Lesson 14

Let's Put the Pedal to the Floor!

If you are up to date with the action steps from the previous lessons, you should be at least to Milestone 2 – you've constructed your budget, which should keep you from overspending. **Consequently, you have broken the credit cycle – a huge step forward.** If you needed to employ the GTW process you should be well on your way to Milestone 3 (at least $1,000 in savings). You are beginning to sense an easing of the pressure and the needle on the Financial Condition and Stress Meter is beginning to move toward the left. In short, you are making progress. If you feel you are still behind the power curve, don't sweat it. Just be diligent and follow the process – remember, the Lord will help you establish the plan as you commit it to Him.

If you are not already at Milestone 4 (eliminating debt with interest rates at 10% or more), it will be your next target. There are two primary reasons people struggle with eliminating debt. First, they don't have a plan to stop it from getting worse. Think about this: **the quickest way out of debt is by not creating more debt** – the balance can only go down! Second, they don't have a plan to pay it off.

Figure 1

Creditor	Balance	Interest Rate	Minimum Payment	Contact Information
Department Store	$ 395	25%	$ 20	800-555-1212
Credit Card 1	$ 825	18%	$ 20	etc.
Credit Card 2	$ 2,400	12%	$ 48	
Credit Card 3	$ 3,500	19%	$ 70	
Credit Card 4	$ 5,800	24%	$ 128	
Milestone 4 (accounts above are paid off)				
Auto Loan	$ 8,200	7%	$ 325	
Student Loan	$ 12,000	5%	$ 125	
Equity Line	$ 15,000	8%	$ 150	
Milestone 6 (accounts above are paid off)				
Mortgage	$ 180,000	4%	$ 860	
Milestone 9 (mortgage is paid off)				
Total	**$ 228,120**		**$ 1,746**	

The plan we'll develop to aggressively eliminate debt is probably similar to other plans you've read about. The difference is that we will do a bit more analysis to make the plan as efficient as possible. To make this process easier to understand and visualize, let's consider a situation where we have nine creditors, including five credit cards, an auto loan, a student loan, a second mortgage in the form of an equity line and a primary mortgage on the home. The first step is to organize the debt. The simplest way to begin is by rank ordering the debt from the lowest balance to the highest balance. You can see that has been done in **Figure 1**.

Reaching Milestone 4 requires that any creditor with interest rates of 10% or more be paid off. In this illustration, that will require paying off the first 5 creditors on the list. The next 3 creditors will be eliminated in the process of reaching Milestone 6, and then paying off the primary mortgage will position us to reach Milestone 9. Those Milestones are also illustrated on the chart. To summarize the illustration there are nine creditors with balances ranging from $395 to $180,000 and interest rates ranging from 4% to 25%, organized from lowest to highest balance. The total debt balance is $228,120 with a minimum total monthly payment to all creditors of $1,746. Paying at the minimum payment rate would result in reaching Milestone 4 in ten years, Milestone 6 in fourteen years and Milestone 9 in thirty years! There must be a better way – and there is. Let's adopt an Accelerated Payoff Plan (APP), which will be explained in the following paragraphs.

Since our first target is Milestone 4, let's initially concentrate on the top 5 creditors. The APP requires that we pay the maximum possible monthly payment to the creditor with lowest balance. In **Figure 2**, the Department Store's balance is $395. It is also the highest interest rate. Consequently, we will experience a double benefit to pay it first. For this illustration, we'll pay the balance in full ($395). If we didn't have the funds to pay the full $395, then we would pay the most we could put our hands on, but in this example let's say we could pay the entire $395. For every other creditor, we will pay the absolute minimum required. The minimum required would be the stated minimum payments due on the remaining credit card accounts and the minimum loan payments we could negotiate. For auto and home loans the minimum is usually the stated monthly payment. By paying the maximum to the lowest balance creditor we will eliminate it as quickly as possible and begin to see creditors drop off the list sooner. That, in fact, is our initial goal – reduce the number of creditors as quickly as possible. This does two things. First, it motivates us by seeing immediate progress. Second, it starts simplifying the process, because we have fewer creditors to deal with. By being aggressive we are paying a total of $661 each month toward our credit card accounts.

Figure 2

Creditor	Balance	Interest Rate	Payment
Department Store	$ 395	25%	$ 395
Credit Card 1	$ 825	18%	$ 20
Credit Card 2	$ 2,400	12%	$ 48
Credit Card 3	$ 3,500	19%	$ 70
Credit Card 4	$ 5,800	24%	$ 128
Milestone 4			
Total	**$12,920**		**$ 661**

Since we paid the full balance of $395 to the first creditor, the list looks like this (**Figure 3**) after 1 month – 4 credit card account balances instead of 5. Notice the balances on the remaining accounts have reduced by very little because of the low monthly payments and the high interest rates. The $395 that was paid to the department store is now available to be added to the Credit Card 1 minimum payment of $20. Then $415 (395+20) is available to be paid the following month to Credit Card 1.

Figure 3

Creditor	Balance	Interest Rate	Payment
PAID (Dept Store)	$ -		
Credit Card 1	$ 818	18%	$ 415
Credit Card 2	$ 2,385	12%	$ 48
Credit Card 3	$ 3,484	19%	$ 70
Credit Card 4	$ 5,788	24%	$ 128
Milestone 4			
Total	**$12,474**		**$ 661**

The total monthly amount being paid to all of the credit cards remains at $661.

After two additional months or a total of 3 months from the start of our APP, Credit Card 1 has been paid off as you see in **Figure 4**. Once again, notice how slowly the three remaining creditor balances are decreasing – that's what high interest rates do! Two creditors have been eliminated in just 3 months. Our emotional energy is high because we are seeing definite progress. Now that we have the energy high, it is time to do some analysis.

Continuing to focus on **Figure 4**, we can see the high 24% interest rate on the Credit Card 4 account. Even though the Credit Card 4 balance is greater than the other two, it would be to our advantage to eliminate it first. So we move Credit Card 4 from the bottom of the list to the next one on the list. We continue paying $661 total and this makes the Credit Card 4 payment $543 per month (we added the $415 to the original Credit Card 4 minimum payment of $128). We will continue to pay the minimum to Credit Cards 2 and 3. Since the Credit Card 4 balance is substantial, another 12 months are required to pay it off, but after a total of 15 months in the process, look at the progress.

At the 15 month point (**Figure 5**) there are only two remaining credit card accounts with a balance and the analysis process continues. We see, once again, it would be to our advantage to pay Credit Card 3 before Credit Card 2 due to the interest rate difference.

We do that, and after 6 more months pass (the 21 month point since we started), there is now only a single credit card account remaining with a balance. (**Figure 6**)

Due to the size of the payment ($661), Credit Card 2 will be gone in short order. **As a matter of fact, after just over 23 months from the beginning of the APP, all credit cards have been paid off and Milestone 4 has been reached!** (**Figure 7**)

At this point, the APP can and should be continued to eliminate the remainder of the consumer debt to attain Milestone 6 and then continued to drastically accelerate the payoff of the home mortgage enroute to Milestone 9.

Figure 4

After 3 Months...			
Creditor	Balance	Interest Rate	Payment
PAID (Dept Store)	$ -		
PAID (CC 1)	$ -		
Credit Card 4	$ 5,764	24%	$ 543
Credit Card 2	$ 2,355	12%	$ 48
Credit Card 3	$ 3,452	19%	$ 70
Milestone 4			
Total	$11,571		$ 661

Figure 5

After 15 Months...			
Creditor	Balance	Interest Rate	Payment
PAID (Dept Store)	$ -		
PAID (CC 1)	$ -		
PAID (CC 4)	$ -		
Credit Card 3	$ 3,237	19%	$ 613
Credit Card 2	$ 2,050	12%	$ 48
Milestone 4			
Total	$ 5,287		$ 661

Figure 6

After 21 Months...			
Creditor	Balance	Interest Rate	Payment
PAID (Dept Store)	$ -		
PAID (CC 1)	$ -		
PAID (CC 4)	$ -		
PAID (CC 3)	$ -		
Credit Card 2	$ 1,550	12%	$ 661
Milestone 4			
Total	$ 1,550		$ 661

Figure 7

After 23.5 Months...			
Creditor	Balance	Interest Rate	Payment
PAID (Dept Store)	$ -		
PAID (CC 1)	$ -		
PAID (CC 4)	$ -		
PAID (CC 3)	$ -		
PAID (CC 2)	$ -		
Milestone 4 REACHED!			
Total	$ 0		$ -

If you don't get anything else out of this discussion, get this:

The scenario laid out in this APP process would shorten the time to reach Milestone 4 from the ten years mentioned earlier to just less than two years; as the process continues you will reach Milestone 6 in less than four years instead of fourteen years and will reach Milestone 9 in eleven years instead of thirty years! In the process, almost $100,000 would be saved in interest, not to mention the fact that you would be totally debt free 19 years sooner!

I hope you see that the moral of this story is pretty clear. We develop a balanced spending plan that is called a budget; we then add to that an organized accelerated payoff plan. These two elements combined with disciplined savings will move us through the Milestones at a blazing pace compared to a month to month lackadaisical approach that barely keeps our head above water.

REFLECTION: If you could reduce the amount of interest you will pay over the life of your car loans, mortgages, consumer loans, etc by $100,000 and limit the amount of time you have any debt at all to 11 years, how motivated would you be to put such a plan in place? What obstacles do you see that would prevent you from starting such a plan this month? Identify and prepare to discuss with your group the statement or concept that was most meaningful to you in this lesson. **Record your thoughts:**

ACTION STEP: If you have more than one creditor, establish an accelerated payoff plan like the APP described in this lesson. If debt is not an issue for you, adopt the same aggressive approach and establish a definite monthly amount to aggressively build your savings to reach Milestones 5 or 6, as applicable. Continue tracking your daily expenses using the spending areas listed on page A-4.

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