

Build A Disbursement Strategy

The following tips can help you get started in creating a plan to monitor your spending:

Determine your net worth.

Calculate your net worth by subtracting your liabilities (credit card balances, auto loans and mortgages) from your assets (savings, investments and property). Early in the year is an excellent time to do this. Then you should review and update your net worth worksheet about twice a year.

Track your cash flow.

Use a small notebook to record the amount and category (food, clothing, etc.) of each purchase no matter how small. Include check and credit card purchases also. Do this every day for 3 months. Total each category at the end of the month. The information will be used to help you adjust your spending.

Evaluate your monthly income sources.

Record any money that you've earned (paycheck, bonuses, freelance income, tips, etc.) or received from investments. Savings and investments should not be considered as money available to spend.

Record your monthly expenses.

Fixed expenses are mortgage or rent payments, auto and educational loans, and insurance. Variable expenses are utility bills, clothing, transportation, entertainment and dining.

Put it all together.

Subtract your total expenses from your total income.

Keep a written account of your progress.

Set financial goals. This will help increase your savings and give you peace of mind and less stress over money issues.

List all you owe first.

It may be difficult to believe, but most people don't have a good grasp of what they owe. A listing of all your debts, with the monthly payment required and the annual percentage rate of interest, can be most helpful. A financial spreadsheet, like in Excel, works well for this task.

Create a payoff plan.

This might be very difficult, but you will have to get this amount out of your monthly income. Divide this figure into the total amount you owe to arrive at the number of months it will take you to be debt-free. Interest will add to the time schedule, but the answer you get gives you the approximate amount of time for your debt-repayment plan. These options may help you repay debts on a monthly basis.

Assess the damage.

Make a complete list of all your credit cards and loans (auto, mortgage, student loans, etc.). Include how much you owe, the monthly payment and the interest rate. If you don't receive a monthly statement for a particular loan, call the lender for all of the information.

Pay the most expensive loan first.

Make the minimum monthly payments on all your debts except the one with the highest interest rate. Put as much money as you can toward this debt each month, until it is paid off. Then apply the payments you were making on that debt toward the loan with the next highest interest rate and so on. Note: Pay credit card bills promptly to reduce the average daily balance on which you're charged.

Transfer your debts to a low-interest rate credit card.

The higher the interest rate, the more money the loan is costing you. Find a card with a low interest rate and then contact that credit card company to arrange transfer of your other debts to this card.

Cut up the high-rate cards you've paid off so you won't use them again.

Also, call or write these credit card companies to cancel the cards. Otherwise you might continue to receive new cards as the old ones expire.

Have a yard sale.

What do you own? Which items can you do without? Most people have no idea of what they can do without until they try. Don't think of how much you will lose of what you paid for the item you are selling. Think of how much you will gain which can be immediately applied to your debt reduction. Your attitude about this will determine your success in working your way out of debt.

Keep a record of your current living expenses for a month.

Look for ways to reduce your expenses so you can use the extra money to clear up debts.

Consider selling assets.

What assets do you own? Do you have a savings account or stocks and bonds you could cash in to help pay off your debts? Do you have a television, furniture, stereo, car, jewelry or antiques? Could you cash in or borrow against the cash value of your insurance policy?

Increase your family income.

An extra paycheck will help maintain your present lifestyle while you pay back your debts. However, additional money does NOT cure poor management habits.

- ✓ Get a second part-time job.
- ✓ Work all available overtime.
- ✓ Take in a boarder or a roommate.
- ✓ Sell assets (toys, unused household items, extra vehicles, boats, property).
- ✓ Ask for a raise.
- ✓ Attend school part-time to gain new job skills.
- ✓ Take on family jobs in the neighborhood.

Borrow money as a last resort.

Loan consolidation, home equity loans or refinancing your home are ways to avoid repossession or loss of income through wage garnishment. These options may reduce the amount of your monthly payment. However, the cost for borrowing is usually increased, because the borrowing time is extended and you may be borrowing at a

higher interest rate. If you can manage to pay your debts without loan consolidation, home equity loans or refinancing, you probably will save yourself extra expense.

The use of these options generally does not improve poor money management habits and the reduced monthly payment may encourage you to acquire more debts.