

Is Debt Causing a Problem in Your Life?

You may not need this chapter. You may have no problem with debt at all. You might be one of the few who uses credit cards but has never paid any interest payments, late payments or annual fees. You might pay your bill in total every month. You might know exactly how much you spend every month with your credit cards and what you spent it on.

Even if you've never had a problem with debt, simply learning about how hard it can be to overcome debt problems can inspire your future decisions about using debt.

One way to gauge your truth about debt is by comparing yourself with what is considered "normal" within the financial services industry. Financial experts call it the 28/36 Rule.

- No more than 28% of your net income should be used to pay for your mortgage
- No more than 36% of your net income should be spent monthly on your total debt, including credit cards, auto loans, student loans and mortgage.

That means that if more than 8% of your net income is being spent on you non-mortgage debt, you've made some past decisions that have put a strain on your spending plan.

Another gauge is to look at how much repaying your current debts is impacting your ability to fund your future. If you're fully funding your retirement, your savings silos and have a fully funded emergency reserve, then spending 8% of your net income on debt is a minor financial issue. But if 8% of your net income is going toward non-mortgage debt at the expense of your future and stability, then your debt is causing a problem in your life. You just might not yet realize it.

Three Steps to Stopping the Debt Cycle:

- # 1 – Stop creating new debt. No matter what.
- # 2 – Fund your reserves and pay debt at a equal rate.
- # 3 – Use the 1/3 Rule:
Pay debt, build reserves and have fun!