



# Debt Management

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PARTICIPANT'S GUIDE

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## The Definition of Debt

Debt is money owed for products or services purchased on credit. It includes:

**Principal:** the amount loaned

**Interest:** the amount charged by the lender for providing the loan

**Fixed rates** stay the same while **variable rates** change according to your agreement and economic conditions.

## Calculating Interest

Simple Interest Equation:  $I = P \times r \times t$

I = Interest

P = Principal (or amount borrowed)

r = Interest Rate

t = time period

Calculate Jin Yong's interest for one year

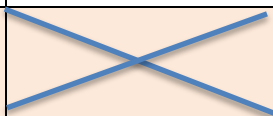
$$I = \quad P \quad \times \quad r \quad \times \quad t$$

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## My Financial Health Worksheet

My gross monthly income (income before taxes): \$ \_\_\_\_\_

### Debt Breakdown

	Minimum Monthly Payment	Total Balance	Interest Rates/ Annual Percentage Rate (APR)
Mortgage Debt			
Student Loan Debt			
Car Loans			
Credit Card Debt (list these)			
<b>TOTALS:</b>			

What were the last three purchases on your credit card?

1. \_\_\_\_\_
2. \_\_\_\_\_
3. \_\_\_\_\_

## My Debt-to-Income Ratio

Debt-to-Income (DTI) Ratio = monthly debt divided by gross monthly income (income before taxes).

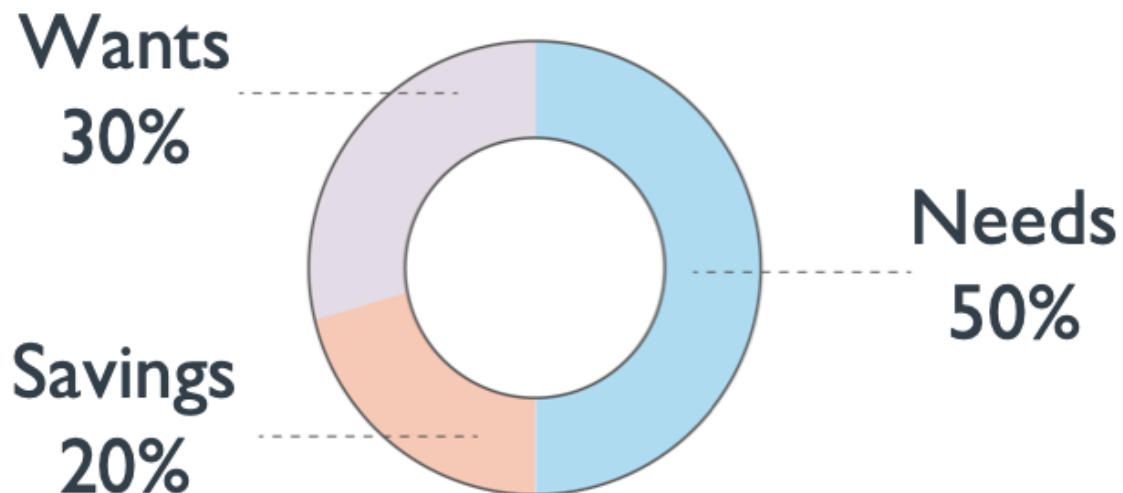
My Debt-to-Income Ratio:  $\frac{\text{monthly debt}}{\text{monthly gross income}} = \frac{\text{DTI}}{\text{DTI}}$  or \_\_\_\_\_%

FINANCIAL ATHLETE:	less than 30%
FIT:	31-36%
BORDERLINE:	37-40%
UNHEALTHY:	more than 40%

My financial health is:

\_\_\_\_\_

## The 50/30/20 Budgeting Rule



## My Budget Worksheet <sup>1</sup>

### 50% NEEDS

*The first step in creating a budget is to assess how much money you need to cover necessary living expenses. These figures should include only necessities. For instance, do not include dining out as a “Other necessary food expense” unless it is required for your job.*

EXPENSE	MONTHLY COST
<b>HOUSING</b>	
Housing (rent or mortgage)	
Insurance (home or rental)	
Utilities (gas, water, electricity, etc.)	
Internet, cable, phones	
Other (property taxes, HOA fees, etc.)	
<b>FOOD</b>	
Groceries	
Other necessary food expenses	
<b>TRANSPORTATION</b>	
Car payment	
Car insurance	
Gas or public transportation	
Parking, tolls, other expenses	
<b>HEALTH</b>	
Health insurance	
Regular medicine	
Other health expenses	
<b>PERSONAL AND FAMILY</b>	
Child care or child support	
Clothing, shoes	
Laundry	

<sup>1</sup> Adapted from the [Federal Trade Commission](#), “Make a Budget” worksheet

Other personal or family expenses	
<b>OTHER FINANCIAL EXPENSES</b>	
Prepaid cards or phone cards	
School costs	
Minimum debt payment (list these)	
<b>GRAND TOTAL:</b>	

### 30% WANTS

Next, let's look at how much you typically spend each month on "wants" or unnecessary expenses.

<b>EXPENSE</b>	<b>MONTHLY COST</b>
Dining out	
Hobbies	
Entertainment	
Other shopping	
Travel	
Other	
<b>GRAND TOTAL:</b>	

### CALCULATING PERCENTAGE SPENT

What percentage of your income is paying for your "NEEDS"?

$$\begin{array}{ccccccc}
 \$ & \underline{\hspace{2cm}} & \div & \$ & \underline{\hspace{2cm}} & = & \underline{\hspace{1cm}} \times 100 \underline{\hspace{1cm}} \% \\
 & \text{"Needs" Total} & & & \text{Income after taxes} & & 
 \end{array}$$

## 20% SAVINGS AND DEBT RECOVERY

Even when you're working to manage your debts, it's still important to save for emergencies and the future. This is why experts say 20% of your budget should be applied to savings and minimum debt payments. Let's see how much you currently have—remember, the goal is to apply 20% of your gross monthly income to this section.

\$ _____	-	\$ _____	+	\$ _____	=	\$ _____
Income after taxes		Total "Needs"		Total "Wants"		Remaining funds

**Experts say that you should apply the last 20% of your monthly income to the following accounts, in this order<sup>2</sup>:**

1. Build an emergency fund of 3-6 months' worth of living expenses (NEEDS). If you can't build this amount, aim for at least \$500 to cover emergencies.
2. If your employer offers an employer match on your 401(k), contribute the maximum match.
3. Pay off debts that have a high Annual Percentage Rate (APR).
4. Try to contribute 15% of your gross income to a retirement fund.

\* Finally, try to free up additional funds from your "Wants" section to contribute more than the minimum payments to pay off other, lower-interest debts.

<sup>2</sup> Nerd Wallet: <https://www.nerdwallet.com/blog/finance/how-to-build-a-budget/>



## Debt Management

*If you're spending about 50% of your monthly income on necessary expenses and less than 30% of your income on wants, congratulations—you're in pretty good shape!*

*If either of these figures is higher, it's important to try to find places where you can cut costs. Can you get a more conservative cell phone or cable plan? Rather than dining out, can you take lunch from home? Take a moment and brainstorm areas where you may be able to trim some expenses. When you get home, you can think about this further.*

### STEP 1: CUTTING EXPENSES

Expense	What can be cut?	How much will it free up?

### STEP 2: CREATE INCOME

What are some things you can do to create more income?

- Ex: Get an additional job
- \_\_\_\_\_
- \_\_\_\_\_
- \_\_\_\_\_
- \_\_\_\_\_
- \_\_\_\_\_
- \_\_\_\_\_

### STEP 3: ADVANCED STRATEGIES

<b>Possible Do's</b>	<b>Possible Don'ts</b>
<ul style="list-style-type: none"> <li>○ Negotiate with creditors</li> <li>○ Get credit counseling</li> <li>○ Consolidate your debts</li> <li>○ Hire a debt settlement attorney</li> </ul>	<ul style="list-style-type: none"> <li>○ Don't close out credit card accounts</li> <li>○ Don't borrow from your retirement plan</li> <li>○ Don't hire a debt settlement company</li> <li>○ Don't hide from creditors</li> </ul>

## Emily's Financial Burden

Emily is a project manager at a computer company. She makes a decent living, but she can't seem get ahead financially. In fact, her finances just seem to be getting worse even though she has a steady income.

She heard that you attended this workshop, and she's wondering if you can give her some advice. She asks you to look at her budget and then give her some recommendations on how she can manage her debt.

Emily's monthly after-tax income: \$5,500

NEEDS EXPENSES	MONTHLY COST
<b>HOUSING</b>	
Housing (rent or mortgage): <i>Emily lives alone in a 2-bedroom condo that she rents</i>	\$1,500
Utilities (gas, water, electricity, etc.)	\$250
Cell phone	\$100
Cable and high-speed internet	\$200
Other (property taxes, HOA fees, etc.)	0
<b>FOOD</b>	
Groceries	\$500
<b>TRANSPORTATION</b>	
Car payment: <i>new SUV recently purchased</i>	\$400
Car insurance	\$115
Gas or public transportation	\$100
<b>HEALTH</b>	
Health insurance: <i>this is for a company sponsored plan</i>	\$100
Regular medicine	\$25
<b>PERSONAL AND FAMILY</b>	
Clothing, shoes: <i>average amount spent per month</i>	\$250
Dry cleaning	\$75
Haircut/color	\$200
Make-up, hygiene and beauty supplies	\$75
<b>OTHER FINANCIAL EXPENSES</b>	

School loans: 2 federal loans and 1 private loan	\$500
Credit card minimum payment/ balance Amex APR: 17% MC APR: 16% VISA: APR: 12%	\$100/ \$10,000 \$50/ \$3,000 \$25/ \$950
<b>GRAND TOTAL:</b>	<b>\$4,565</b>

WANTS EXPENSES	MONTHLY COST
Dining out: Emily has been making charges to her credit card to support what she can't cover with cash	\$300
Entertainment and hobbies: Emily has been making charges to her credit card to support what she can't cover with cash	\$300
Other shopping	\$100
Travel: Emily usually takes a weekend trip every 3 months	\$250
<b>GRAND TOTAL:</b>	<b>\$950</b>

**Your recommendations:**

Budgeting

Other Debt Management Strategies

## Glossary

**Appreciation:** when the monetary value of a good increases over time

**APR (Annual percentage rate):** the interest rate on a credit card plus any additional fees.

**Assets:** owned goods of significant value, like cars and homes

**Avalanche Method:** focuses on paying off the debts that have the highest interest rates first

**Credit score:** the score calculated by FICO® or VantageScore to represent your financial standing and your ability to pay back debt. This number is based on the information in your credit report.

**Debt-to-Income ratio (DTI):** the ratio of debt payments to gross monthly income

**Debt:** the amount of money owed by a person or household for items purchased on credit

**Discharge:** when certain debts are released from the responsibility of the debtor in bankruptcy

**Fixed interest:** interest rates do not change, or they change within a preset range

**Good debt:** debt that could provide a financial advantage later—like student loans and mortgages

**Gross income:** income before taxes and other benefits are taken out

**Interest:** the cost, or amount charged, to borrow money

**Liquidation:** the process of turning assets into cash

**Net income:** income after taxes and benefits

**Principal:** the amount borrowed, not including interest and fees

**Snowball Method:** focuses on paying off the debt with the lowest balances first

**Statute of Limitations:** the length of time a lender or collections agency has to sue over an unpaid debt

**Variable interest:** interest rates change according to the credit agreement and economic factors

## Resources

### Free Budgeting Calculators, Worksheets, and Apps

Federal Trade Commission: [www.consumer.gov/sites/www.consumer.gov/files/pdf-1020-make-budget-worksheet\\_form.pdf](http://www.consumer.gov/sites/www.consumer.gov/files/pdf-1020-make-budget-worksheet_form.pdf)

National Foundation for Credit Counseling: [www.nfcc.org/tools-and-education/calculators/](http://www.nfcc.org/tools-and-education/calculators/)

### Know your Rights

Consumer Financial Protection Bureau: [www.consumerfinance.gov/](http://www.consumerfinance.gov/)

Federal Trade Commission: [www.consumer.gov/](http://www.consumer.gov/) and [www.ftc.gov](http://www.ftc.gov)

Fair Debt Collection Practices Act (FDCPA): [www.ftc.gov/enforcement/rules/rulemaking-regulatory-reform-proceedings/fair-debt-collection-practices-act-text](http://www.ftc.gov/enforcement/rules/rulemaking-regulatory-reform-proceedings/fair-debt-collection-practices-act-text)

State Consumer Protection Agencies: <https://www.usa.gov/state-consumer>

### Dealing with Debt Collectors

Federal Trade Commission: [www.ftc.gov/news-events/media-resources/consumer-finance/debt-collection](http://www.ftc.gov/news-events/media-resources/consumer-finance/debt-collection)

Letter templates: [www.consumerfinance.gov/consumer-tools/debt-collection/](http://www.consumerfinance.gov/consumer-tools/debt-collection/)

### Credit and Bankruptcy Counseling

Federal Trade Commission: [www.consumer.gov/debt](http://www.consumer.gov/debt)

Financial Counseling Association of America: [fcaa.org/](http://fcaa.org/)

National Foundation for Credit Counseling: <https://www.nfcc.org/>

### Student Loan Consolidation

Federal Student Aid: [www.studentloans.gov](http://www.studentloans.gov)