



CREDIT APPLICATION

CUSTOMER INFORMATION

NAME	:
ADDRESS	:
CITY	:
PHONE NUMBER	:

*Getting and
Staying on Track*

Debt
Makeover:
Dana Durham



Apprisen

What We Will Cover



- Money Personality
- Spending Plan
- Cash Flow Management
- Good Debt vs Bad Debt
- Debt Management Options



Debt Makeover

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Money Personality



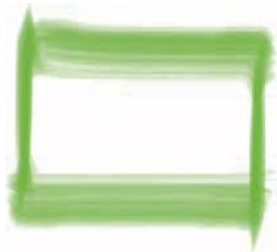


What is Your Money Personality?





Your Money Personality



Rectangle – Structured, Organized



Circle – Lovers, Givers, Suckers



Your Money Personality



Squiggly – Impulsive, Unorganized, Loves to Shop



Triangle - Risk Taker, Looking for a Big Payout



Square - Procrastinator



Your Personal Spending Plan



Spending Plan: A simple strategy for spending and saving money.

Benefits:

- Reduces money-related anxiety and stress
- Helps you set and achieve financial goals.
- Gives you control of your financial situation
- Helps you build assets and improve your quality of life



Elements of a Spending Plan



- Set goals.
- Track expenses.
 - Track Expenses for 30 days
 - Fixed expenses: Car, Housing
 - Variable Expenses: Gasoline, Utilities
 - Periodic Expenses: Insurance, Gifts
- Identify sources and amount of income.
- Determine needs versus wants.
- Make cuts.
- Review and revise regularly.

Developing Your Spending Plan



Categories of your Expenses.

- Fixed Expenses
- Flexible Expenses
- Periodic Expenses



Spending Plan Worksheet



Empower Your Financial Future Monthly Budget Worksheet



HOUSING			PROTECTION		
	NOW	REVISED		NOW	REVISED
Mortgage/Rent	\$ _____	\$ _____	Life Insurance	\$ _____	\$ _____
Second Mortgage	\$ _____	\$ _____	Hospital Insurance	\$ _____	\$ _____
Home Equity	\$ _____	\$ _____	TOTAL	\$ _____	\$ _____
Household Insurance	\$ _____	\$ _____			
Taxes	\$ _____	\$ _____	CLOTHING		
Electric	\$ _____	\$ _____		NOW	REVISED
Heat	\$ _____	\$ _____	Clothing	\$ _____	\$ _____
Water/Sewage	\$ _____	\$ _____	Dry Cleaning	\$ _____	\$ _____
Phone	\$ _____	\$ _____	Laundry	\$ _____	\$ _____
Cell Phone	\$ _____	\$ _____	TOTAL	\$ _____	\$ _____
Cable	\$ _____	\$ _____			
Trash	\$ _____	\$ _____	MISC. EXPENSES		
Security System	\$ _____	\$ _____		NOW	REVISED
TOTAL	\$ _____	\$ _____	Allowances	\$ _____	\$ _____
			Barber/Beauty	\$ _____	\$ _____
			Contributions	\$ _____	\$ _____
			Tobacco	\$ _____	\$ _____
			Gifts	\$ _____	\$ _____
			Entertainment	\$ _____	\$ _____
			Medication	\$ _____	\$ _____
			Pet Supplies	\$ _____	\$ _____
			Tuition	\$ _____	\$ _____
FOOD					
	NOW	REVISED			
Groceries	\$ _____	\$ _____			
Lunches out	\$ _____	\$ _____			
Dinner out	\$ _____	\$ _____			



Money, Money Where Did It Go?



Know where you are spending your money.

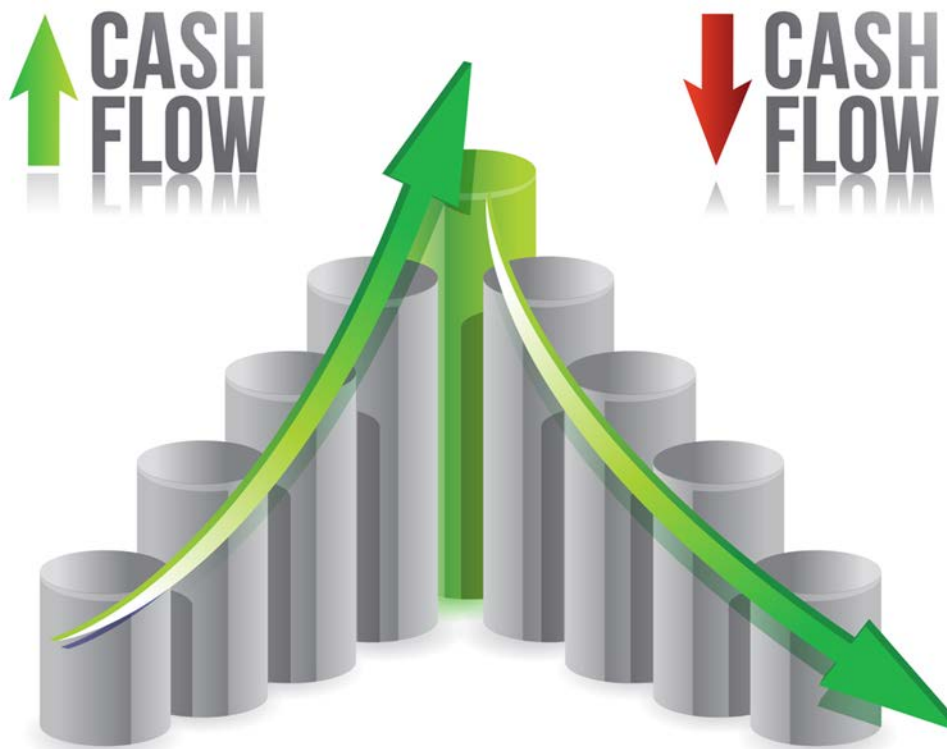
- Track expenses to find spending leaks
- Carry a small notebook with you to write down every purchase. Record every expense!
- Track expenses for 3 months for an accurate view of where you are spending your money

Debt Makeover

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Cash Flow Management



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What Is Personal Cash Flow Management?



- Measures your cash inflows and outflows to reflect your net cash flow for a **specific time period**.
- Your net cash flow is simply the result of subtracting your outflow from your inflow.
- A positive net cash flow means that you earned more than you spent and that you have some money leftover from that period.
- a negative net cash flow shows that you spent more money than you brought in.

PERSONALIZED CASH FLOW

PAY PERIOD

	Week 1	Week 2	Week 3	Week 4
Net Income #1				
Net Income #2				
Misc. Income				
Total Net Income	\$0.00	\$0.00	\$0.00	\$0.00

LIVING EXPENSES

Housing:

Rent/Mortgage				
2nd Mortgage/Home Equity				
Lot Rent/Condo Fee				
Housing Total				\$0.00

Utilities:

Electric				
Gas				
Cable				
Water/Sewer				
Trash				
Telephone				
Cell Phone				
Internet				
Security System				
Lawn Care/Pest Control				
Utilities Total				\$0.00

Allowances:

Groceries/Household Supplies				
Lunch				
Gasoline				
Auto License/Taxes				
Vehicle Maintenance/Repair				
Alimony/Child Support				
Day Care				
School Costs				
Church Tithes/Charity				
Newspaper				
Home Maintenance				
Allowances Total				\$0.00

Miscellaneous:

Savings				
Haircare				
Prescriptions				
Doctor				
Laundry/Dry Cleaning				
Clothing				
Entertainment/Recreation				
College Fund				
Miscellaneous				
Miscellaneous Total				\$0.00

Improving Cash Flow



Strategies

- Smooth Out Cash Flow
 - Reduce Spending
 - Increase Income
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Improving Cash Flow



Smooth Out Cash Flow

- Avoid large periodic payment by making monthly payments (example: car insurance, life insurance, household/car maintenance, taxes)
 - Seek budget billing for utilities; if budget billing not an option split up the payment (example: water bill \$100 may be due every other month- pay \$50 each month)
 - Negotiate due dates to line up with when you get paid
 - Set up savings account to 'set aside' the monthly amount of large, lump sum payments so you will be prepared when they are due
-

Improving Cash Flow



Reduce Spending

- Save money by using a financial institution and paying bills online instead of alternative financial products
 - Pay bills on time to avoid late fees
 - Cancel any features you are not using on your cable and cell phone plans
 - Review insurance to ensure you have the right coverages and deductibles; shop around for cheaper rates
 - Eliminate memberships and services that are not being used
 - Find ways to save on energy- unplug unnecessary items not in use, turn down thermostats and use weather stripping
-

Improving Cash Flow



Increase Income

- Look into adjusting your tax withholdings
- Sign up for any overtime if available
- Get a part-time job
- Sell items no longer need or want
- Temporarily reduce 401K contributions



Debt Makeover

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Good Debt vs Bad Debt



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What is Good Debt?



- Good debt is an investment in your financial future that should leave you better off in the long-term and should not have a negative impact on your overall financial position
- There is a clear and specific reason for taking it out and a realistic plan for paying it back



What is Good Debt



Examples of Good Debt

- Mortgage
- Small Business Ownership
- Investing
- College Education



What is Bad Debt?



- Bad debt are those that drain your wealth, are not affordable and offer no real prospect of being paid off in the future
- Bad debts typically have no realistic repayment plans and are often taken out when people make impulsive decisions to purchase items they do not need or borrow money to pay every day bills.



What is Bad Debt?



Examples of Bad Debt

- Credit Cards
- Pay Day Loans
- Automobile Loans
- Vacations, Jewelry and Expensive Clothes (Consumables)



Debt Makeover

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Debt Management
Options



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Debt Management Options



- Debt Snowball Method
- Debt Avalanche Method
- Balance Transfers
- Debt Consolidation Loans

Mortgage Refinance

Home Equity Loans

Debt Management Programs

Student Loan Plans



Debt Snowball Method



- Focuses on paying off the smallest balance accounts first, then using what was being paid on the small balance account to put extra on the next highest balance account until all your credit cards are paid off
 - This builds motivation to stick with your plan by seeing fast results
 - Helps to manage money better by focusing attention on one debt at a time instead of all of them each month.
-

Debt Snowball



Priority	Balance	APR	Minimum Payment	Paid off in
Student loan	\$4,900	4.0%	\$120	15 months
Credit card 1	\$8,400	13.0%	\$252	25 months
Credit card 2	\$9,000	19.5%	\$270	31 months
Auto loan	\$21,200	9.8%	\$520	38 months
Interest paid			\$9,079	

Debt Avalanche Method



- Focuses on paying of debts with the highest interest rates first; put all extra money towards the most expensive debt until eliminated
- Minimizes the total amount of time it takes to get out of debt
- Reduces total amount of interest paid



Debt Avalanche Method



Priority	Balance	APR	Minimum Payment	Paid off in
Credit card 1	\$9,000	19.5%	\$270	22 months
Credit card 2	\$8,400	13.0%	\$252	28 months
Auto loan	\$21,200	9.8%	\$520	36 months
Student loan	\$4,900	4.0%	\$120	37 months
Total owed	\$43,500		\$1,162	
Interest paid			\$7,840	



Balance Transfers



Advantages

- May result in lower interest rates
- Can help reduce debt faster
- Gives flexibility as you can pay extra money to pay off debt faster or can reduce payments back to the monthly minimums when needed





Balance Transfers



Disadvantages

- May have expensive balance transfer fees or cash advance fees
 - After the introductory period, promotional rates may rise substantially
 - Your interest rate may be raised higher than what it was before you transferred the balance if you miss a payment
 - Very small monthly payments can stretch this debt out forever
-



Debt Consolidation Loan



Advantages

- One monthly payment
- You know exactly when the loan will be paid in full
- Monthly payment and interest rate may be less than what you are paying on current credit cards and loans.





Debt Consolidation Loan



Disadvantages

- May be hard to qualify if you are over-extended or have poor credit history
- If you do not shop around total cost of loan may be higher than with current debts





Mortgage Refinance



Advantages

- Lower monthly mortgage payments
- Lower interest rate, if rates have dropped or if your credit rating has improved
- Tax break on the interest part of your payments





Mortgage Refinance



Disadvantages

- Closing costs and points may be expensive
- Converting short-term debt into a long-term debt
- Start over again with a 15 to 30 year mortgage loan
- You risk losing home if you cannot keep payments current





Home Equity Loans



Advantages

- Interest may be tax-deductible
- Interest rate may be lower than with other types of loans
- Low monthly payments can help improve cash-flow issues





Home Equity Loans



Disadvantages

- Repayment period can be 10 to 15 years meaning you could be paying your credit card debt forever
- You may be forced to use credit cards again if you use up all of your equity
- Risk losing your home if you cannot keep up with payments





Debt Management Plan



Advantages

- Credit card companies usually will bring accounts current after 3 consecutive payments and stop late and over-limit fees
 - Can stop collection calls, garnishment and other legal actions
 - May result in lower interest rates
 - May result in lower payments
 - One monthly payment
 - Very good way of getting bills under control
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Debt Management Plan



Disadvantages

- Usually are required to give up all credit cards and agree not to take on additional unsecured debt
- A debt management program usually can not help with secured loans
- Program is very structured and can take discipline to follow





Student Loan Plans



- Special Programs
 - Public Service Loan Forgiveness (PSLF)
 - Teacher (TLFP)
- Repayment Plans
 - Income Based Repayment Plan (IBR)
 - Income –Contingent Repayment Plan (ICR)
 - Income Sensitive Repayment Plan
 - Extended Repayment Plan
 - Graduated Repayment Plan
 - Pay As You Earn Plan (PAYE)





Student Loan Plans



Public Service Loan Forgiveness (PSLF) Program

- Loans must be in the Direct Loan Program
 - Work in public service (government or non-profit)
 - Must not be in default
 - 120 payments, or 10 years
-



Student Loan Plans



Teacher Loan Forgiveness Program (TLFP)

- Full-time teachers
 - Five complete and consecutive academic years
 - At an elementary or secondary school that serves low-income families
 - Forgives up to \$17,500 of Direct and Federal Stafford loans
-



Student Loan Plans



Standard Repayment Plan

- Payments are slightly higher
- Pay less interest over life of loan
- Payments over 10 years



If at all possible, this should be the plan you partake in





Student Loan Plans



Income-Based Repayment Plan (IBR)

- Payments are limited to 15 percent of your discretionary income
- Must have partial financial hardship to initially qualify

$$\text{Discretionary Income} = \frac{\text{Adjusted Gross Income} - 150 \text{ percent of poverty guidelines}}{12}$$





Student Loan Plans



Income-Contingent Repayment Plan (ICR)

Monthly payments are lesser of:

- What you would pay on a 12-year standard repayment plan multiplied by an income percentage factor or;
- 20 percent of your discretionary income divided by 12





Student Loan Plans



Income-Sensitive Repayment Plan

- Monthly payment based on annual income
- Payment changes as your income changes
- Up to 10 years
- You will pay more over time than you would on the Standard Plan





Student Loan Plans



Extended Repayment Plan

- Fixed or graduated payments
- Payments made for 25 years

Require:

- More than \$30,000 in outstanding Direct Loans
- Or \$30,000 in FFEL Program loans



Student Loan Plans



Graduated Repayment Plan

Under this plan, your monthly payments:

- Start out low and increase every 2 years
 - Made for up to 10 years
 - Will at least equal the amount of interest that accrues between your payments
 - Won't be more than 3x greater than any other payment
-



Student Loan Plans



Pay As You Earn Plan (PAYE)

- Payments limited to 10% of your discretionary income
- Requires partial financial hardship
- Must be a new borrower
- After 20 years of monthly payments, any remaining student loan balance is forgiven





Student Loan Plans



Student Loan Default

- Loans turned over to collections agency
 - Liable for costs associated with collecting loan, court and attorney fees
 - Can be sued for entire amount
 - Wages may be garnished
 - Federal and state income tax refunds intercepted
 - Social Security benefit payments withheld
 - Credit history: difficulty accessing credit
-

Student Loan Plans



Student Loan Default (continued)

- Won't receive any more federal financial aid
- You will be ineligible for deferments
- Subsidized interest benefits will be denied
- You may not be able to renew a professional license
- Prohibited from enlisting in the Armed Forces



Student Loan



Rehabilitated Loan

- 9 voluntary monthly payments
- Within 20 days of due date
- Within 10 consecutive months



Warning Signs of Debt Trouble



- Paying your bills on time, but running out of cash between paychecks
 - Borrowing money to pay off other debts
 - Spending more than 20 percent of your net income on credit card bills
 - Using your credit card to pay for necessities because you don't have cash
 - Paying only the minimum payment on your credit cards
 - Financing your vehicle for six or more years
 - Needing a co-signer because you're a high credit risk
 - Depending on parents and friends to bail you out
-

Getting Back on Track



- Determine the cause
- Know what you owe
- Explore debt management options
- Spend less than you earn
- Borrow only what you can afford
- Recognize the warning signs of financial difficulties
- Contact a reputable non-profit credit counseling agency for assistance

My Action Plan



What are the things I can start doing today to reach my financial goals?

1.

2.

3.

Resources



Better Business Bureau (BBB)

(502) 583-6546

www.bbb.org/louisville

Federal Trade Commission (FTC)

(877) 382-4357

www.ftc.gov

Federal Direct Loans

(800) 557-7392

www.direct.ed.gov/

Resources



Internal Revenue Service (IRS)

(800) 829-1040

www.irs.gov

National Foundation of Credit Counseling (NFCC)

(800)-388-2227

www.nfcc.org/



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