



Cleveland**Saves**Week 2008

Darkness cannot drive out darkness; only light can do that.
-Martin Luther King Jr.



Reduce Debt and Create an Emergency Fund

Being debt free is the dream and goal of many people. The calm and peace of mind that can come from that effort are beyond description.

Debt reduction and an emergency fund go hand in hand since the existence of an emergency fund can often avoid major debt problems. At the same time, eliminating or reducing existing debt gives you the opportunity to create an emergency fund.

Financial advisors keep talking about an Emergency Fund. Good reason -- When you suddenly need several hundred dollars or more for a large car repair, a new furnace or because you've lost your job, now may not be the best time to deplete your retirement plan.

Debt is a drain on your entire financial situation, now and in the future. When you make a commitment to eliminating debt from your life, you are opening all the possibilities for a financially secure future.

Sources of funds for emergencies:

1. The Emergency Fund
 - a. It's a loan from you to you. There's no interest to pay.
 - b. Be sure to start paying it back as soon as possible to re-create the Emergency Fund for the next time
2. "Good Credit"
 - a. If you hold a credit card with single digit interest, now is a "good" time to use it.
 - b. Use a credit card only when you know that you can handle the monthly payments
 - c. Be sure to make payments on time, or the interest rate will start climbing to impossible levels.
3. A loan from your company retirement plan
 - a. You can usually borrow up to 50% of the account balance (to a max of \$50,000)
 - b. Interest will be charged and you must repay the loan in systematic payments within 5 years
4. A withdrawal from your IRA account
 - a. If you are under age 59 ½, there will be a 10% penalty in addition to the income taxes due
5. An Equity Line of Credit against your home - You are putting your house at risk if you do not make payments on a regular and timely basis.

Reducing Debt:

1. Use only 1-2 credit cards and put the others away
Be sure to pick two that are accepted everywhere
2. Write down what you spend every day. It will make you conscious of where your money is going.
3. Develop a budget and stick to it. The only way to get out of debt is to reduce spending.
4. Pay every bill ON TIME. This includes Utility bills which often report to the credit bureaus. Nothing will improve your credit report faster.
5. Pay the most you can on the bill with the highest interest rate, not the biggest balance. Pay the minimum on the others until the first one is paid off. Then move to the next highest one.



your starter kit:

What is my Total Debt?

Credit card #1

Credit card #2

Credit card #3

Credit card #4

Other Loans

\$ _____

\$ _____

\$ _____

\$ _____

\$ _____

Total Amount of Debt

\$ _____

What is the interest rate on each card/loan?

_____ %

_____ %

_____ %

_____ %

_____ %

What is the date each card payment is due?

Creating an Emergency Fund

1. What is the monthly total of my Fixed Expenses? (expenses that would not change even if I lost my job) : mortgage/rent, utilities, groceries, car loan, insurance, etc.

1. \$ _____

2. Multiply the amount in 1. above by 2. That is the minimum goal you should set for an Emergency Fund.

\$ _____

3. Three to Six times that amount is better, depending on how much debt you have and what other sources of emergency money you have available.

Sources of
Help & Information

Cleveland Saves

Tel: 216-325-7126 • Web: www.clevelandsaves.org

Consumer Credit Counseling Services

800-355-2227 • Web: www.cccservices.com

Financial Planning Association

Tel: 800-322.4237 • Web: www.fpanet.org

Budget Central

Web: www.tuliptreepress.com

Care Source

Web: www.care-source.com

Legal Aid Society

Web: www.lassic.org

Smart Money

Web: www.smartmoney.com

Internal Revenue Service

Web: www.irs.com

The Frugal Shopper

Web: www.frugalshopper.com

Go to Cleveland Saves
web site for
additional resources:
clevelandsaves.org