

FOCUS ON THE FAMILY®

HELP!

**I'M DROWNING
IN DEBT**

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Tyndale House Publishers, Inc.
Carol Stream, Illinois

Help! I'm Drowning in Debt

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A Focus on the Family book published by

Tyndale House Publishers, Inc., Carol Stream, Illinois 60188

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Editor(s): Larry Weeden, Brandy Bruce

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Library of Congress Cataloging-in-Publication Data

Blue, Ron, 1942-

Help! I'm drowning in debt / by Ron Blue.

p. cm. — (A focus on the family book)

Rev. and updated ed. of: *Taming the money monster*. c1993.

ISBN-13: 978-1-58997-455-5

ISBN-10: 1-58997-455-7

1. Finance, Personal. 2. Saving and investment. 3. Debt. I. Blue, Ron, 1942- *Taming the money monster*. II. Title.

HG179.B5657 2007

332.024'02—dc22

2007002995

Printed in the United States of America

1 2 3 4 5 6 7 8 9 / 13 12 11 10 09 08 07

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Foreword

Are you up to your eyeballs in debt? Do you dread opening your mailbox, fearing you'll find another credit card bill or overdue notice? Do you long for the day when all of your bills will be paid and you'll have financial peace of mind? If so, this book is for you.

Author Ron Blue has been a financial planner and consultant for over 40 years. As a CPA, an MBA, and a former banker, he has helped thousands of individuals get their financial houses in order. Ron possesses a tremendous amount of insight into human nature, and he is able to quickly “hone in” on the root causes of most money problems.

This concise, well-written resource will

provide you with practical strategies to get yourself and your family out of debt. You'll learn the five immediate steps you'll need to take to get started on the road to financial security. You'll learn the four major "financial deceptions" that millions of Americans have bought into, resulting in *billions* of dollars of debt. And you'll find out why unrecognized emotional and spiritual issues may be keeping you in financial bondage.

I pray that you'll take Ron's advice to heart, and that this book will challenge and equip you to make the positive changes that will lead to financial health and spiritual contentment!

Dr. Bill Maier

Vice President, Psychologist in Residence
Focus on the Family

Introduction

Tom and Sue are a typical middle-aged, middle-class couple. There's nothing extravagant about their lifestyle, but they own a home and two cars and live comfortably. Early in their marriage, they got in the habit of buying what they wanted right away with credit cards or installment loans. As a result, they have overspent their income by just a little year after year.

Now Tom and Sue find themselves more than \$7,000 in consumer debt, with no savings, no money set aside toward their children's college education, and both cars in need of replacement before long. They realize they need to change their habits before it's too late.

They're just one missed paycheck from disaster.



Betty is a single mom with two children. Her former husband left her after running up debt on four credit cards. Because of the way our laws work, she is liable for those debts. Out of her monthly take-home pay of approximately \$1,200, she gives to her church and pays rent, utilities, groceries, and so on. Her budget leaves no room for doctors, prescriptions, clothes, entertainment, or car repairs.

Like many divorced mothers, Betty receives no child support. Her former husband is over \$25,000 in arrears and will probably never make that up, let alone start to make regular payments.

Betty feels the local school is too dangerous for her children, so she has placed

them, at great cost, in a private school. The school has been patient with her and is helping her as much as it can, but she continues to fall further behind. She now owes \$2,900 on credit cards and \$1,000 to the school.

She isn't paying anything on two of the credit card balances, and she pays \$35 a month on the other two. At her current rate of repayment, she will never be free of any of those debts.

As you might imagine, Betty is not too worried about the national debt, or even about what happens to tax rates. She's concerned about how to put food on the table and make next month's payments.



Phil and Jenny are among the thousands of couples who started their own small business in recent years. Unfortunately,

however, their efforts ended in business and personal bankruptcy (largely because of legal problems with a former partner). Although the bankruptcy freed them lawfully from the business's huge debts, they were left owing \$13,000 to their lawyer and \$12,000 to Jenny's parents for help received while they were still trying to keep the company afloat. The IRS also claims they owe back payroll taxes from their failed business. On top of that, Phil owes \$15,000 in student loans for classes he took toward earning a master's degree in business administration.

Determined to make a fresh start, Phil and Jenny moved halfway across the country. They now have no access to credit and must pay cash for everything. Both hold down full-time jobs, but Phil still hopes to finish his master's degree. And even as they continue to repay their

debts, they both dream of starting another business with growth potential so Jenny can stay home with their young children.



Consider your own debt situation right now. Maybe you're like Tom and Sue and you've found yourself in an ocean of debt with no solution in sight. Or maybe you can relate to Betty's situation—barely treading water and just hoping things get better.

What can you do to get your finances under control and prepare yourself for an uncertain future? The answer, which may surprise you, is that you can do quite a lot. In fact, only you can take the most important steps possible.

In this short book, we'll offer practical help on how to get out of debt and stay out of debt. (For a wider-ranging treatment of debt issues, read *Taming the*

Money Monster or see the Resources section at the back of this book for recommended materials.)

First, we'll help you start by getting a complete, realistic picture of your current financial situation. (We'll explain how to do that in detail in Part 1.) You have to know where you are before you can plan how to get where you want to be. Then we'll provide steps for reducing and even eliminating all of your debt.

We'll help you develop a healthy financial perspective, which involves exercising discipline, learning contentment, understanding true security, and realizing you can't buy personal significance.

And, finally, we'll leave you with tips on how—from this point forward—you can make good and positive financial decisions for you and your family.

Don't despair. Help is on the way!



Part
One

How to Get Out of Debt

In the introduction, we looked at three real-life situations. Tom and Sue, who married young and continued to overspend their income by about \$500 per year, have decided they now want to get out of debt. We also looked briefly at a single mother who cannot seem to meet all her priorities without incurring more debt, and at a couple whose small business failed and saddled them with heavy debts.

In this section, we want to see specifically how those families can escape an ocean of debt and get safely to shore. In so doing, I'll explain a few basic, simple steps to getting out of debt so you can see how the process works. The steps are pretty much the same for everyone, so our approach will be to use Tom and Sue's situation as an in-depth case study. What

will work for them will also work for Betty, for Phil and Jenny, and for you.

To put it simply: *You get out of debt little by little over time, and the major requirement is discipline.* The most formidable aspect is that it almost always requires a change in lifestyle and a reordering of priorities. That's painful, and the natural human tendency is to resist such change. You may wish there were some easy, painless way to get out of debt, but no such "out" exists. If you want to be free of a debt problem, you've got to make up your mind, with your family's cooperation, that you'll pay the price now to enjoy financial freedom later.

The only alternatives to gradual repayment of debt are to sell assets or increase your income. Selling assets may mean selling a car, a boat, a house, an investment, or something else that's providing a

desired level of lifestyle now. Generating more income may mean putting a spouse to work outside the home (which I don't really recommend as a way to maintain a standard of living, as you'll see later), obtaining a second job for the breadwinner, or asking adolescent children to work part-time. Each of these alternatives requires a change in lifestyle, as something must be given up—namely, time or possessions.

Five Practical Steps to Getting Out of Debt

There are five steps to take in getting out of debt. They're easy to list, hard to do. But there's no other moral way. The five steps are:

1. Determine where you are.
2. Stop going into debt.
3. Develop a repayment plan.

4. Establish accountability.
5. Reward yourself.

Step 1: Determine Where You Are

It's interesting to hear people talk about their debt situations, because most people do not consider either a home mortgage or a car loan as debt. Those two kinds of debt have become such a standard part of our lives that we think of them differently.

The first step to getting out of debt, however, is knowing your total amount of debt. In chart 1, I've completed a listing of Tom and Sue's total debts. You'll recall that they owe more than \$7,000 on five credit cards. They also have a home mortgage, but I didn't include that in this debt schedule, as that will be repaid out of their living expenses over the next 15 to 20 years.

A blank debt schedule (chart 5) is pro-

Chart 1 ■ DEBT SCHEDULE

Lender	Amount Owed	Due Date	Payment Schedule
VISA	\$3,700	Mo.	\$75/Mo.
MASTERCARD	\$1,900	Mo.	\$85/Mo.
SEARS	\$1,000	Mo.	\$55/Mo.
DISCOVER	\$300	Mo.	\$15/Mo.
AMEX BLUE	\$300	Mo.	\$10/Mo.

vided at the end of Part 1 so you can list all your debts. In addition to your credit card balances, include your installment loan balances, student loan balances, mortgage balances, and any other term-note balances you owe. Then you'll have a realistic and honest appraisal of your total debt. In listing the amounts owed, do not include such regular monthly

expenses as utilities, private school tuition, food, and clothing, as those are normal monthly bills and not debts.

Now that you've listed all amounts owed and you're certain of your commitments regarding debt repayments, we'll look at the next step to overcoming debt.

Step 2: Stop Going into Debt

This step is extraordinarily difficult to take, I know. It requires that you decide there will be no additional borrowing for any purpose. Before you even consider taking on more debt, you should go through the process described for evaluating the borrowing decision. (For more on this subject, see the rules for making decisions on page 80.)

If you're an overspender and in debt, however, then even the latter sections will not justify avoiding this step. You

absolutely must decide to use debt no longer. If that requires destroying your credit cards, my recommendation is simple:

1. Lay your credit cards on a sheet of aluminum foil.
2. Put them in the oven at 450 degrees.
3. In just a few minutes, you'll have a brightly colored mass of plastic.
4. After it cools, hang it in a conspicuous place to remind you of your decision to stop going into debt.

If you're worried about stinking up your kitchen, you can perform "plastic surgery" on your credit cards—using scissors to cut up each card into at least eight pieces. And if you're concerned about how you'll get along without credit cards, let me assure you that within just a few months, the credit card companies will

send you new cards, unsolicited. They want you to use their cards.

Your commitment to stop using debt in any form needs to be made to another person or couple who will hold you accountable. (See Step 4 for more about this.) Hard as it is, Tom and Sue need to make this commitment.

Step 3: Develop a Repayment Plan

In addition to knowing your current debt level, you need to learn what your cash flow and your living expenses are per year. You'll notice that charts 2 and 3 on the following pages have been completed for Tom and Sue. Again, you'll find blank charts 6 and 7 at the end of Part 1 for you to complete. Note that Tom and Sue are once more planning to overspend their income by \$500 unless they make changes in either their income or one of their

Chart 2 ■ LIVING EXPENSE SUMMARY

	Amount Paid Monthly	Other Than Monthly	Total Annual Amount
Housing:			
Mortgage/Rent	875		
Insurance			
Property Taxes			
Electricity	120		
Heating	40		
Water	25		
Sanitation	20		
Telephone	75		
Cleaning			
Repairs/Maintenance			
Supplies			
Other			
Total Housing	1,155		13,860
Food Total	400		4,800
Clothing Total		1,000	1,000
Transportation:			
Insurance		500	
Gas and Oil	150		
Repairs/Maintenance			
Parking			
Other			

Chart 2 ■ LIVING EXPENSE SUMMARY (cont.)			
	Amount Paid Monthly	Other Than Monthly	Total Annual Amount
Total Transportation	150	500	2,300
Entertainment/Recreation:			
Eating Out	25		
Baby-sitters			
Magazines/Newspapers		50	
Vacation		500	
Clubs/Activities			
Other			
Total Enter./Rec.	25	550	850
Medical Expenses:			
Insurance			
Doctors	50		
Dentist	25		
Drugs	25		
Other			
Total Medical	100		1,200
Insurance:			
Life		200	
Disability			
Other			
Total Insurance		200	200
Children:			

Chart 2 ■ LIVING EXPENSE SUMMARY (cont.)

	Amount Paid Monthly	Other Than Monthly	Total Annual Amount
School Lunches			
Allowances	40		
Tuition			
Lessons	60		
Other			
Total Children	100		1,200
Gifts:			
Christmas		300	
Birthdays		200	
Anniversary		100	
Other			
Total Gifts		600	600
Miscellaneous:			
Toiletries	25		
Husband: misc.	50		
Wife: misc.	50		
Cleaning/Laundry			
Animal Care	25		
Beauty/Barber	15		
Other	100		
Total Miscellaneous	265		3,180
TOTAL EXPENSES	2,195	2,850	29,190

Chart 3 ■ CASH FLOW SUMMARY	
Gross Income:	\$ 35,000
Less:	
Giving	(1,200)
Taxes (from pay stubs)	(2,230)
Debt Payments (from chart 1)	(2,880)
Living Expenses (from chart 2)	(29,190)
Cash Flow Margin:	\$< 500 >

spending areas (for example, giving, taxes, living expenses, or debt repayments).

If you've never before tallied your living expenses in such a manner, go to an office supply store and buy a simple ledger book. (You can also do this in a spreadsheet program on your computer, if you prefer.) It should have at least 31 vertical columns (one for each day of the month) on each two-page spread. List the expense categories down the left-hand side of the spread, and for one month, record each day's expenses in each category in the column for that day.

Notes

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