

Defeat Debt

Credit Advisors Foundation

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Reasons to Stay on Track!

Whether you are trying to find your way back to financial soundness after a crisis or are seeking to build personal financial stability for the first time, the road can seem long. Meeting the demands of daily life while new money management behaviors are learned can be a struggle at first. But just like any new skill it will become easier, and eventually, second nature in the long run. The long term goal of becoming debt free and financially prepared for future plans will be worth the short term challenges.

Your personal journey may be reflecting the current state of the economy. With very little searching “expert” sources can be found that will report that the worst is yet to come or that the worst is over. It can be easy to become discouraged with the rate of change. Recently there

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Paper vs. Reality Budget

Every month I sit down and make a budget and on paper it looks like it will all work out. But I always run out of money before payday. What am I doing wrong?



It looks like you have a Budgetary Black Hole! When you create a budget that always works out on paper but not in reality, it can mean

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have been some indications that the times are improving, even if just in small ways:

According to *Bloomberg.com* Experian has acquired the RentBureau database which covers 8 million of the 38 million rental units in the United States. This will allow students, recent graduates, immigrants and those displaced by the housing crisis to improve their credit scores through the addition of their rental payment history to their credit files.

Credit card rates offered in solicitations are closer to rates actually charged. In the years prior to the CARD Act of 2009 this difference was as much as 2% (*Center for Responsible Lending*). The perception that the higher interest rates being offered now on credit card solicitations is a rate hike could be incorrect. The solicited rates are just more closely aligned with the actual rates charged. This will allow consumers to be better prepared for the actual terms they experience.

Savings rate which was in the 2% range during 2004 to 2008 has been consistently over 5% since 2008 and reached 5.8% of disposable income in January 2011 according to the *Bureau of Economic Analysts*.

According to the *Federal Reserve Bank of New York* As of December 31, 2010

“Total consumer indebtedness was \$11.4 trillion, a reduction of \$1.08 trillion (8.6%) from its peak level at the close of 2008Q3, and \$155 billion (1.3%) below its September 30, 2010 level.

Total household delinquency rates declined for the fourth consecutive quarter in 2010Q4. As of December 31, 10.8% of outstanding debt was in some stage of delinquency, compared to 11.1% on September 30, and 12.0% a year ago. Currently about \$1.2 trillion of consumer debt is delinquent and \$902 billion is seriously delinquent (at least 90 days late or “severely derogatory”). Compared to a year ago, delinquent balances are down 13.9%, and serious delinquencies have fallen 12.1%.”

These recent disclosures show the nation as a whole is concerned about the same personal journey. More means of tracking credit worthiness will become available as utility bills and support for extended family enter the credit system. Well informed consumers are able to consider the consequences of credit behavior as part of their decision making process. The amount of the family budget dedicated to savings is increasing as the amount of outstanding debt is decreasing.

We are all on the same track: reduce debt, increase savings, improve consumer awareness, and establish a positive reputation in the consumer/credit landscape through well informed and consistent money management. Now is the time to stay the course!

only one thing. Your budget was created using faulty data. Your income figures are inaccurate, expenses have been left out or miscalculated, or you are unaware of the black hole into which your cash slips every month. The best way to resolve this is to perform a Black Hole analysis.

You need to obtain a small notebook that you can keep with you for record keeping purposes. For at least 30 days keep a record of all your transactions. This means anything, no matter how small, upon which you spend money. If you use ATM's keep the receipts and write on them how the money was used.

At the end of 30 days you should have an accurate representation of where all funds are spent in reality. Go through your checkbook, on-line banking, notebook and ATM receipts. Categorize every item- housing, utilities, transportation, food, insurance, child related expenses, savings, entertainment, work related expenses, fees, donations and any other category you need. Compare the total of each category against your take home pay for the same period. This will show you the percentage of your income you are devoting to each

category.

At this stage, most people will have an "Aha" moment about the gap between their paper budget and where the money actually goes. Shock at the amount that gets spent on convenience food or gas is common. Items that were missed make themselves apparent. Miscalculations about amounts are seen clearly.

Review the items in each category to determine which item is a "need" and which item is a "want". Needs are those items that are required for survival. There is not much room for adjustment on the needs. Wants make the survival a little cushier. You may need a cell phone but you want the unlimited plan. You need housing but a three bedroom apartment on your own may be a want. You may not be able to function without coffee in the morning- making it at home for a few cents per cup is a need but buying it on the road for \$5 a cup is a want.

Determine where you can make adjustments or set different priorities. Create a goal- something for you to plan and look forward to. This will help make committing to the adjustments easier. Continue to perform the Black Hole analysis for at least two more 30 day cycles. This will help you monitor any seasonal changes to your expenses; track your success in making adjustments and pace your progress toward your goal. Good luck!

It takes time, perseverance, and dedication to become debt free.

Each month, we honor those who paid off all their creditors with a Credit Advisors Debt Management Program

PIF

January 2011

85

Debt Management Programs
Paid In Full

Congratulations!

Credit Advisors Foundation

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Get Out of Debt with No Regret !!



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Has it been more than three
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your Account Manager.

What Makes A Full Service Personal Financial Counselor?

March 11, 2011

11 am or 2 pm CST