



DEBT ELIMINATION

EXTENSION 
UtahStateUniversity

Change
\$ Makes
Sense™

Where are you now? Where do you want to be? Fill in these blanks:

When it comes to debt management, this is where I am right now: _____

When it comes to debt management, this is where I want to be: _____

This is what I plan to do to get where I want to be: _____

HOW DEBT IMPACTS YOUR . . .

Health

A 2008 Associated Press-AOL Health poll found that those with high debt had:

Medical Issue	High Debt	Low Debt
Ulcers/Digestive problems	27%	8%
Migraines/Headaches	44%	15%
Severe Anxiety	29%	4%
Severe Depression	23%	4%
Heart Attacks	6%	3%
Muscle Tension/ Back Pain	51%	31%

AP-AOL/ABT SRBI – March 24 – April 3, 2008, Health Poll. Retrieved from http://surveys.ap.org/data/SRBI/AP-AOL%20Health%20Poll%20Topline%20040808_FINAL_debt%20stress.pdf.

Job

Thirty-three percent of workers feel that money worries hamper their job effectiveness. High debt workers are more likely to get sick, miss time from work, and impact employer health care costs.

Garman, E. T., Kim, J., O'Neill, B. J., Prochaska, K., Prawitz, A. D., Lawrence, F. C., Brook, M. J. (2005). Financial Distress Among American Workers. Retrieved on September 2013 from <http://www.personalfinancefoundation.org/features/>

Family and Relationships

Debt behavior can be learned and passed on. Our children can pick up our spending behaviors. Higher debt correlates with increases in hostility, depression, marital conflict, and distress. Couples with high debt fight more about everything, not just money. Couples with poor money management skills report lower marital satisfaction.

Dew, J. P. (April 2010). Beyond the Bottom Line: Relational Reasons to Practice Thrift. Presented at the Center for Financial Security. Madison, Wisconsin.

Time and Money

If you buy a computer with a credit card for \$1,000 at 16% and only pay the minimum (\$30), it would take 3 years and 9 months to repay. You would repay \$1,331.34. If you earn \$10 an hour, it would take an extra 33 hours at work to pay for the computer. If money goes to interest, it can't be used for savings, investing, or buying other things.

Opportunity

High debt can lower credit scores. This means you will pay more for insurance and interest rates. It also means you may be denied employment, housing, utilities, and future credit.



REAL DEBT REPORT

Creating a Real Debt Report

What is a real debt report?

A real debt report is a way for us to see the total cost of debt. Many people focus on the monthly payment for a particular debt or the principal balance (the amount of money they owe). Both of these are important, but they don't help us understand the cost of the debt over time. The interest you pay on debt can often be more than the original amount borrowed. A real debt report helps you see the total cost of borrowing plus the interest you pay over the lifetime of the loan.

How can it help me?

Seeing the real cost of a particular debt can be an eye opening experience. Understanding how much of your income is lost to interest payments can help motivate you to pay off existing debts and avoid taking on unnecessary debt in the future. After looking at the total interest paid, you can ask yourself what you would like to have spent that money on instead.

Why do I need a list of my debts? I already have my debts with other expenses in my budget/spending plan.

Debts are different from many of the expenses in our budget or spending plan. You do not pay interest on most other expenses, such as food or utilities. A list of debts is also important because these are expenses that can go away as you pay them in full. Seeing a list of temporary expenses can motivate you to pay them off and free up cash for things that are important.

How do I make a real debt report?

The first step is to make a list of debts. This might include credit cards, mortgages, auto loans, payday loans, collections, student loans, personal loans from family, and bills that you are behind on. If you have many debts or are unsure if you have listed them all, looking at your credit history can be a good way to double check to see if you missed anything. Write down each debt on a Debt/Creditor's List.

The second step is to gather information for each item on the list. At the bare minimum, list how much you still owe (or the principal balance), what the interest rate is on the loan, and what your minimum monthly payment is. Most of this information can be found on your monthly bill. If not, contact your creditor and ask for a statement with the information. It can be helpful to record the due date for your payments, though that is not required. It can also be helpful to note if you are behind on a bill. Record the information for each debt on the Debt/Creditor's List.

The third step is to calculate what you really owe. Doing this by hand can be complicated, but fortunately there are some great free tools available. Powerpay.org is a free debt calculator created by USU Extension. Here you can enter the information from your Debt/Creditor's List and it will calculate your real total debt for you. It is also a great tool to help you pay down those debts, track your progress, and show you how much money you can save! Once you have the information on your real debt, you can decide what to do about it.



POWERPAY

PowerPay is a program provided by USU Extension that can help you prioritize and eliminate your debts. The PowerPay method is simple. When you pay off a debt, you use the extra money to make additional payments on your next debt. As each debt is paid, all the extra money is used to accelerate paying off the next debt until you are debt free.

Using PowerPay is straightforward. Visit www.powerpay.org to get started. You need to create a username and password which will allow PowerPay to save your information.

After you login, you will see a place to begin entering information on your debts. Give each debt a name and list the balance, interest rate, and payment. After you have entered everything, click "save creditor information" and PowerPay will generate a line for your next creditor.

Welcome to PowerPay 5.0!

You must login before using PowerPay.

PowerPay will give you the tools to develop a personalized, self-directed debt elimination plan. Discover how quickly you can become debt free, and how much you can save in interest costs by following your debt reduction plan. Utah State University Extension is pleased to provide this debt management tool without any cost to consumers worldwide. Below are a few exciting features of PowerPay 5.0. Login to the right and start gaining control of your financial future today!

- PowerPay:** How soon can I be out of debt? Eliminate debt faster by making power payments.
- Spending Plan:** How much am I spending? Compare what you spend to that recommended by financial experts.
- PowerSave:** How much am I saving? Project savings using the different PowerSave options.
- Calculators:** How can I look at my finances quickly? Calculate house and transportation costs, emergency savings and more.
- Education Center:** How can I learn more? View PowerPoint presentations, articles and fact sheets about various financial topics.

PowerPay 5.0 created through the cooperative efforts of Utah State University Extension and WebAIM.org. Please [CONTACT US](mailto:CONTACT_US). We welcome your feedback or questions.

Secured by 2014-01-18

Creditor Information

Order	Creditor Name	Balance	Payment	% Rate	Payoff Time
X 1	mortgage	125000.00	527.00	3.00%	30 years 1 month Feb 2044
New					

Save Creditor Information

RESULTS (No Power Payments)

Total Paid: \$189722.88
Total Interest: \$64722.88
Payoff Time: 30 years 1 month Feb 2044

What do I do next?

After entering creditor information, calculate a new schedule using Power Payments in the [payment calendar](#).

PowerPay 5.0 created through the cooperative efforts of Utah State University Extension and WebAIM.org. Please [CONTACT US](mailto:CONTACT_US). We welcome your feedback or questions.

Secured by 2014-01-18

Side Guide

What is a Power Payment?

As soon as one debt is paid off, applying the monthly payment from that debt to the next debt is called a Power Payment.

Step-by-Step Instructions

1. Enter your debt information
2. Enter any extra payments
3. Always save creditor or payment changes Before going to payment calendar
4. Select the PowerPay Calendar to view savings and schedule using Power Payments

Q&A

- Where do I start?
- How do I enter/edit information?
- What are the advanced options in the Payment and % Rate boxes?
- What is an extra payment?
- How do I enter extra payments?
- What is the payment calendar?

Miner, D., House, A. & Harris, J. (2008), PowerPay: Helping Debtors Become Savers (Version 5.0) [Software]. Available at <http://powerpay.org>.

You will continue the process until you have entered all of your creditors. Once they are all entered, you are ready to take the next step.

The next step is to click on the “payment calendar” link, underlined on the bottom right. This will show two things, a results section that compares the PowerPay method to paying off your debts with minimum payments only. It specifically shows the benefits of using PowerPay at the bottom of the summary. In the example below using the PowerPay method will save this family 17 years, 7 months, and \$83,225 in interest.

PowerPay will also give you a calendar that shows when each debt will be repaid. You can prioritize your debts by interest rate or amount owed.

The screenshot shows the PowerPay website interface. At the top, it says "POWERPAY HELPING DEBTORS BECOME SAVERS". Below that, there are navigation tabs: "PowerPay", "Spending Plan", "PowerSave", "Calculators", "Education Ctr.", "About PowerPay", "My Profile", "Español", and "Exit". A "Payment calendar" link is underlined. The main content area is titled "Creditor Information" and contains a table with columns: Order, Creditor Name, Balance, Payment, % Rate, and Payoff Time. The table lists 9 creditors with their respective details. Below the table, there are two summary boxes: "RESULTS (No Power Payments)" and "What do I do next?".

Order	Creditor Name	Balance	Payment	% Rate	Payoff Time
1	Visa	6000.00	180.00	16.00%	3 years 9 months Oct 2017
2	Auto Loan	11000.00	340.00	5.50%	3 years 0 months Jan 2017
3	Mortgage	167000.00	890.00	4.75%	28 years 8 months Sep 2042
4	Department Stor	4300.00	129.00	29.00%	3 years 9 months Oct 2019
5	Home Improvem	3500.00	105.00	18.00%	5 years 9 months Dec 2017
6	Discover Card	13000.00	390.00	29.00%	5 years 9 months Oct 2019
7	Student Loan	26000.00	260.00	3.00%	9 years 8 months Sep 2023
8	Family Loan	3500.00	50.00	0.00%	5 years 10 months Nov 2019
9	Title Loan on Ca	900.00	50.00	20.00%	1 year 10 months Nov 2015

RESULTS (No Power Payments)
 Total Paid: \$400807.59
 Total Interest: \$165607.59
 Payoff Time: 28 years 8 months Sep 2042

What do I do next?
 After entering creditor information, calculate a new schedule using Power Payments in the payment calendar.

RESULTS

[Close Window](#) | [Refresh Results](#)

Choose another repayment method: Highest Interest First

Creditor	With Power Payments			Without Power Payments		
	# of payments	Total paid	Int Paid	# of payments	Total paid	Int Paid
Visa	45	\$7988.21	\$1988.21	45	\$7988.21	\$1988.21
Auto Loan	36	\$11933.71	\$933.71	36	\$11933.71	\$933.71
Mortgage	133	\$226182.55	\$59182.55	344	\$305868.11	\$138868.11
Department Store	40	\$7497.13	\$3197.13	69	\$8846.93	\$4546.93
Home Improvement	47	\$4888.46	\$1388.46	47	\$4888.46	\$1388.46
Discover Card	49	\$24556.18	\$11556.18	69	\$26746.76	\$13746.76
Student Loan	116	\$29956.39	\$3956.39	116	\$29956.39	\$3956.39
Family Loan	70	\$3500.00	\$0.00	70	\$3500.00	\$0.00
Title Loan on Car	22	\$1079.02	\$179.02	22	\$1079.02	\$179.02
	Payoff Time: 11 years 1 month Feb 2025 Total paid: \$317581.65 Total Interest: \$82381.65			Payoff Time: 28 years 8 months Sep 2042 Total paid: \$400807.59 Total Interest: \$165607.59		

PowerPay Benefits

Time Reduction: 17 years 7 months
 Amount Saved: \$83225.94
 Qualify for Loan: NA

Miner, D., House, A. & Harris, J. (2008), PowerPay: Helping Debtors Become Savers (Version 5.0) [Software]. Available at <http://powerpay.org>.

TOOLS FOR DECREASING DEBT

Tool #1: PowerPaying your debt.

The first tool is called PowerPaying your debt. This method is also referred to as snowballing your debt. An example of PowerPaying your debts is found on the previous page. The concept behind the technique is simple. When you pay off one of your debts, that frees up money in your budget. It can be tempting to spend that money somewhere else. PowerPaying your debt means to take this extra money and use it to make additional payments on one of your other debts. When that debt is gone, take that money and apply it to another debt, until all of your debts are paid.

The PowerPay principle is the single most powerful principle in debt elimination for most families. It is easy to implement because you don't have to allocate any extra money. PowerPaying your debts can often cut the time it takes to repay your loans in half and save thousands of dollars.

Tool #2: Find ways to pay more than the minimum each month.

Find ways to pay more than the minimum each month. The slowest and most expensive way to repay any debt is to only make the minimum monthly payments. If we can find ways to pay extra on our debts each month, we can considerably reduce the time it takes to pay the debt and save the money we would have paid on interest.

Where can we find the extra money to pay more than the minimum each month? Here are a few ideas of different ways to free up extra money for payments.

Shop around to reduce large expenses. Shop around to find better rates on our insurance, or use coupons and sales to reduce food and household expenses. Look at your budget and identify the categories where you spend the most money. Reducing expenses can be a great place to start.

Sacrifice a luxury. Temporarily sacrifice or reduce a luxury for your family and instead use that money to repay debt. You might cut back on a cable bill, membership, or subscription.

The change machine. Save change from cash purchases during the month. At the end of the month put the change toward debt. (If you use a debit card with a check register, you can round up entries in you check register. So if you spent \$13.25 at the grocery store, round it up to \$14 and deduct that. This means at the end of the month you will have extra money in the account that can be used to make a debt payment.)

Commit a percentage of future pay raises to debt payments. While this won't immediately accelerate your debt repayment, it can be an excellent way to make the most of future income on a regular basis.

Increase income. Increasing your income through a second job, overtime, or by utilizing some form of assistance (such as help with child care, housing, or food) can help generate income to pay off your debts more quickly. Remember, this does not have to be permanent. A temporary boost in income, even for just a year or two, can make a huge difference in paying off your debts.

Tool #3: Find bonus income.

The third way to pay off your debts more quickly is to identify bonus income. Bonus income is money that you don't get each month. Examples include tax returns, quarterly or annual bonuses, "third paycheck," overtime pay, or selling an asset.

Selling assets might mean having a garage sale or selling large unused assets such as boats, ATV's, jet skis, and other vehicles. It could also include selling a high value asset, such as a car, and replacing it with a cheaper alternative, using the difference to pay down other debts. Selling things you don't need/use can do more than help you get out of debt sooner, it can also reduce clutter, save on insurance and registration costs, and help simplify life.

One key principle is the timing of the extra payments. The sooner you make them, the more money you save on interest. Selling an unused assets now may allow you to make extra payments on the principal sooner.

Let's look at how John and Jane can apply the principle.

With PowerPay, John and Jane were going to save \$83,225 in interest.

If they make an immediate payment of \$1,500 (by selling assets to raise cash or using money from a tax return) they will increase their interest savings to over \$88,000, allowing them to save an extra \$4,775!

If they instead wait one year to make the same \$1,500 extra payment, they will only save \$86,510. This means they only saved an extra \$3,285. ***Waiting that one year to make the lump sum payment cost them \$1,490 in savings, almost as much as their initial payment of \$1,500!***

Tool #4: Restructure Debt.

The last tool we will look at is restructuring debt. When we restructure debt, we change the terms of the debt. Let's look at some different ways a debt might be restructured.

Consolidate Debt: We may be able to consolidate some of our loans to obtain a lower overall interest rate and lower payment. This will usually require a good credit score. There are some pros and cons to consider when consolidating a debt.

Pros

1. If our consolidated interest rate is good, we will pay less on interest over time.
2. Having one payment may be more convenient than 4 or 5 different payments.
3. Lower overall payments may allow us to pay extra. If we were paying \$900 a month on various debts and our new payment is \$720 (due to a lower interest rate), we can now pay an extra \$180 a month toward debt.

Cons

1. There are usually upfront costs for originating a new loan; it is important to read the fine print and understand what those costs might be.
2. Paying off installment accounts (and then opening the new consolidated one) may impact the average time your accounts have been open and thus negatively impact your credit score. (Though lowering debt levels on revolving accounts like credit cards will help your score.)
3. You have less flexibility once your loans have been consolidated. If you have a reduction in income, you are dealing with one large payment; whereas, if you have several smaller accounts, you can choose which to pay, or call and negotiate other terms.

TIP: Be careful when partnering with a company to consolidate your debt! If the new lender is designated as a finance company by the credit bureaus, it will negatively impact your FICO score.

Find better loan terms – Rather than consolidate your loans, you may be able to change the terms of the loan. There are a few different ways to do this.

- a. You may be able to find a credit card with better terms and do a balance transfer. Not all cards will allow you to transfer balances, so read the fine print carefully. Balance transfers are often charged additional fees.
- b. You may be able to call your current lender and negotiate new terms on your existing credit. It is worth your time to contact a credit card company and ask for a reduction in interest, especially if you have been with the company for a long time.
- c. In some instances, you may consider asking a debt collector to settle a collection. This means they accept less than you owe to consider the debt paid. Settling debts may be a quick way to resolve collections but is likely to negatively impact your credit. If your credit is already suffering (hence the collections) then settling for less than you owe may still be a good option. You will need to have a lump sum to settle a debt.

Refinance a specific loan – Refinancing a loan to obtain a better interest rate can help lower monthly payments and save money on interest. Remember that just like consolidating a loan, refinancing has upfront costs.

With any debt restructuring make sure you are aware of any refinance or roll-over costs and understand how changes may impact your credit.

Just as was mentioned with consolidating your debt, avoid using finance companies to refinance or restructure debt! If your new lender is considered a finance company, it will negatively impact your credit. You can ask a lender how they are classified by the credit bureaus before signing on a new loan (examples of classifications might include bank, credit union, merchant, and finance company).

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TIPS FOR DECREASING DEBT

Power Pay

After paying off a debt, use the monthly payment you had been paying to pay off the next debt faster. Try it online at www.powerpay.org or on your phone using the iOS app found in the app store.



PowerPay Debt Elimination
iPhone/iPad app



Memcott, M., Miner, F.D., Chamberlin, B. (2014). PowerPay Debt Elimination. Learning Games Lab, NM State University and Utah State University (Version 1.2) [Mobile application software]. Retrieved from <http://itunes.apple.com>

Leave credit cards at home

If you don't have them, you cannot use them.

Negotiate credit card terms

Lower limit, lower interest rate, and lower fees.

Avoid applying for new credit

If you have unneeded credit, you'll only be tempted to use it.

Apply for scholarships instead of student loans

Find out other options before going into more debt.

Work through school

Many college towns have jobs available to work with students' schedules.

Save for expenses instead of charging them

This will help make the item you saved for more enjoyable since it will not have a monthly payment attached.

Have a revolving savings to avoid going into debt for irregular expenses

Irregular expenses could include car insurance, birthdays, holidays, etc.

Shop around when making big purchases

If you need to get credit, make sure you're getting the best deal you can.

Avoid impulse buying, wait 48 hours to decide

Waiting will help separate needs from wants and help avoid "buyer's remorse".

Spend less than you earn

Make a spending plan to help you live within your means.

Sell unused assets to pay off credit balances

If you have something that's just been sitting around collecting dust, sell it.

Use bonuses and tax returns to pay down debts

Every time extra is paid to a debt, it can help with paying that debt off faster, and it saves you on interest.

GOAL SHEET

Goals

When setting goals, remember the acronym SMARTER. Smarter goals are:

Specific - Be clear about what you want.

Measurable - Make sure it is easy to see when you have accomplished the goal.

Attainable - Start with attainable goals that will help you move forward.

Relevant - Does the goal help you with your values and desires?

Time-bound - When will the goal be completed?

Evaluated - Check each month to see how close you are.

Revised - If you find that you are behind on your goal, make changes to address the problem.

Think about small, realistic goals related to what you have learned. Set smaller goals to help you obtain larger or long term goals.

Goal Statement: _____

Possible Obstacles	Solutions to Obstacles

	Action Item	Target Date	Completion Date
1.			
2			
3			
4			
5.			

Doran, G. T. (1981). There's a S.M.A.R.T. way to write management's goals and objectives. Management Review, Volume 70, Issue 11 (AMA FORUM), pp. 35-36.