entire trip!! It was the most wonderful feeling knowing that when we came home from the most wonderful vacation of our young (40's) lives we had no outstanding debt related to it and didn't have to sacrifice any of our savings in the process. Icing on the cake!!!

I just received your newsletter which I can't wait to read but thought I'd take this opportunity to thank you once again for helping change our lives!! We would have never been able to do that trip of a lifetime if we hadn't made a shift in our financial lives.

*Fran D.
Ingleside, IL*

Thank you for sending your newsletter. Great reading!

I just looked at my portfolio. By having "transformed my debt" the interest generated this past month is equivalent to a 5-figure monthly income.

By you introducing me to the TDIW program, you set the path for me to change my financial life.

You are a blessing.
*Neal D.
Henderson, KY*

I was so overwhelmed about my debt situation, that I have even considered drastic measures. I can't believe I am sharing this, but maybe it can help others. I have given thought to leaving my family, I love them and my wife and we are not having marital problems, but I feel like a failure.

I have sat and done nothing but made our situation worse over 10 years. Now my oldest is starting college and I have nothing saved for nor can I help on any monthly payments.

It's been a week since I took the TDIW workshop...I've read the entire book and my debt plan will take me about 6 years. I can't believe it...I thought we were doomed for a horrible life forever. I'll be debt free before my youngest starts high school.

Thank you...you and this program have been a godsend to us.

God Bless,
*Lee. K
LaSalle, IL*