

Assignments

Financial Plan Assignments

If you are in debt, or know others in debt, think through the reasons for that debt. Are there things that could have been done differently or things you could have done without that would have reduced the need for debt?

Review any debt you may have, including consumer debt, mortgage debt, and student loans. Write out your debt situation for each debt, including the following: creditor, phone number, reason for the loan, principal owed, interest rate, minimum payment, additional costs, fees, and the date by which you expect to have the loan paid off. Once you have written down all your debts, plan how to reduce your debt.

Finally, write down your views on how you will use debt in the future. Will you use it? What type of debt is acceptable? What are your thoughts and what are the reasons you feel the way you do toward both acceptable and unacceptable debt?

Learning Tools

The following Learning Tools may also be helpful as you prepare your Personal Financial Plan:

20. Debt-Elimination Spreadsheet with Accelerator

This Excel spreadsheet gives a framework for paying off debt; it encourages you to pay off your debts in order of expense until you have paid off all your debts.

9. Debt Amortization and Prepayment Spreadsheet

This Excel spreadsheet gives a debt amortization and prepayment schedule to help you as you reduce and eliminate your debt.

18. Credit Card Repayment Spreadsheet

This Excel spreadsheet gives information on how long it will take to pay off credit cards and other debt.

Review Materials

Review Questions

1. What are two debts that, according to leaders, are okay to incur?
2. What are five reasons people go into debt? How may these reasons be combated in order to get back out of debt?
3. What is the first signal that you are entering the debt cycle?

Case Studies

Case Study 1

Data

A family friend has asked you to help one of his children, who is having some financial problems. The son gave you the following information: They have four children, ages three months to 18 years. Their bills include a mortgage of \$150,000 at 6 percent, a second mortgage of \$20,000 at 7.5 percent (because they were too far in credit card debt), debts to various financial institutions of \$10,000 at between 12 percent and 28 percent (she lost her job due to the latest pregnancy), a lease on a new truck of \$18,000, a loan on her car for \$5,000, and miscellaneous Christmas bills totaling \$3,000. After some work using **Learning Tool 20: Debt-Elimination Spreadsheet with Accelerator**, you determine that debt payments represent 83 percent of their income for living expenses.

Application

What suggestions do you have to help them get out of debt?

Case Study 1 Answers

The above was a real case that occurred a few years ago. I have included below my suggested process to help (there are likely other ways to help as well).

1. Help them determine what is important to them—their personal goals.
 - I helped them think through the process of setting effective goals, and then they wrote down their goals so they would be working for the right things.
 - I didn't spend a lot of time together on this area, but I did emphasize its importance and had them do it on their own.

3. Help them realize where they are financially.
 - I helped them develop a balance sheet for the family.
 - We worked together to determine what assets were available and how much was owed. We developed an income statement.
 - We worked at finding out where the money was going so we could put it to the best use.
 - We put them on a very strict budget.

4. Help them understand why they went into debt in the first place.
 - I shared with them the reasons people go into debt so they could understand why they got into this problem in the first place.
 - I talked about the spiritual reasons behind not going into debt. I told them they needed to get their spiritual house in order so that God would help them get their temporal house in order.

5. Determine individual ways of reducing debt, the more the better.
 - I had them fill out their income taxes quickly so they could receive their income tax return.
 - They borrowed money against their cash-value insurance policy to reduce their debt.
 - I had them sell assets that they could do without (i.e., truck, old vehicles, etc.).
6. Help them determine a course of action and commit them to that course.
 - We worked together to make a plan, and then we all worked together to follow that plan.
 - I held them accountable for their plan.
 - I enlisted other people as part of a team approach to help them with talking to creditors and paying off their debts.

Now, four years later, they are still in debt, but their debts have become much more manageable and they are working to pay them off. Has it been easy? No. Is it worthwhile? Yes. The wife commented recently, “I just didn’t realize that it would be so hard for so long. You run into debt, but you crawl out of it.”