



How to Get of Debt in 24 Months

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There are lots of debt “solutions” out there. You may have heard of various offerings from advertisements or your friends. From debt settlement companies, loan modification services, debt consolidation, consumer credit counseling, to bankruptcy, these offerings make it sound easy and painless to solve your debt problems. We have some strong opinions about many of these 'solutions', though.

The Root Problem

You see, we don't believe the debt is the problem. We believe the debt is the symptom. While not all the debt solutions out there are bad, many of them don't solve the problem. Anything that addresses only the debt is not really fixing the problem. I heard a statistic gathered internally from a debt consolidation company that 78% of their customers ended up back in debt with payments at the level they had before – or higher.

Getting rid of the debt doesn't solve the problem. You may be asking, “If debt is just the symptom, then what is the problem?” The problem is our attitude and our behaviors around money.

The problem is that we live in a culture where people expect to get whatever they want right now. We fall into the debt trap because we hear messages that debt is the solution so often and for so long that we begin to believe it's true.

Want some landscaping done? We're told to take out a HELOC. Want to buy a car? It's assumed we'll set it up on payments. For college, of course, we'll be getting student loans. We even charge the weekly groceries on our credit cards because we're told this is a better way to track our spending. We hardly use cash for anything now, and a lot of people charge everything.

If you're worried and concerned about the level of your debt, your real problem is that you're using credit too much to buy things instead of saving up and paying cash. I know what you're thinking. The answer is: yes, you can pay cash for the landscaping, the car, college and your groceries. You just might not be able to get all of them right away.

We believe that a debt solution that addresses the thinking and the behaviors around money is ultimately what is needed to really solve the problem. The premise behind this get-out-of-debt plan is that if you work your own way out of debt, you are much more likely to stay out of debt – and you will be much better off financially.

So, Let's get to it.

Getting Out of Debt

What Does “Out of Debt” Mean?

This get out of debt plan is to pay off all your debt with the exception of the house. There are a few things that have higher importance than paying off the house early. We typically have people save an emergency fund and be funding retirement and college before they aggressively pay off the house.

“Out of Debt” means getting rid of: your credit cards, those 90-Days-Same-As-Cash loans, loans to family or friends, your lines of credit, car loans, student loans, any past due bills, 401(k) loans, life insurance loans, money owed to the IRS or state tax board, and any other money you owe to anyone that is not a current bill.

Now we hope people eventually become debt free including the house. But let's just start at the beginning with all your other debt first.

The Key Ingredient

The key ingredient to getting out of debt is your drive and motivation. That's it.

I'll say it again. Motivation is the primary driver for getting out of debt. If your motivation to get out of debt is low, you might as well stop here. This isn't going to work. On the other hand, if you are highly motivated to get out of debt, just about any method will work.

Key #1: To get out of debt, you must maintain motivation.

Now before you declare yourself highly motivated and run off to get out of debt, there's one big thing to consider. Will your motivation remain high to the end when you are out of debt?

The truth is that your motivation will likely diminish at some point. It may go in hiding several times throughout the process. Our method for getting out of debt is designed to give you motivational boosts along the way.

If you are thinking “I am so **done!** I've **had it!** I work too hard for all my money to go out to other people each month,” this plan is for you.

Step 1: Quit Borrowing More Money

The first step in getting out of debt is you must quit borrowing more money. You can't dig your way out of a hole. You can't borrow your way out of debt.

It may seem obvious to many, but you'd be surprised at how many people we encounter who are trying to get out of debt while they continue to charge purchases and take out lines of credit.

Key #2: To get out of debt, you must quit borrowing more money.

You need to put your credit cards away. We actually recommend you just cut them up and close the accounts. Don't do any more 90-Days-Same-As-Cash deals. Don't borrow from family members or friends. Don't sign up for car payments. All these things need to stop.

It's too hard to maintain motivation to get out of debt when your debt keeps increasing with new charges. When you make 3 steps forward and 2 steps back, it's too easy to feel like you're not getting anywhere.

Step 2: Build a Small Emergency Fund

The second step is to build a small emergency fund. This step may seem a bit odd to many folks, but it is very important. This step really goes hand in hand with Step 1. In reality you do steps 1 and 2 at the same time.

Let me explain by giving you an example:

You're driving home one winter evening. You've got the heater on when you start to notice that the air coming in isn't very warm. "Rut roh," you think and you start watching your engine's temperature.

The next day you take your car in and find out you have \$800 in repairs to replace the water pump.

In this example, how would you pay for the repairs if you don't have an emergency fund? You guessed it. You'd probably put it on a charge card. So now you're violating Step 1 which is to quit borrowing more money.

Key #3: To get out of debt, you must first build a \$1,000 emergency fund.

Motivation is the key ingredient to getting out of debt, and it's hard to maintain motivation when you're taking 3 steps forward and 2 steps back. If you have a small \$1,000 emergency fund, your motivation doesn't take the hit when something like a car repair comes in.

Step 3: Begin Paying Off Debt

Finally, here are the steps we recommend for paying off debt:

1. You list all your debt from smallest amount to largest amount irrespective of the interest rate.
2. Pay the minimums on all the debt except the smallest one.
3. Apply any and all extra money to this smallest debt.
4. When you pay off a debt, you take all the money you were paying on this debt and apply it to the next debt in the list.

Now I know a few math whizzes out there are thinking, "Wait a minute. I think I can do better than this. If I put the highest interest rate first, I'll pay less money." It is true that you will pay less money if you pay the highest interest rate first – **on paper**.

The trouble is that too many people get discouraged with the highest-interest-rate-first method and they give up before they're out of debt. Our method maximizes the "wins" you receive along the way so you maintain motivation and complete the process.

So, let's just say, we like how our method gets people out of debt better than how the other method often doesn't get people out of debt. Let's see how this looks.

The Jones have two credit cards, a car loan, and a student loan. They have determined they have an extra \$25 each month to pay down their debt. So, they are paying \$40/month on the Citibank card instead of the \$15 minimum. They pay the minimum on everything else.

Extra \$ available beyond minimum payments:			\$25.00
Debt	Payoff Amount	Minimum Pmnt.	Payment
Citibank Visa	\$1,143.27	\$15.00	\$15+\$25=\$40
American Express	\$3,567.20	\$25.00	\$25.00
GMAC (car)	\$12,678.15	\$480.00	\$480.00
Sallie Mae	\$27,349.73	\$150.00	\$150.00

After Citibank Visa is paid off, they apply the \$40 that they were paying on the Citibank card to the next debt, the American Express – a total of \$65.

Extra \$ available beyond minimum payments:			\$25.00
Debt	Payoff Amount	Minimum Pmnt.	Payment
Citibank Visa	\$1,143.27	\$15.00	\$15+\$25=\$40
American Express	\$3,567.20	\$25.00	\$25+\$40=\$65
GMAC (car)	\$12,678.15	\$480.00	\$480.00
Sallie Mae	\$27,349.73	\$150.00	\$150.00

They keep flowing this method down the line until all their debt is paid off.

Except the example isn't **exactly** what you're going to be doing. Remember this is "How to Get Out of Debt in **24 Months**."

Step 4: Accelerate Your Plan

If you just followed the plan described in the previous section, you would get out of debt. However, it might take you a lot longer than 24 months. To accelerate this plan to be done in 24 months or less, there are some additional actions needed.

Key #4: To get out of debt quickly, you must take extra measures.

Here are some things you can and should use to accelerate your get-out-of debt plan.

Shrink Your Lifestyle

In the example above, the family determined that they had an extra \$25 per month. That really isn't very much money. If this family decided to stop the cable TV service, reduce their cell phone plans, and they decided "restaurant" was their new 4 letter word, this family could probably have an extra \$200-\$500/month to pay down on debt.

If you are highly motivated to get out of debt, you will want to shrink your lifestyle to get out of debt as fast as possible.

Sell Some Stuff

A lot of us have stuff hanging around. It might be good stuff too. For some of your stuff, you will have to decide which is more important to you – your stuff or your freedom.

One thing people don't often think about is that our stuff costs even after we've paid for it. Often our lives are made more complicated just by the amount of stuff we have to store and maintain. Our stuff takes up room in our garages and in our minds. We have to remember our stuff – where it is, the last time we serviced it, or that we need to repair it.

If you have a storage unit, you definitely need to sell some stuff. If you keep your stuff in that storage unit for too long, you will have paid as much in storage fees as it would cost replace everything in it – brand new. Sometimes people pay 2-3 times as much the value of the stuff in the unit just in storage fees.

Stuff is just stuff. You can always get more stuff later when things are better financially – and you've saved cash for it.

Anything and everything should be considered for selling off. How much debt could you pay off if you didn't have that car payment? You can sell:

- Jewelry
- Extra tools
- Toys: jet skis, motorcycles, RVs, trailers, quads, etc.
- Clothing in good condition you just don't wear anymore
- Baby items: strollers, carriers, high chairs, etc
- Furniture
- Your car
- Your house
- And more

Get a Second Part-Time Job

For many folks, this is the option of last resort. If they can shrink their lifestyle and sell stuff to get their debt pay-off in a reasonable time frame, they stop there. Sometimes, though, if the motivation is high enough or the situation requires it, you should consider getting a second part time job.

It's not glamorous. It's almost certainly not a career move. But a second part time job can bring in that extra income for those 24 months while you're getting out of debt.

This is definitely not something where you're going back to college. This is a type of job where you can show up and start working, and two weeks later (or less) you get paid. Here are some ideas:

- Pizza delivery
- Store clerk
- Waiting tables
- Lawn mowing/leaf raking service (just ask your neighbors if you can mow their lawn for \$10-\$20)
- Gutter cleaning service (ask your neighbors, like the lawn mowing tip)
- Computer repair – if you have the skills
- Pet/Baby sitting
- Seasonal work
- And more

The Example Revisited

Let's take another look at the Joneses. Remember, they have two credit cards, a car loan and a student loan.

This time, they have reduced their lifestyle by stopping the cable TV service and they now only go out to eat twice a week. They now have an extra \$225 each month to pay down their debt. So, they are paying \$240/month on the Citibank card instead of the \$40 they otherwise would pay. They pay the minimum on everything else.

They also have decided to sell a few things. They used Craigslist and had a garage sale. They got \$1,220 from selling some jewelry, some tools, and a bicycle. In the first month, they have their Visa card paid off, with \$316.73 extra to apply to the Amex card.

Extra \$ available beyond minimum payments:			\$225.00
Extra \$ from selling things:			\$1,220.00
Debt	Payoff Amount	Minimum Pmnt.	Payment
Citibank Visa	\$1,143.27	\$15.00	\$15+\$225+\$903.27 (done)
American Express	\$3,567.20	\$25.00	\$25.00+\$316.73 (now \$3225.47)
GMAC (car)	\$12,678.15	\$480.00	\$480.00
Sallie Mae	\$27,349.73	\$150.00	\$150.00

After this first month, their debt and their baseline plan looks like the following:

Extra \$ available beyond minimum payments:			\$225.00
Extra \$ from selling things:			
Debt	Payoff Amount	Minimum Pmnt.	Payment
Citibank Visa	\$0	\$0	\$15+\$225=\$240
American Express	\$3,225.47	\$25.00	\$25.00+\$240 = \$265
GMAC (car)	\$12,678.15	\$480.00	\$480.00
Sallie Mae	\$27,349.73	\$150.00	\$150.00

But they're not just leaving it at that. The Joneses realize they still have quite a ways to go, so he gets a 2nd job working evenings at the local movie theater. They also have decided to reduce their eating out to once a week. They shopped around and switched cell phone plans. They also sold their car to get out of the payments and paid cash for a used car.

Now the Joneses have an extra \$1,825/month to pay down debt.

Extra \$ available beyond minimum payments:			\$1,825.00
Debt	Payoff Amount	Minimum Pmnt.	Payment
Citibank Visa	\$0	\$0	\$15
American Express	\$3,225.47	\$25.00	\$25+\$15+1825=\$1865
GMAC (car)	\$0	\$0	\$0
Sallie Mae	\$27,349.73	\$150.00	\$150.00

You can see they'll have their Amex card paid off in a couple months. With this plan, the rest of the debt should be done in 12-13 months after the Amex is paid – a total payoff from start to finish of 15-16 months.

Summary

My hope is that you can see that you can get out of debt just by being focused and working hard. Sometimes just seeing the way out gives hope, and hope is powerful.

To get out of debt in 24 months, the key thing is to maintain motivation. You arrange the debt pay-off plan to give you steady “wins” along the way. Then you just go crazy. You shrink your lifestyle, you sell a bunch of stuff, and you take on some extra work to bring in more money.

Of course, there's nothing magic about 24 months. This is just a typical time it takes highly motivated families to bust out of debt. For some families, they will do all the right activity and yet take longer than 24 months because of their situation. But maybe you can pay off all your debt in 12 months.

My prayer is that you will find yourself out of debt in a couple of years or less. There's no feeling like being debt free.