



Take it from the judge, avoid personal finance mistakes

As a United States Bankruptcy Judge who has presided over more than 60,000 cases and the founder of the Credit Abuse Resistance Education (CARE) Program, which makes bankruptcy professionals available to high schools and colleges in thirty-two states so that they can encourage young people to increase their Financial IQ, I have seen too many Americans make the same mistakes when it comes to personal finance. These mistakes include having far more credit card debt than they can afford, having more than three-year car loans, not analyzing their financial transactions and

not having savings. The following tips can help you avoid these mistakes.

Hope for the best, but plan for the worst

Too many consumers today hope for the best and plan for the best. One debtor in my court had \$100,000.00 of credit card debt and his plan to pay it back was to win the New York State Lottery. That may be an extreme case, but the reality is that life has its ups and downs, and bad things happen to good people. To survive the inevitable hard times, you need to stay as debt-free as possible and have SAVINGS for both emergencies and for

expenses that you can easily anticipate (if you have a 20-year-old roof in Western New York, you better have savings for a new one - it will need to be replaced). Your plan can't be to rely on high cost consumer debt, like credit card debt, to meet those expenses you could have seen coming or to get you through the hard times (job loss, divorce, expensive car repairs or a minor medical problem). If you do, that will only make the hard times permanent - you will never get out of the debt hole you will be digging for yourself and eventually you could be buried in that debt. If you are already in consumer debt when the hard times come, you will dig that debt hole much deeper, much sooner. The bottom line is, avoid consumer debt and save as much as you can and then some. The best way to do this is to set a monthly savings amount and then PAY YOURSELF FIRST.

Always have a budget

Once you have established a savings plan, a BUDGET is the only way to know what you are spending the rest of

your money on and whether you have any excess money for the things you "want," in addition to the things you "need," or to repay any amounts you may want to borrow, including credit card debt. If you have no disposable income (your income less your necessary expenses) face it, you can't AFFORD your wants or to borrow money because you can't repay it. To pay for your wants, you need to either increase your income or decrease your expenses. Incurring debt is never the answer. If you have some disposable income, that is the LIMIT on what you can afford for your wants or to repay debt. In the old days when easy credit wasn't available, lenders would do this exercise for you to determine whether to loan you money. Today you have to do it yourself to determine what you can afford to purchase and whether you can afford to borrow.

Do the math before you incur debt

If you do have some disposable income, you must always DO THE MATH so you will know the true cost of any debt you may wish to incur, and then you can

decide if it is really worth it. It is about the INTEREST RATE and the TERM and what you will ultimately pay for that debt, not the monthly payment, which is all that the consumer credit industry, especially car dealers, want you to focus on. I recently refinanced my own mortgage from thirty to fifteen years and will save over \$200,000.00. Lenders don't want you to do this kind of math and realize how much more you will be paying if you pay over a longer period of time at high interest rates - for example a 5- or 7-year car loan, rather than a 3-year loan, or a 30-year mortgage rather than a 15-year mortgage. So, lenders will often offer you lower interest rates and monthly payments, but make the debt payable over a longer period of time. In the end, you actually pay more.

Understand why buy now and pay later with credit cards can be too expensive

If you have no disposable income, credit cards are not for you because they are not new money, more money or free money. Credit card debt is the most

expensive money that you can borrow. Unfortunately, we are constantly encouraged to buy now and pay later by all of those commercials that seem to tell us that we can "live richly" and have "priceless" things whether we can afford it or not. Too many people believe this. Even if you have some disposable income, the real cost of credit cards may be just too expensive for you. Affording debt is being able to borrow money and pay it back with interest over a reasonable period of time out of your disposable income. You can't afford it if you have to incur more debt (for example a cash advance) in order to make the payments on your debt. Maintaining debt, like credit card debt, by paying minimum or unreasonably low payments while unpaid interest builds up is not being able to afford debt unless you can actually repay the debt plus the accumulated interest within a reasonable period of time. If you pay those minimum or low payments, everything you do and buy will cost you so much more. Why would you pay 20% interest if you can really afford to pay for what you are

charging? In the CARE Program we show students how a \$80 pair of running shoes can end up costing \$120 because of the interest that builds up if they carry significant balances on their credit cards for a long period of time, rather than paying off their charges every month or within a reasonable time. Buy now pay later might make some sense if those running shoes ended up costing \$83, but not when they cost \$120.

Be a credit card deadbeat

_____The credit card industry refers to the 40% of Americans who pay their credit card bills off on time in full every month as “deadbeats.” If we all were deadbeats living in homes that we could afford, had three-year car loans and significant savings, we would have no where near the 1.5 million bankruptcies filed every year in this country. As a practical idealist, I don’t think we will ever see that, but there is no reason why you can’t be one of those people and minimize your chances of having a financial crisis in your life, especially in these times of increasing

prices and interest rates. To help yourself accomplish this, consider: (a) using cash or a debit card as much as possible so that you will make better spending choices and spend less; (b) having only one credit card and not charging anything you can’t pay for when the bill comes at the end of the month so you can avoid those high interest payments and fees; (c) if occasionally you don’t pay your credit card balance off every month, having one credit card will at least allow you to see clearly what you are charging, whether your outstanding balance is increasing or decreasing, what the accumulated interest is that you must pay, and what fees you have incurred; (d) if you see your credit card balance on your one credit card increasing, stop charging and ask yourself why and what am I going to do about it; (e) not allowing your credit card company to raise the credit card limit on your one card unless you do it on purpose and you have made an informed decision as to why you want to borrow more money and assured yourself that you can afford to repay it; (f) never borrowing more money to make the payments on your

one credit card; (g) tearing up those solicitations for more credit because if you accept any of them it will get you deeper in that debt hole quicker; (h) not helping your children, elderly parents or others by incurring consumer debt, like credit card debt, that you can't afford to repay; and (i) asking yourself if you have a balance on your one credit card how much more am I paying for what I charged and can I pay my full balance off in three months without borrowing more money.

Increase your Financial IQ

In our deregulated consumer credit society, the exorbitant profits that consumer lenders are making are as much about the consumer paying the high interest rates and fees as it is about them repaying the underlying debt. So, if you don't improve your Financial IQ and always do the math, the consumer credit and service industries will financially rape and pillage you, just like those barbarians on the Capital One Commercials, every day, in as many creative ways and as often as they can, and no one really cares.

Understanding personal finance in this world of easy credit and consumerism is not about your Academic IQ, it is about you Financial IQ. Professional people, like attorneys, engineers and teachers, file bankruptcy everyday because they never learned about personal finance. So YOU must educate and protect yourself. NO ONE IS LOOKING OUT FOR YOU.