

DEBT FREE FOR LIFE

The Finish Rich Plan For Financial Freedom

DAVID BACH

DAVID BACH is a prolific financial author, media contributor and motivational and financial speaker. He has written ten consecutive national bestsellers including *Start Late*, *Finish Rich* and *The Automatic Millionaire*. To date, Mr. Bach's *FinishRich* books have sold more than 7 million copies and have been published in more than 15 languages. David Bach is a regular contributor to NBC's *Today* and appears on its weekly *Money 911* segments. He regularly presents seminars to financial services firms, Fortune 500 companies, universities and national conferences. Mr. Bach is the founder of FinishRich Media and is a former senior vice president of Morgan Stanley and a partner of The Bach Group. He serves on the board of Habitat for Humanity New York.

The Web site for this book is at www.finishrich.com.

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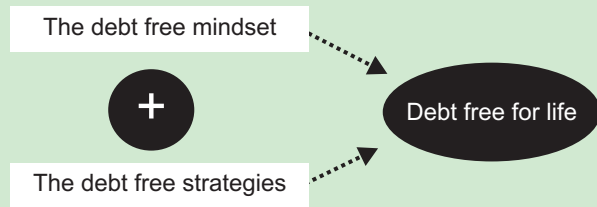
MAIN IDEA

At one time, it used to be possible to have “good” debt – debt for assets which appreciate in value – and “bad” debt – where you’ve borrowed money to buy things which go down in value. The recession has changed that kind of thinking. The best investment you can make over the next five years is to pay off all your debts and stay completely debt free.

To stay debt free for life, you’ll need to combine having the right mindset with applying the appropriate strategies. Both your mindset and the actions you take will determine whether or not you become debt free and then stay that way.

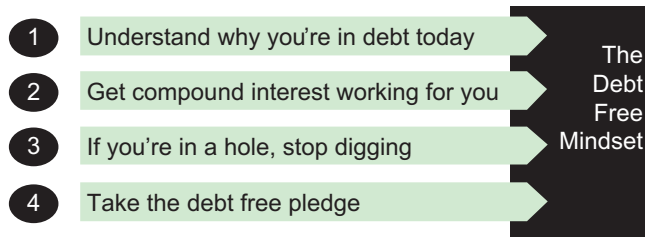
“Homes are going down in value and people with college degrees are looking for jobs. Forget about the idea of ‘good’ debt and ‘bad’ debt. The truth is when you’re in debt, it doesn’t matter what you’ve borrowed the money for. The only thing that matters is whether or not you can afford to pay it back. And if you can’t, all debt is bad debt. The best investment you can make over the next five years is going to be paying off your debts. My advice is to pay off what you owe as fast as you can. The faster you pay off your debt, the faster you will achieve financial freedom.”

– David Bach



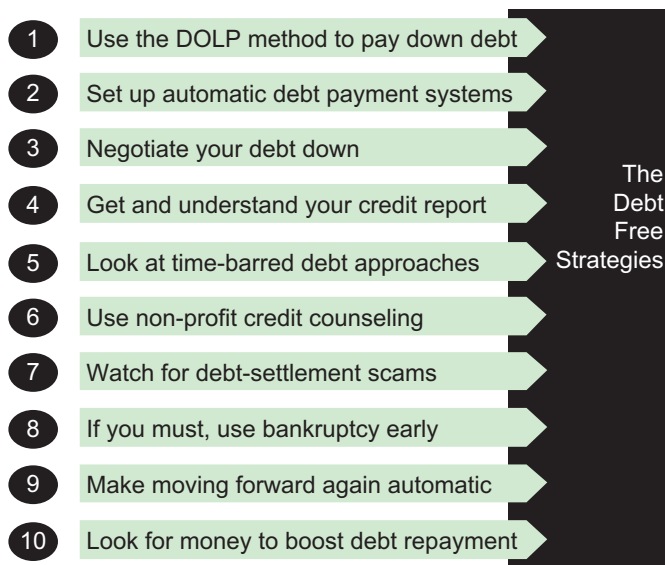
1. The debt free mindset Pages 2 - 3

The first stage in getting out of debt and staying out of debt is to get your thinking right – to have the right mindset about debt. Pure and simple, the less debt you have, the more free you will feel and the greater your peace of mind will be. To get the debt free mindset:



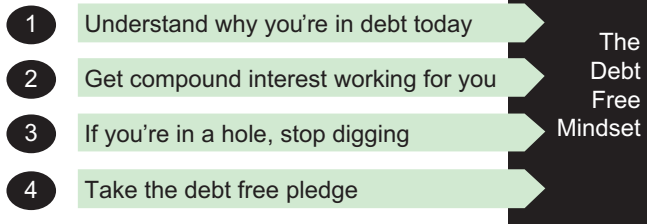
2. The debt free strategies Pages 4 - 8

It’s all very well to have the mindset to get out of debt and stay out of debt but that plan only has value if you work it. Getting out of debt isn’t rocket science. Debt is never complicated and reversing the trend won’t happen overnight but you will feel progressively better the further down the path you go. To get out of debt and stay out of debt, consistently apply these strategies:



1. The Debt Free Mindset

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1 Understand why you're in debt today Mindset

The Federal Reserve reports as of 2010, Americans owe nearly \$12 trillion in mortgage and consumer debt. That works out to an average of \$49,000 of debt per family nationwide. Approximately 54 million American families now owe a total of \$866 billion in credit card debt alone – which averages out to around \$16,000 each. At the same time, home equity has dropped by trillions of dollars over the past few years and nearly seven million Americans have fallen behind on their mortgage payments. The *New York Times* recently reported: “An astonishing \$1.3 trillion of consumer debt is delinquent, with \$986 billion seriously so – 90 days late and counting.”

How has that astounding level of debt come about?

- Every day, consumers are exposed to billions of dollars of advertising suggesting they should buy stuff they don't really need. This is what capitalism does.
- The credit card industry is a multi-billion-dollar market where companies tell consumers to buy now and pay later.
- During the boom days, the banks were all too happy to loan money to people who couldn't afford the payments.
- Subprime lenders spent billions convincing consumers to cash out the equity in their homes.
- The tax system promoted heavy borrowing by offering tax deductions.
- The federal government itself has generated trillion dollar deficits year after year without any obvious consequences.

The unvarnished truth is millions of people in America and elsewhere are in debt today and they want out. If you can pay down your debt, you will not only improve your financial position but you'll also buy back your freedom. There is no silver bullet solution which will make your debt vanish overnight but there is a smart system which will move you forward. The key is to apply the principles and to work the system. Change your mindset, cut your expenses and live within your means and you will be able to achieve real financial freedom – guaranteed!

“These days, the American Dream of financial freedom – freedom from worry, freedom from living paycheck to paycheck – has become a nightmare. The idea that we should all spend less than we make seems to have been forgotten, as the American Dream gets stolen, one loan at a time.”

– David Bach

2 Get compound interest working for you Mindset

The great thing about compound interest is it can work with you in paying off your debts in just the same way as it works against you when you owe money. To illustrate

Credit card

- Suppose you borrow \$5,000 on a credit card.
- Your interest rate will probably be 29% or more.
- Your minimum monthly payments will be \$175. If you continue to make just the minimum monthly payments, it will take you 23 years to get out of debt and you'll pay \$10,505 in interest.
- If you just add \$10 a day to pay down this debt, you'd have it paid off in 45 months. In that case, you'd have interest charges of \$3,203 – saving you more than \$7,300.

Mortgage

- Let's say you borrow \$200,000 to buy a home.
- You get a 30-year fixed mortgage at 6% annual interest, meaning your monthly payment will be \$1,199. Over the 30-year period, you will repay \$431,676 – which equates to \$231,676 in interest.
- Now suppose you resolve to add an extra \$10 a day to your mortgage payments. If you do that, the loan will be paid off in 18 years and you'll save \$101,000 in interest.

The whole point is for less than what the average family spends at McDonalds for a meal, you can be shaving years off the time it will take you to pay off your debt. Just making small extra payments can make a huge difference. Never fall for the industry standard minimum-payment scam.

3 If you're in a hole, stop digging Mindset

If you want to have any realistic chance of becoming debt free for life, you have to realize a big part of getting out of debt is to accept when you're in a hole, you need to stop digging. You can't become debt free if you're paying down your debt on one credit card only to start using another the moment you get a “special offer” in the mail. Nor will refinancing your mortgage for lower payments but a longer term help. And buying a new car with a new lease payment as soon as you've paid off your old car loan is not going to help you become debt free.

The simple truth is you can't out-earn your debt. It's not how much you make that will determine your success in becoming debt free – it's how little you spend. To become debt free, you must be willing to spend less than you earn month by month and year by year. If you cannot or will not do this, no matter what else happens you won't become debt free. You have to stop spending money one way or another.

“The truth is we've been misled. We've been misled by billions of dollars' worth of advertising that gets us to buy things we don't really need. We were sold a bill of goods – or, more accurately, a bill of loans (trillions of dollars of them). And now this bill has come due, and our debt has become our personal financial prison.”

– David Bach

4

Take the debt free pledge

Mindset

To prepare to take the debt free pledge, there are seven questions you and your spouse or significant other need to answer together. The questions are:

1. *Why do you want to get out of debt – and then stay debt free for the rest of your life?*

Write down your answer to this question: "I want to be debt free for life because ..." Look at your answer and inject some vivid and heartfelt imagery. "I want to be debt free because it will provide my children with a home which can never be taken away from us. It will give me great peace of mind and the joy which will come from being in a position to help my children start their journey towards buying their own homes as well." Discuss this with your spouse or partner because they will be an integral part of becoming debt free.

2. *Why are you in debt today?*

The purpose here is not to beat yourself up but to face the facts. Did something tragic happen? Did you live beyond your means? Did an income source dry up? What really happened. Answer this question honestly and candidly so you can start working on a solution going forward.

3. *Honestly how much debt do you have?*

At this point, you're making an educated guess about where you're at financially. You'll get into more detail on this when you start developing your DOLP program but for now, get a grip on what your true level of debt is.

4. *What percentage of your income currently goes on paying just the interest charges on your existing debt?*

Take out your mortgage statement, your car loan statement, your student loan statement and your credit card statements and figure out how much of your monthly payments go to interest charges. It's guaranteed the answer will shock you. When you add everything up, you'll probably find more than half of your take-home pay at present is going into your lender's pockets rather than helping you pay off debt. The only time you're getting ahead with debt is when you pay down your principal and you'll find this is happening much less than you assumed.

5. *Who would you need to get help from in order to become 100% debt free?*

Firstly, you would expect to help yourself get out of debt but there may also be some other people you can call on for help. Your spouse or partner would be an obvious choice. You may have family members who could provide some good input or help as well. You may have got to know someone who uses a non-profit credit counselor and they may be a resource you can access as well. For now, make a list of the people who could make up a support network for your efforts to become debt free.

6. *What's the worst thing that could happen if you don't get out of debt?*

Left unchecked, debt can generate all kinds of irrational fears. It's important that you face facts. Write down what your worst-case scenario would be. The very act of writing this down will usually make you feel better because you'll realize for that to happen, a whole series of things have got to go wrong. Detailing this will more than likely motivate you to deal with your debt quickly and decisively rather than leaving it bubbling away in the background while you hope it will go away.

7. *When will you start?*

A very good question. If you tell yourself you'll get around to this sometime when it's more convenient, your journey is over even before it began. Promise yourself you'll get going today on becoming debt free.

Once you've thought through these questions and how they apply to your specific circumstances, it's time to take the pledge and start working towards your Debt Freedom Day when you will be completely out of debt. Make up a card like this, sign it and put it somewhere you'll see it every day:

The Debt-Free-For-Life Pledge

I, _____ [insert your name]

hereby commit to be out of debt by:

_____ [insert date]

I believe that paying down my debt and becoming DEBT FREE FOR LIFE is critically important, and I am ready to work to make it happen.

I will start my journey to being out of debt on

_____ [insert date]

Signed: _____

"Are you tired of being in debt? Are you tired of waking up each morning to face an ever larger pile of bills? Do you find yourself working harder than ever to pay for things you no longer care about – or even want to own? If so, you are not alone. Millions of people feel the same way – and like you, they are ready for a life free from debt. A life where you own your life – rather than lease it. The good news is there is a way out of this nightmare. There is a better way to live – starting today – a way that will allow you to be debt free for life!"

– David Bach

"In our new economy, getting out of debt fast is the most important financial move you and your family can make."

– David Bach

"Debt creates fear. Not having it creates peace of mind. This may sound like a cliché, but it's true. When you have less debt, you will feel more FREE. You will have fewer worries, less stress, less tension, fewer fights at home. In short, your life will have less fear and more serenity. Not only that, but you will also be able to build wealth faster."

– David Bach

"It's time for us to rethink entirely the way we manage our money and our debt. If the great recession has taught us anything, it is that the less debt we have, the better off we are. With this in mind, I am now on a mission to inspire America to shed its debt. I believe it is time for us to buy back our freedom, and I know that together we can do it."

– David Bach

2. The debt free strategies

It's all very well to have the mindset to get out of debt and stay out of debt but that plan only has value if you work it. Getting out of debt isn't rocket science. Debt is never complicated and reversing the trend won't happen overnight but you will feel progressively better the further down the path you go. To get out of debt and stay out of debt, consistently apply these strategies:

- 1 Use the DOLP method to pay down debt
 - 2 Set up automatic debt payment systems
 - 3 Negotiate your debt down
 - 4 Get and understand your credit report
 - 5 Look at time-barred debt approaches
 - 6 Use non-profit credit counseling
 - 7 Watch for debt-settlement scams
 - 8 If you must, use bankruptcy early
 - 9 Make moving forward again automatic
 - 10 Look for money to boost debt repayment
- The Debt Free Strategies**

1 Use the DOLP method to pay down debt Strategies

DOLP stands for "Done on Last Payment." This is a simple way to prioritize the payment of your debts. You should be able to get this system set up and working its magic in your finances in less than an hour. DOLP is a foolproof system for paying off everything you owe once and for all.

To get DOLP set up, take out all your monthly statements for everything you owe (credit cards, store accounts, mortgages, home equity loans, student loans, car loans, boat loans, installment debts, the whole lot) and set up a table like this:

Debt Reality Worksheet				
Creditor	Account Number	Outstanding Balance	Monthly Minimum Payment	Interest Rate

Adding up all your debt this way won't be fun but it will be helpful in coming up with workable strategies for moving forward in the future. It's not unusual for people to go into shock at first when they sit down and figure out how much they really owe so don't sugarcoat it for yourself. You can't cure what you don't face.

Now once you've got all your debt listed and itemized, you can now fill out the DOLP worksheet below according to these rules:

1. *Fill in the DOLP worksheet* – following the headings for each column.

DOLP Worksheet					
Account	Balance Outstand	Monthly Minimum Payment	Due Date	DOLP No.	DOLP Rank

2. *Calculate the DOLP number for each account* – which is found by dividing the balance outstanding by the minimum monthly payment. If you owe \$500 and your minimum monthly payment is \$50, then the DOLP number is 10.
3. *Assign each account a DOLP ranking* – the account with the lowest DOLP number is ranked #1, the second lowest DOLP number is ranked #2 and so on.

DOLP Worksheet					
Account	Balance Outstand	Monthly Minimum Payment	Due Date	DOLP No.	DOLP Rank
Visa	\$500	\$50	10th	10	1
MC	\$775	\$65	15th	12	2
Discov	\$1,150	\$35	1st	39	3

4. *Calendar your due dates* – and add these to whatever calendaring system you use. The aim here is to prevent making late payments which makes your situation even worse because of the costly late fees.
5. *Fast-pay your debt using DOLP* – every month, you make the minimum payment on each account except the one that has the #1 DOLP ranking. For that account, you make as big a payment as you can manage that month. Ideally, you want to pay at least double the minimum amount so you can pay off that account quickly. You then put that card away in a drawer or cut it up and start attacking the next account with the next lowest DOLP ranking.

The DOLP system works because you identify which of your accounts can and should be paid off first and you make that a priority. Once that account is paid off, you can then put more towards paying off the next lowest-ranking account. By prioritizing this way, your debt repayment scheme gains momentum. Every time you retire an account, celebrate (inexpensively) and get to work on the next one. DOLP will take time, effort and commitment so be realistic. It took you years to get into debt so don't expect to DOLP your way out of debt in a few months. Several years will be a more likely and realistic time frame, but stick with it. Don't get discouraged. Stay with the DOLP program.

2 Set up automatic debt payment systems **Strategies**

Using the DOLP methodology is simple and effective but if you'd rather not do everything by hand, there is an automated option available over the Internet. This is at:

www.DebtWise.Com

DebtWise allows you to set up a prioritized fast pay plan which follows the DOLP principles, tracks your progress and sends you automated reminders of what needs to happen when. DebtWise offers a free one month trial of the service after which there are monthly charges incurred.

DebtWise was developed and is operated by Equifax, a public company which is a leading U.S. credit bureau. That also means your own credit report can be integrated into your debt repayment plan. DebtWise gives immediate feedback on how your debt repayment program is enhancing your credit rating. Debt Wise is a tool which automates using the DOLP system and makes it easier to apply.

3 Negotiate your debt down **Strategies**

The major credit card companies don't want you to know this but they are willing to negotiate the interest rate they charge. To get your credit card company to give you a better rate:

1. *Read the fine print on your card statement and find out exactly how much you're paying at present* – which is likely to be something you've just glossed over in the past. Your Annualized Percentage Rate or APR will be there somewhere. Find out what it is at present.
2. *Shop around for a lower rate* – using Google or another search engine. Find out what your credit card company is currently offering to new customers. This won't take you long to look up on the Internet.
3. *Compare your credit card rate to national averages* – using something like www.bankrate.com or www.creditcard.com. Most credit card companies offer five kinds of interest rates – superprime, prime, subprime, punitive and promotional. Get to know each rate for your card issuer.
4. *Get your Equifax credit score and compare your rate to your credit score* – see first whether you're now being charged the right rate for your credit ranking.
5. *Now get on the phone to your credit card company* – and start playing the negotiation game. Around 25% of the time, you'll be successful in getting a rate reduction on your first call. If the customer-service rep says "Sorry, I can't help you," which is what they're trained to say, ask to speak to their supervisor. Again, they're trained to say at that stage "Sorry, no one is available right now." Ask for their name and ID number so you have a record of who you spoke to and then insist politely they connect you with a supervisor. Once you get on the line with that person, go over your rate, give them your current credit score and ask why your rate is higher than it should be. Bring out your comparative data and ask if they are willing to work with you to give you a better deal.

Hopefully, at some stage you'll be able to speak with someone who will be willing to lower your interest rate and cut you a better deal. The reality is the credit card companies are in a competitive industry and there is almost always something they can do in order to keep your business. Card companies lower their rates all the time. You may have to make multiple calls but it can be done.

4 Get and understand your credit report **Strategies**

By law, you're entitled to get a free copy of your credit report every year. It's vital that you get to know what your credit score is today and then get to work on improving it and protecting it in the future. Studies have shown around 79% of credit reports contain errors and incorrect information so it's vital that you check your credit report for accuracy as soon as possible.

To get a copy of your credit report today, you have two options:

1. Go to www.annualcreditreport.com and apply for one or call them at (877)322-8228.
2. Go to www.FinishRich.com and get a free copy of your credit score in association with Equifax's DebtWise.

If your credit score is above 720, that's considered good. If it's above 740 you'll get offered the best terms. A score below 600 means you'll have trouble getting a loan.

How is a credit score calculated?

- 35% – payment history – whether you pay bills on time
- 30% – amount owed – what proportion of your credit you use
- 15% – length of credit history – the longer the better obviously
- 10% – new credit – how many accounts you opened recently
- 10% – types of credit used – a good mix is a plus

Raising your credit score can save you thousands in future interest payments so an action plan for improving your score is:

1. *Get your free credit report at least yearly* – and check it for errors. Bring mistakes to the attention of the credit agency.
2. *Automate your bill paying* – so you never miss a due date. Just one missed payment really hurts credit scores.
3. *If you have missed payments in the past, get on it and get current again* – and your score will start to improve.
4. *Always keep your balance well below your credit limit* – ideally below 33% of available credit.
5. *Be wary about the credit transfer game* – where you transfer high-interest credit card balances to low-interest cards. This can set off all kinds of alarm bells.
6. *If you do have high card balances, make payments early* – as this will reduce the balance being reported to the credit bureaus.
7. *Keep your old accounts even if you don't use them much* – as this lengthens your credit history which subsequently bumps up your credit score.
8. *Similarly keep and use old credit cards* – at least one purchase a month to keep your credit history expanding and improving.
9. *Demonstrate that you can handle credit responsibly* – by not borrowing more than you can pay back on time.
10. *When shopping for a loan, do it quickly* – within 30 days. That way all your credit score inquiries get batched together and it doesn't appear like you're trying to borrow money from many different sources.
11. *Check your credit score every three months or so* – that is classified as a "soft inquiry" and won't impact on your score whereas a "hard inquiry" from a potential lender can.
12. *Consider buying a 3-and-1 Report and a credit monitoring and identity-theft package* – because it will be worth the monthly investment of \$20 or less to stay on top of emerging problems with your credit score. (A 3-and-1 Report provides you with your credit scores from the three big bureaus.)

5 Look at time-barred debt approaches Strategies

A “time-barred debt” is one which has been past due for longer than the applicable statute of limitations. Under state and federal law, creditors have only a fixed amount of time – usually between three and ten years depending on where you live and what kind of debt is involved – in which they can sue you to collect. If for any reason your debt ages past the deadline, it then becomes effectively uncollectible and you can legally decline to make repayment.

The rules about this varies widely from state to state and according to the type of loan involved. Different statutes of limitations apply to loans based on oral contracts, written contracts, promissory notes and open-ended loans like credit card accounts. You need to check with your state’s Attorney General’s office to find out what statute of limitation will apply to your specific loans. You can also use the information at Bankrate.com or CreditInfoCenter.com or speak with a lawyer.

If your loans do become time-barred in this way, you have the legal right to decline to pay. Exercising that right doesn’t mean the debt collectors won’t keep trying. Be careful you don’t agree to make any part payments on a time-barred debt in the name of showing good faith or for any other reason because that effectively starts the clock running again and moves the loans from time-barred status to active status again.

Federal law protects you from being harassed by debt collectors. They have regulations which prohibit them from engaging in unfair, deceptive or abusive practices. (More detailed guidelines are at www.ftc.gov.) To stop them bugging you, all you have to do is send them a letter telling them to stop contacting you. Once you’ve done that, by law the only contact they are then allowed to have is to confirm they will leave you alone or to formally advise they will take some specific action against you. Keep a copy of the letter you send to any credit agency for yourself and send them the original via certified mail with return receipt requested. That way you can prove the letter was sent and received in case they ignore your instructions.

Don’t ever fall into the trap of assuming a debt collector is your friend and is acting in your best interests. It’s not so. In many cases, they’ve purchased your debt for pennies on the dollar from the lender and they’re just trying to see what they can turn that information into. If you ask for documented proof of your debt, the collection agency likely won’t be able to produce it. Don’t let them harass you into paying not only what you originally borrowed but also exorbitant interest and draconian fees.

“Let me say that I believe in living a life of integrity. When you borrow money, you should pay it back. You made a promise to do just that, and you should always keep your promises. That said, I’m also your advocate. If you owe a debt that your state’s statute of limitations defines as ‘time-barred,’ you deserve to know what your rights are. What’s more you are entitled to use those rights to get out of debt and get back on your feet financially. I’m also enough of a realist to know much of the money that debt collectors try to collect these days isn’t what was originally borrowed. It’s the result of outrageous interest and nonsense fees that were tacked on later. I worked with one couple who had borrowed about \$10,000 on their credit card – and had made \$14,000 in payments. Nonetheless, what with interest and penalties, they still owed more than \$25,000. Now that’s just wrong. So I say – use your rights!”

– David Bach

6 Use non-profit credit counseling Strategies

Most of the time, you should be able to use basic knowledge and methods like DOLP to sort out getting yourself out of debt. If you don’t feel like you can manage this on your own and you decide you need outside help, consider working with a non-profit credit-counseling agency. If you can find a good one you like working with, the benefits can be enormous.

Around 8 million Americans went to agencies for help in 2009 alone so if you go down this route, you’ve got plenty of company. A non-profit counseling agency will be better to work with than for-profit corporations which promise to do the same thing. Most non-profit credit-counseling agencies receive funding from federal, state and local government agencies or from private foundations. In 2009, agencies affiliated to the National Foundation for Credit Counseling helped pay down \$2 billion in consumer debt alone. It’s a good deal all around – consumers get out of debt, creditors get paid back and the agencies contribute to the community well being.

How do you find the right non-profit credit counseling agency to go with? Look for eight signals:

1. *They will offer you a free counseling session right at the outset* – where they will review your financial situation and make suggestions for free before they suggest anything or ask you to sign anything.
2. *They will help you look at the realities of your financial position* – and whether you can move forward by changing your financial habits or whether you need to enroll in a formal Debt Management Plan (DMP) they will negotiate with your creditors.
3. *They will create a spending plan or budget for you* – which will allow you to live within your means from this point forwards.
4. *They will work on both your secured and your credit card debt* – to stabilize your home finances first and then look at payment plans for credit card and other unsecured obligations.
5. *They will be prepared to set up a DMP for you* – but only if it actually makes sense for your overall financial position. A DMP won’t help if your debt is so large and your income is so low there is no realistic way you can afford to make the ongoing payments which will be required.
6. *They will level with you if they consider bankruptcy would be a better option* – and give you unbiased facts about this option.
7. *They will be able to provide references and testimonials* – they will take great pride in the success stories of their current and former clients.
8. *They will openly itemize and detail their fees up front* – and put everything in writing. As a rule-of-thumb, they generally won’t charge more than a \$100 startup fee and then \$50 monthly for what they do.
9. *They will be licensed, IRS accredited and affiliated to the major trade associations* – which are the National Foundation for Credit Counseling (www.debtadvice.org) or the Association of Independent Consumer Credit Counseling Agencies (www.aiccca.org). You should also be able to check them out with the Better Business Bureau (www.bbb.org).

7

Watch for debt-settlement scams

Strategies

“Get out of debt with one monthly payment! Reduce your debt by up to 50%! We can cut your debt in half in under five minutes!” You’ve probably seen the ads and wondered how can they do that? As the old adage warns, if something sounds too good to be true, it probably is too good to be true. The fact is for-profit debt-settlement companies can’t achieve anything you can’t do for yourself. They’re trying to charge you a fee just for making a few calls to your creditors on your behalf.

Actually, in reality you can do more acting for yourself than these companies can. American Express, Chase and Discover Card have a policy of refusing to deal with or work with for-profit debt-settlement companies. Furthermore, the first thing these companies want you to do is stop sending payments to credit card issuers and instead send money to them to add to your debt settlement fund. This is not a good idea as refusing to make ongoing payments will open up another set of problems not to mention the fact it will seriously lower your credit score overnight. It will also result in your debts being turned over to collection agencies or attorneys.

The Association of Settlement Companies, the industry’s leading trade organization, estimates that in most cases working with a for-profit debt-settlement company will cause your debt to increase by an average of 20% over the two or three years the settlement process generally takes. Your credit score will suffer and the amount you don’t have to pay on your debt will be considered to be taxable income by the IRS. You might end up owing the government some money by using a for-profit debt-consolidator.

As a general rule, you’ll be charged a fee of 15% - 18% of your debt over three years to use one of these debt consolidators. There will also be a service fee of \$25 or \$50 a month to pay first – and it’s not at all unusual for these fees to need to be paid in advance before the debt-settlement company will get to work. Pure and simple debt-settlement doesn’t work as advertised.

About the only time using a for-profit debt-settlement company makes sense is if your debt problems mainly involve credit card and other unsecured debt which has been sold to a third party or is nearing its statute of limitations. In those circumstances, the company which purchased your debt may be motivated to settle for less than face value.

If ever you do decide to use a debt-settlement firm, bear in mind your chances of running into scam artists are very high. Check out thoroughly any company you are considering using. Do a search at the Better Business Bureau Web site (www.bbb.org) and look at whether they belong to the big trade associations TASC (www.tacsitesite.org) or USOBA (www.usoba.org.) Dig up any complaints which have been filed for the company you are considering using.

“All things being equal (which at this point they are, if you haven’t yet started this process), I suggest that before you consider debt settlement, you first try my DOLP method or the DebtWise.com tools to get out of debt. If these approaches don’t work for you, or you feel you need someone to help you with them, look for a non-profit credit-counseling organization. Only after you’ve exhausted all these alternatives should you approach a debt-settlement company. And then make sure you do with your eyes wide open and your questions ready.”

– David Bach

8

If you must, use bankruptcy early

Strategies

More than 1.6 million people will file for personal bankruptcy in 2010 – twice as many as five years ago. Before making a decision whether or not bankruptcy will help your personal situation, you should get professional financial and legal advice as soon as possible.

Personal bankruptcy comes in two basic flavors:

- Chapter 7 – which is the most severe form. It means anything of value you own except for some personal items and sometimes some real estate can be sold off by a court-appointed trustee with the proceeds being paid to your creditors.
- Chapter 13 – which allows a debtor to establish a court-supervised repayment plan. Generally this is only available if you have a steady income and your debts can be fully paid within three to five years.

Bankruptcy laws are complex but generally speaking bankruptcy allows unsecured debt to be wiped out and secured debt to be made more manageable. Bankruptcy cannot wipe out personal debt which arises from:

- Child support or alimony you may owe
- Student loans
- Tax obligations which are less than three years old
- Legal judgments against you
- Debt which is acquired within 90 days of your filing
- Any debts you neglect to list in your bankruptcy filing

Obviously filing for bankruptcy will hurt your credit rating but once you’ve completed the process, you may find further down the track you actually become more attractive to lenders because you’re no longer burdened by debt. As a rule-of-thumb, it will be at least two years after you complete your bankruptcy before anyone will extend you credit and your bankruptcy will stay on your credit record for either seven years (Chapter 13) or ten years (Chapter 7) from the date of completion. Bankruptcy will not erase a track record of late payments from your credit report either.

Again, bankruptcy law is complex. Navigating it and making the most of this will be a matter of getting professional advice. To find an attorney who is experienced in this area, talk with people who have been through the process already or look to non-profit credit counseling agencies in your locale who may be able to recommend someone. You can also contact Bar Associations, legal aid organizations or advocacy groups for suggestions on who to consider.

“Filing for bankruptcy is perfectly okay. It doesn’t mean that you’re a failure or a terrible person. What I find really heart-wrenching is that there are people who have committed suicide rather than go bankrupt. NEVER, EVER let your financial situation convince you that life is not worth living. Bankruptcy is a TEMPORARY solution to a TEMPORARY problem. The feeling of drowning in debt and not seeing any other way out but bankruptcy can drive a lot of people to the edge. Just remember that as bad as things may seem, the fact remains that you can change your life. If you are feeling overwhelmed by your debts, please find a good credit-counseling agency and sign up today. And don’t stop there. If you ever find yourself, even for a moment, considering hurting yourself, STOP and call someone you love. Remember these words: ‘This too shall pass.’ Believe me, it always does.”

– David Bach

9 Make moving forward again automatic Strategies

To get out of debt and stay out of debt permanently is hard work. It requires discipline and commitment. There are no shortcuts but there is one thing you can do to help. If you genuinely want to succeed, make your plan automatic or set-and-forget. This doesn't have to be complicated. You should be able to get everything set up in an hour.

The steps to making your debt reduction plan run on autopilot:

Automatic debt reduction plan	1	Pay yourself first automatically
	2	Have your paycheck direct deposited
	3	Fund your emergency account auto.
	4	Pay credit card bills automatically
	5	Fund "extra payments" automatically
	6	Pay monthly bills automatically

1. *Pay yourself automatically* – have a minimum of 5% and preferably 12.5% of your income deposited directly into your 401(k), IRA or other similar retirement account. Pay yourself first even when you're in debt otherwise you will never get started.
2. *Have your paycheck direct deposited* – so you don't have to wait in line each week at the bank.
3. *Fund your emergency account automatically* – put aside 5% of your income until you have an emergency cash cushion which could meet your living expenses for three months.
4. *Pay credit card bills automatically* – get them all to come due on the same day each month and then make your payments five days before the bills are due using your bank's online bill-paying facility. That way you won't miss any payments or get hit with any late fees or penalties.
5. *Fund your "extra payments" automatically* – arrange to have \$10 a day which you're paying towards your #1 priority under your DOLP plan transferred automatically from your checking account to the loan account until it is completely paid off. Make this automatic so it's painless. Do the same with the extra mortgage payments you want to make.
6. *Pay all your monthly bills automatically as well* – either by having the regular ones paid each month using your bank's online bill-paying service or by arranging to have variable bills charged to your credit card. In this way, your entire financial life can be automated and you never get hit by late fees or penalties.

"Bet on yourself to win."

– Tom Hanks

"Just knowing that you have a plan in place to pay down your debt in the right order, the right way – a plan you can carry out yourself that will save you thousands of dollars in interest fees and cut years off your indebtedness – will truly lighten your burden, however light or heavy it may be."

– David Bach

10 Look for money to boost debt repayment Strategies

There are seven simple things you can do in an hour or less which may help you find hundreds or even thousands of dollars you can add to your debt payments. As at the end of 2010, there was \$32 billion in unclaimed state assets belonging to some 55 million people. If any of that belongs to you and you don't even realize it, you're missing out on the chance to pay down some of your debt immediately.

Here's where to look for money owing to you:

1. *Start by checking the federal government's savings bond database* – at www.savingsbonds.gov. Navigate to the page called TREASURY HUNT and search on your social security number.
2. *Check the banks* – and see whether they're holding money for you. Go to www.unclaimed.org and www.missingmoney.com and do searches. The searches are free.
3. *Check with the Federal Deposit Insurance Corporation* – at www.fdic.org. See if there are any unclaimed assets which belong to you there.
4. *Check with the Pension Benefit Guaranty Corporation* – by doing a search at www.pbgc.gov. See if you have any unclaimed pension benefits you're entitled to receive.
5. *Check with the IRS* – for whether you're eligible for refunds that have not been collected or tax credits you didn't know you were eligible for. The IRS estimates there are 1.4 million people who were owed more than \$1.3 billion in the 2006 tax year which was not rightfully claimed within the three year period allowed. They've missed out but you don't have to. Check whether you're owed a refund you haven't collected for whatever reason came up.
6. *Check with social security* – double-check your Social Security benefit statement to make sure the earnings listed on the statement match what you actually earned. Also search for whether you're missing any social security benefits you're entitled to. Their web site is at www.ssa.gov.
7. *Check for unused gift cards and gift certificates* – which some states have legislated must be turned over as unclaimed property. \$6.8 billion was added to this pool last year alone. Look at your state government Web site for instructions on how to go about filing to reclaim these assets.

The whole point is all of this money belongs to someone. If you have legitimate claim, the money would be far better used helping pay your debts than it is sitting in some state or federal government account somewhere. At the very least, have a look in case you're owed anything.

"The way to get started is to quit talking and begin doing."

– Walt Disney

"Why not start today? You could change your destiny today. I truly believe you will be happier with less debt – and I know that in just three to five years, if you follow my systems, your entire financial life will be better. You'll have less stress – and you'll probably be healthier too. Make this life of yours special – because it is."

– David Bach