

FINANCIAL FREEDOM STARTS HERE

5 STEPS TO ELIMINATE DEBT



eBook for Debt Elimination

by Dexter Gatson

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1) What is Consumer Debt?

Americans are making more money today than ever before, but we also have amassed consumer debt at record levels with over \$17 trillion dollars' worth of debt, as of Q4 2023. This significant amount of debt has a negative impact on one's ability to build wealth and have financial freedom as it leaves lesser money to invest and/or save.

So, what is consumer debt? It is personal debt that's owed to a creditor as a result of purchasing goods or services for our needs or wants. It includes mortgages, student loans, auto loans, credit cards, lines of credit and other revolving or non-revolving debt.

While consumer debt allows us to get whatever it is that we desire, it could also have a negative impact on our overall finances. Most monthly payments are calculated such that a higher amount of interest is paid while a small amount of the payment goes toward principal.

This is important to understand because paying extra principal is the only way to reduce the balance of the debt, not interest. So, paying interest for a lengthy period of time is a win-win for the creditor, but a lose-lose for us, the borrower.

Continuation of this financing approach over various debts and years of payments can be a very expensive path to take to acquire things because we pay the silent wealth stealer known as interest.

Yes, interest is good if you earn it, but bad if you pay it. Now, I get it. The majority of us will enter into debt for one reason or another, but that doesn't mean we have to stay in debt as it's impact can be minimized by paying off the debt as soon as possible.



Key Debt Terminology

Let's review some debt terminology as it can be confusing and overly complicated—but it doesn't have to be! Let's break these down in a way one can actually understand.

Balance

- This is the amount you owe on your debt. If your original loan (balance) was \$20,000 and you've paid \$5,000 in principal off already, your new balance (or amount you owe) is \$15,000.

Interest

- The price paid for the use of credit or money and is calculated by the interest rate received for the loan, credit card or other debt.

Interest Rate

- Interest rate is mainly determined by the borrowers credit score and varies by product usage. There are different interest rates for mortgages, auto loans, and credit cards, with the highest interest rate being placed upon credit cards.

Minimum Payment

- This is the minimum payment you are required to pay on a debt (includes principal and interest). This payment is determined by the debt balance, interest rate and term (for loans that must be paid back by a specified date).
- Key note: If you make the minimum payment, it will take you a lot longer to pay off the debt. This is something that creditors hope you do, so they can get paid more money over time.

Non-mortgage Debt

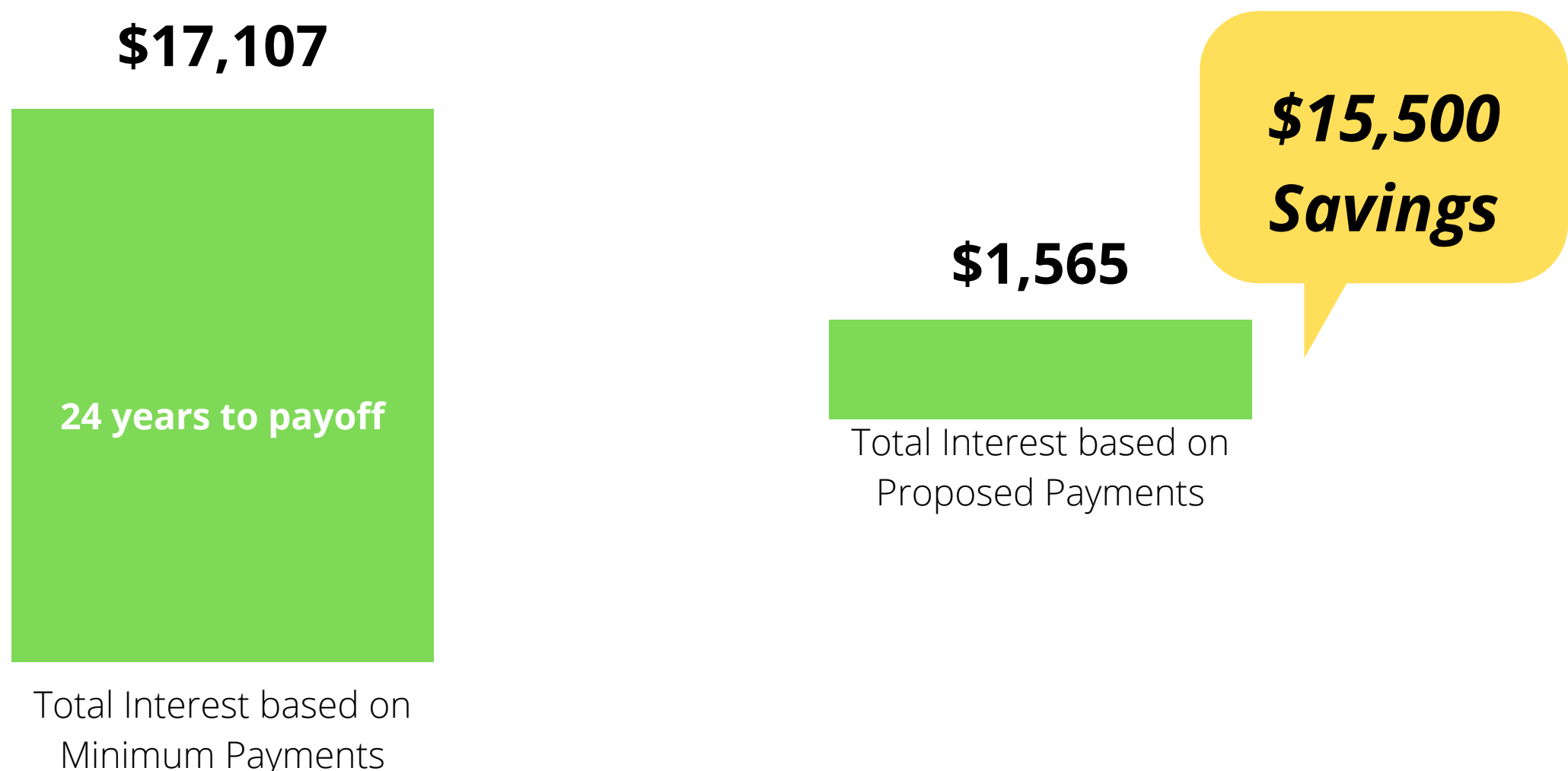
- This is everything you owe creditors, except for loans related to your home. Non-mortgage debt includes your auto loans, student loans, medical bills, department store cards, credit cards, etc.

Impact of Debt

Debt management can have a significant impact on our financial future, but we've got to be willing to try something different if our current method isn't working. So that means we cannot continue doing the same thing and expect different results.

For most of us, our current way of paying bills (paying the minimum amount required) gives us the feeling that it will take forever to pay off our credit cards, loans and other interest bearing debt, but that doesn't have to be the case. The below example shows how effective debt elimination can be if we start using a different approach.

For this example, we have a credit card balance of \$5,000 at an interest rate of 18%. Option A - If we were to make the minimum monthly payment of \$76.00 per month, it would take 24 years to pay off that credit card. Option B - If we were to pay \$100 more per month, this credit card would be paid off in 3 years and we would save \$15,500 in interest. So, which option are you going to take?



A person wearing a blue winter jacket, a blue knit hat, and dark pants is playing in the snow. They are holding a snowball and appear to be in the middle of a snow fight. The background is a bright, snowy landscape.

2) Use Debt Snowball Process to Eliminate Debt

The next step to eliminate debt in a timely manner, is to identify and use a proven process. Millions of people have used the debt snowball method to eliminate debt, and that's because it works. Depending on your debt level and amount of monthly cash flow you have remaining after paying your bills, repayment of your debts can take anywhere from months to several years to complete with this method.

One key point is that the Debt Snowball method doesn't look at your debts interest rate but focuses on your debt balance. By focusing on debt elimination this way, it helps you establish momentum around paying off debt.

If you were to pay off your smallest debt in a timely manner, you can see that debt repayment can be achieved and hopefully get excited about eliminating the next debt. Once you get momentum going around debt elimination, hopefully it keeps you committed until all of your debt has been paid off.

Throughout this process, it's very important that you remember WHY you want to pay off your debt early. It could be to start working in your ideal area (your calling) which pays less money, it could be to retire early, to assist others financially, or whatever the reason is, use it to keep focused on this path of eliminating your debt until the task is complete.



3) Find Additional Cash to Pay on Your Debt

The next step in this debt elimination process is to find additional cash that can be used to pay down the debt early. Below are only a few examples of how you can get additional cash to pay down your debt.

- Evaluate current spending to see what can be reduced or eliminated
- Temporarily reduce or stop contributing to your retirement plan
- Stop going out every weekend and go out once or twice a month instead
- Change your TV viewing plans - reduce channels, eliminate cable, use Netflix, Hulu, YouTube TV and etc.
- Sell anything that's not needed
- Increase income by working additional hours, working a 2nd job, starting a side hustle

For this example, we found an extra **\$250.00** per month by doing a couple of the above recommended actions.

4) List all Debt from Lowest Balance to Highest Balance

The next step is to list all debt from lowest remaining balance to highest remaining balance. This includes revolving debt, student loans, credit cards, auto loans, medical bills and lines of credit.

You should not include monthly living expenses such as insurance, utilities, cable, cell phone, grocery or any of these types of expenses.

Below is an example of what this process looks like.

Current Payment

| | | Minimum | Actual |
|-----------------|----------------|------------------------|------------------------|
| <u>Creditor</u> | <u>Balance</u> | <u>Monthly Payment</u> | <u>Monthly Payment</u> |
| Sam's Furniture | \$1,200.00 | \$20.00 | \$20.00 |
| Medical Bill | \$1,350.00 | \$75.00 | \$75.00 |
| Visa | \$3,850.00 | \$250.00 | \$250.00 |
| Auto Loan | \$9,100.00 | \$310.00 | \$310.00 |
| Student Loan | \$10,400.00 | \$400.00 | \$400.00 |
| | | | |
| Total | \$25,900.00 | \$1,055.00 | \$1,055.00 |

5) Add any Extra Money to the Debt with the Lowest Balance

The next step is to find additional money that can be used to payoff debt early.

For this example, we found an extra **\$250.00** per month by:

- Reducing contributions to our retirement plan

Add the \$250.00 per month to the minimum amount that we were paying for Sam's Furniture, to get a new monthly payment of \$270.00

*At this new monthly payment, it will take ~ 5 months to pay off Sam's Furniture debt

| | | Minimum | Actual |
|-----------------|----------------|------------------------|------------------------|
| <u>Creditor</u> | <u>Balance</u> | <u>Monthly Payment</u> | <u>Monthly Payment</u> |
| Sam's Furniture | \$1,200.00 | \$20.00 | \$270.00 |
| Medical Bill | \$1,350.00 | \$75.00 | \$75.00 |
| Visa | \$3,850.00 | \$250.00 | \$250.00 |
| Auto Loan | \$9,100.00 | \$310.00 | \$310.00 |
| Student Loan | \$10,400.00 | \$400.00 | \$400.00 |
| | | | |
| Total | \$25,900.00 | \$1,055.00 | \$1,305.00 |

Once the Debt with the Lowest Balance has Been Paid Off, Add that Monthly Payment to the Debt with the New Lowest Balance

We just paid off Sam's Furniture and will add that \$270.00 monthly payment to the Medical bill minimum payment of \$75.00.

This will provide a new monthly payment of \$345.00 for the Medical bill, while paying the minimum on all other bills.

*At this monthly payment, it will take ~ 4 months to pay off the Medical bill.

| | | Minimum | Actual |
|-----------------|----------------|------------------------|------------------------|
| <u>Creditor</u> | <u>Balance</u> | <u>Monthly Payment</u> | <u>Monthly Payment</u> |
| Sam's Furniture | \$0.00 | \$0.00 | \$0.00 |
| Medical Bill | \$1,050.00 | \$75.00 | \$345.00 |
| Visa | \$3,025.00 | \$250.00 | \$250.00 |
| Auto Loan | \$8,110.00 | \$310.00 | \$310.00 |
| Student Loan | \$9,200.00 | \$400.00 | \$400.00 |
| | | | |
| Total | \$21,385.00 | \$1,035.00 | \$1,305.00 |

Once the Debt with the Lowest Balance has Been Paid Off (Medical Bill), Add that Monthly Payment to the Debt with the New Lowest Balance

We just paid off the Medical Bill and will add that \$345.00 monthly payment to the Visa bill minimum payment of \$250.00.

This will provide a new monthly payment of \$595.00 for the Visa bill, while paying the minimum on all other bills.

*At this monthly payment, it will take ~ 4 months to pay off the Visa bill.

| | | Minimum | Actual |
|-----------------|----------------|------------------------|------------------------|
| <u>Creditor</u> | <u>Balance</u> | <u>Monthly Payment</u> | <u>Monthly Payment</u> |
| Sam's Furniture | \$0.00 | \$0.00 | \$0.00 |
| Medical Bill | \$0.00 | \$0.00 | \$0.00 |
| Visa | \$2,175.00 | \$250.00 | \$595.00 |
| Auto Loan | \$7,200.00 | \$310.00 | \$310.00 |
| Student Loan | \$8,400.00 | \$400.00 | \$400.00 |
| | | | |
| Total | \$17,775.00 | \$960.00 | \$1,305.00 |

Continue This Process Until All Non-Mortgage Debt has Been Paid Off

In 13 months, three debts have been paid off by using this strategy. Hopefully, this will keep you motivated to get rid of your debt as soon as possible.

At the current monthly payments, it will take an additional 12 months to pay off the remaining two debts.

For this example, by using the debt snowball strategy, it will take ~ 2.0 years to become debt free...If additional money can be added to the monthly payments, it will reduce this time even further. Now you have an additional \$1,305 per month to use how you desire.

| | | Minimum | Actual |
|-----------------|----------------|------------------------|------------------------|
| <u>Creditor</u> | <u>Balance</u> | <u>Monthly Payment</u> | <u>Monthly Payment</u> |
| Sam's Furniture | \$0.00 | \$0.00 | \$0.00 |
| Medical Bill | \$0.00 | \$0.00 | \$0.00 |
| Visa | \$0.00 | \$0.00 | \$0.00 |
| Auto Loan | \$0.00 | \$0.00 | \$0.00 |
| Student Loan | \$0.00 | \$0.00 | \$0.00 |
| | | | |
| Total | \$0.00 | \$0.00 | \$0.00 |



I'm Debt Free Now What?

Once you have completed this process and are debt free, please do not fall back into the trap of borrowing money again. Being debt free provides options that you can take advantage of on your path to Financial Freedom.

You now have the basics to generate tremendous wealth by taking the money you were paying creditors and investing for future growth.

You can also start building your emergency fund which should cover of 3 - 6 months of living expenses.

Your next step after establishing an emergency fund, is to fully fund your retirement account by investing 15% of your income. You should invest enough in your employer sponsored account to get the match, then invest the remaining amount in a Roth IRA. This will allow you to have two buckets of money to withdraw from when you retire, which could allow you to maximize your cash flow.

Being Debt Free also allows you to make new purchases in cash, start a college fund for your kids and/or start paying down your mortgage.

Hopefully this eBook has been helpful by identifying a proven method to eliminate your debt. Good luck on your journey towards Financial Freedom.

About the Author



Dexter is a Certified Financial Coach who has always been intrigued by numbers which led to his undergraduate degree in Mechanical Engineering and a MBA in Finance. He has always enjoyed solving problems, and today enjoys helping clients create a pathway to financial freedom by imploring proven wealth building strategies.

As a former loan officer and mortgage broker, Dexter has helped countless individuals by providing credit improvement strategies and money management techniques, that led to them securing a mortgage as a First Time Home Buyer or savings from a refinance. He has also helped real estate investors by providing guidance around product selection which allowed them to maximize their cash flow. This was the genesis of him pursuing his passion of helping individuals become better money managers of their finances.

Additionally, he coaches 1:1 and conducts group coaching at Church which allows him to help members see there is a better way to manage their money. He currently utilize the culmination of his formal and real world knowledge to help consumers develop better strategies for managing their money. His mission is to help fellow community members establish better money habits to support Financial Freedom and leave a better legacy to our children.