

COMMON CENTS



Guide to Make, Save & Manage Your Money

Module 8

**Real Life Solutions and Simple Fixes
for Seriously Bad (But Common!)
Money Problems; Problems that Can
Affect Your Home, Retirement, Your
Whole Family**

**WAYS TO MAKE & SAVE MONEY
TRAINING COLLECTION**

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GETTING OUT OF DEBT



While we all would ideally pay off our credit cards in full every month, that doesn't always happen. Plus, modern life often forces us into debt.

If you want go to college, buy a car, or own a home, you'll most likely take out loans to pay for these things. Even if you do keep your credit card usage in check, it's difficult to remain completely debt-free.

But fear not! ***While your mountain of debt may be daunting, it's possible to get to the top and clear your financial name!***

Table of Contents

Credit Card Debt.....	3
Try these tactics to reduce and eliminate your credit card debt:	3
IRS	7
Student Loans	8
Car Loans and Other Short Term Bank Loans	9
Mortgage Loans	9
You Can Do It!	11
Self-Reflection Questions	12
Action Tips	12



Credit Card Debt

Try these tactics to reduce and eliminate your credit card debt:

1. **Pay off more than you use.** The only way to gain ground on your credit card balance is to pay off more than you use. If you make the minimum payment of \$20 and then spend \$50, you're not going to be getting out of debt anytime soon. Also, be sure to take into account the interest charge as well as other fees when calculating each month's total expenditure.
2. **Pay off small balances first.** If you have a card with a balance of only a couple of hundred dollars, paying that one off first will quickly eliminate one bill altogether, allowing you to reroute the money that would've gone towards paying that bill to one of the higher interest cards.
 - This also eliminates the hassle of interest charges on that card. With no balance on the card, you'll be saving yourself in the long term as well.
3. **Make high interest cards the priority.** While the above rule is helpful in a handful of situations, by and large you'll want to target the higher interest cards first and knock them out of the way.
4. **Once a balance is paid off, use the money for that payment to pay off other balances.** Knocking a credit card balance out is a major relief! It's one less payment you have to worry about and one less monkey on your back. Use this success as momentum to take care of the other bills.
 - **Follow this strategy:**
 - a. Pay off credit card #1.
 - b. Next month: Add these funds to your payment for credit card #2.



- c. Pay this doubled amount on credit card #2 every month until it's paid off.
- d. Once those two cards are paid off: Add the funds from credit cards #1 and #2 to pay card #3.
- e. Pay this tripled amount on credit card #3 every month until it's paid off.
- f. Next: Add in the payments from cards #1, #2, and #3 toward card #4.
- g. Continue this strategy until you've eliminated your credit card debt.

- This will greatly speed up the overall process of getting your cards paid off and wiping the slate clean.
- ***What's really amazing is that, once you've paid off your first card, you'll be able to use this strategy without paying more for your monthly bills than you were in the first place.*** Yet, the momentum gets bigger and bigger for eliminating that debt, like a snowball rolling down a hill.

5. Avoid skipping payments. If you do miss a payment, they'll add the missed payment to the next month's bill *in addition* to the interest, late fees, and maybe even over-limit fees. This could even cause your annual interest rate to increase. Once this starts, it's difficult to get out of the pattern. The charges add up quick and your balance will skyrocket.



- Not only will this affect your balance, but the credit card company will also call you. Avoiding the call only makes things worse. You would think that they would get the point, but they don't. They call, and call, and call, and call. It's incredibly annoying and you're better off doing whatever you can to avoid missing the scheduled payment.

6. **Debt consolidation can be your friend.** Many times, it benefits you to consolidate several of your debts into just one balance from one creditor. **Not only can you take advantage of a better interest rate, but you also eliminate several of your monthly bills.** Often, the one payment on the consolidated balance is less than the total of your previous bills.

- If you can get a loan from the bank, it can help you out. Using that money to pay off your credit cards will reduce your overall interest charges. When going this route, avoid using your credit cards again after paying them off. That defeats the purpose entirely and will result in your debt becoming worse than it was before you started.
- Many credit cards offer a lower interest rate for the first year on a new card, and they invite you to transfer your balances from your higher interest cards to your new one. On these offers, **be sure to read the fine print.** Many things, including one late payment, can void the initial offer and result in an increased interest rate even higher than you had on your old cards.
- Consolidating your debts can free up money that you can use to pay down your remaining balances. **It's one more way you can get out of debt without using any more money than before you started.**



7. **Use windfalls to pay down your credit card debt.** If you come across some extra cash, use the money to pay off as many of those balances as you can. In essence, ***your windfall is multiplied*** when you think of all the money in interest charges it will save you.

- Plus, the faster you become debt-free, the faster you can use your money for whatever you want rather than just sending it all to your creditors!

Eliminating your credit card debt can bring you immense relief and greatly enhance your financial future. But what about other types of debt? Luckily, there are some effective methods you can use to save money and pay off these debts in record time!



IRS

If you owe money to the IRS, make paying them off your highest priority! With their many fees and interest charges, a debt to the IRS costs you even more than credit cards, including possibly your home, business, and any money you have in your bank accounts.

Yes, they can even go in and grab whatever is sitting in your bank account at any time! They can take your home or business and sell them to get the money you owe them. This is true even if your home is worth many times what you owe them.

Borrowing the money from a bank or charging what you owe to your credit cards is infinitely more beneficial than extending the time you take to pay whatever you owe to the IRS. Even refinancing your mortgage to get the cash needed to pay the IRS can be an option you may wish to consider.

Whatever you do, don't mess with the IRS! Pay them off immediately with whatever resources you can gather.



Student Loans

In many cases, your student loans have a lower interest rate than your other debts, so they may not be as high in priority when it comes to paying off your debt. Also, you can often stretch out the payment period over many years so the payments aren't a burden.

However, these payments tend to add up because there can be multiple loans for every year of college. Plus, the total balance can be astronomical simply due to the high cost of attending college.

Check into consolidating these loans to eliminate multiple payments every month. Contact your lender(s) and see what programs they have for combining the loans. You may be able to continue receiving a low interest rate while only having to make one payment that's less than the total of your multiple payments.

While consolidating can give you a handle on managing these loans, at some point, you'll want to finish paying these off also. Once you've eliminated your credit card debt, you may want to apply the extra funds towards this debt to get this monkey off your back as well.



Car Loans and Other Short Term Bank Loans

These types of loans also usually carry lower interest rates than your credit cards. Depending on how long it takes you to pay off your credit cards, which are a higher priority, you may find that these loans reach their term and disappear while you're paying off your other debt.

In order to prevent car payments that never end, consider saving up the money in advance and paying cash for your next car. A used car, even if it only has 100 miles on it, costs thousands less than a new one and the original warranty is still in effect, just as if you had bought it new. Shop around for your best deal, both locally and on the internet.

Mortgage Loans

You can save tens of thousands of dollars in interest on your mortgage loan and pay it off 10 - 15 years sooner simply by restructuring your loan to an accelerated bi-weekly plan, instead of a monthly one. With a bi-weekly plan, you pay half of a regular loan payment every 2 weeks, instead of a whole loan payment once each month.

The secret is that, when you pay half a normal payment every two weeks, you end up making 26 payments in a year. This adds up to 13 regular monthly loan payments, instead of the 12 you would make on the monthly plan.

In order to set up your loan this way, you need to arrange it with your lender. It does no good whatsoever to just send in half of your regular loan payment. If you try this, the lender will either return it to you for sending in the wrong



amount, or simply sit on it (with no benefit to you) until the other half of the payment comes in.

This method is especially easy for you to implement if you get paid on a weekly or bi-weekly basis. So make that call to your lender. The sooner you start, the more you save!

If you're getting a new mortgage loan or refinancing your mortgage, have them set up your loan this way in the first place. You'll be absolutely astounded at the difference.

Alternatively, you can send in an extra monthly payment each year and have the lender apply it to the principal. The total amount you save may be less than with the bi-weekly structure, but it'll still reduce the mortgage by years – and thousands of dollars – by paying it off sooner. The trick in this method is maintaining the discipline to send in that extra monthly payment every year.



You Can Do It!

Paying off your debt can be difficult, but it's very possible when you use these techniques. Not only do these methods make it possible for you to be debt-free, but they can also save you many thousands of dollars in interest charges, making your debt-free celebration date arrive years sooner!

When the going gets rough, just keep your eyes on your prize. ***Imagine what it'll be like to be debt-free.*** When you get your paychecks, all that money will be yours to spend as you please! No more mailboxes filled with bills for debt payments! No more harassing calls from creditors!

Those debts aren't the boss of you, so take control of your debt today and enjoy the freedom that a debt-free life can bring.



Self-Reflection Questions

**Question 1:**

Which credit card or loan balance is costing me the most in interest charges?

**Question 2:**

Can I pay off some of these loans without penalty?

**Question 3:**

How much am I spending in monthly interest? How can I cut my expenses to speed up debt repayment?

Action Tips

**Action Tip 1:**

Make a written plan for paying off your debts and then follow your plan.

**Action Tip 2:**

Consolidate as much as possible. This will reduce the number of bills you have to pay every month.

**Action Tip 3:**

Pay off the high interest balances first in order to get out of debt as quickly as possible.

**Action Tip 4:**

When a balance is paid off, reroute that money towards another balance to compound the effect.