

**[0:00:11] ST:** Welcome Nation to the Financial Rock Star show. I'm your host Scott Alan Turner, ready to get you out of debt, save more money and retire early. In the studio with me is producer Katie, built muscle by lifting our son, who weighed 30 pounds when he was just nine months old. His nickname is the Bulldozer. On the show today we'll be answering your questions about money, business and life. If you have a question you'd like answered on the show, visit [Goaskscott.com](#).

In the last show I shared how you can break the paycheck to paycheck cycle. Sick of living paycheck to paycheck? Listen to that episode. A good credit score is critical in your financial life, if you have poor credit, here are some ways to improve your credit score. These tips are straight from MyFICO, that's the company who establishes the most commonly used credit score called your FICO score.

Why is a good credit score important? You need good credit, it's important to start building your credit score when you're young to take advantage of savings throughout your career and life. Your credit plays will roll in, getting the best rates on loans, getting approved for a mortgage, job applications, getting approved for car loans, lowering your insurance rates, being approved for an apartment application.

Even if you're one of those rare people that pays cash for everything, food, eating out, new cars, even buying a new home with 100% cash, your credit score is still important in your life and saving you money. The low or no credit score is going to limit your options for home insurance and getting the best insurance rates. Some employers will check your credit as part of your job application process. You may not even get the opportunity to explain to the HR person or the computer filtering out your resumes why your credit is what it is.

Here are some easy tips. Number one, pay your bills on time that accounts for 35% of your score. That's the single most important factor in your credit score. If you missed the payments on all your bills this month, you can subtract between 75 to 125 points off your credit score. It's the big ding that can come in a short period of time. Here are some tips for paying your bills on time. Number one, automate your payments, setup your bills to auto draft from your checking or credit card account. Cellphone bills, utilities, internet, TV, home, car, life, disability insurance, they can usually all be set out to be charged to your credit card or withdrawn from your checking account.

Next, get your bills in the mail, as much as I try to do my part to conserve and help the environment, I do not like paperless billing. I get at least 50 emails a day, it's easy to miss an email or a reminder to pay a bill. Unless you pay a bill immediately as it arrives in your email inbox, I do not, or you've got a good reminder system to keep track of those email bills as they arrive, a stack of bills is an easy way to visibly see that, "Hey, I've got bills to pay!" Just make sure you pick the system that works best for you. I like the paper still.

Next, you want to keep a low credit utilization ratio, this amounts for 30% of your score. The amount of available card that you've used. Let's say you have \$10,000 in available credit, you don't want to charge more than \$3,000 total and have it paid off every month, it's simple. That ratio, you want to keep it at 30% or less, it's a double strangeness there, it's 30% of the accounts for 30%. You want to keep your ratio at 30% or less and it's going to account to 30% of your score.

If you max out your credit cards, you can expect to drop between 20 to 70 points on your credit score, now people have maxed out a single card, you're typically more likely to miss future payments. You're seen as credit risk so your score drops. Next, keeping open lines of credit, accounts for 15% of your score. If you can't sell some or all of your cards, you reduce your available credit which impacts what we just talked about, your credit utilization ratio.

If you want to stop using the card, cut it up, keep a zero balance on it. Preferably you don't want more than four to six cards. You have some cards you rarely use, especially store credit cards, consider closing them and getting rid of them. Next, the types of credit you have, that amount to 10% of your score. If you have 20 store credit cards, Seers, Macey's, GAP, Nordstrom, et cetera all the mall stores — Bed, bath and beyond! Your score is not going to be as high as if you had a couple of Visa cards or a couple of MasterCards.

Don't open accounts just to have a better credit mix or to get the extra 15% off one time at the checkout counter. You shop at Target, consider their red card though because that will save you 5% on all your purchases, you just have to worry about their system to getting hacked, which could cause a whole different set of issues. Finally, your credit age, that amounts for 10% of your score in credit card or a loan, taken out in the last 30 days, that isn't going to have a negative impact on your credit score. Along with the account that's been open, the greater the benefit is to your credit score.

If you're applying for a new credit, your credit score is temporarily going to drop around 10 points. That's when you're applying for a mortgage, very good idea to wait until after the closing before getting a new car loan. Your score's slowly going to come up over time as the account ages and you pay your bills on time. Proving your credit score is more about fixing errors in your credit history if they exist in following these tips, raising your scores or building credit for the first time, it's going to take patience and it's going to take discipline but your scores will come up.

Now, on to your questions. Sydney writes.

**[0:06:07] S:** "I'm 38 and my husband is 39, we just finished creating our first budget, we are committed to getting out of debt. Car loans and credit cards have gotten to be too much and we've had enough of seeing our money going towards interest payments in a minimum monthly payments. Our next goal is \$1,000 emergency fund so we can cut up our credit cards, we don't have much extra income, going to come up with the thousand dollars quickly?"

**[0:06:31] ST:** Way to go guys, first time budgeters. Here's how you get initial influx of cash to get you out of that credit card cycle and using those and relying on them. Number one, just sell something. You probably saw this one coming. Take a couple of hours to look around the house, you'll be amazed at how many items you don't need. Kids toys, exercise equipment, dusty power tools, stuff that gets used once a year or every couple of years.

Hold a garage sale, sell some clothing, all those items you no longer use. If you haven't used it in a year, sell it. You got a pair of skis, sell them. You can't afford a vacation anyway, you can always buy more skis when you're out of debt. Remember, when we go through this, you can always buy more stuff later. "Oh I might need that waffle iron!" No you don't. You don't eat waffles that much.

Next, pick up a second job. None of us like the thought of pulling extra hours when we're already tired, much less being away from our families for that much longer. Even working part time for a couple of months can get you there, can get you moving. Next, little cuts, yield big results. You look at your budget, you do a little budget little cuts that you won't notice individually but when you add them up, they have a significant impact.

Turn that thermostat down a degree or two, clip a few coupons, cancel unnecessary services or memberships. When you add up all these things, you could add up with some serious cash. When I started doing this, first I had to learn about money, I saved over \$1,000 in the first year just by learning these things, making little cuts here and there, there wasn't any one thing I cut that added up to a thousand dollars. It was just 10, 12, 15 different little things.

Next, go out and look for some extra income opportunities. It's a little different than second job, but it can be just as effective. You can be paid to fill out surveys online or watch ads online, maybe you can cut lawns for your elderly neighbors. The good part is, you don't have to go far to find these opportunities. In fact, for the surveys, ads, you can work from home, you can bump up your income, a few hundred dollars a month by doing stuff like this.

Finally, quit smoking and drinking for a month. "Don't be preaching Turner." Yeah, I'm a sugar addict, I understand that the addictions out there, I like sugar. I don't smoke or drink but I can understand where you're coming from. Keep up the good work Sydney.

Tamara has \$45,000 in student loans and got an offer from a company that will consolidate her loans.

**[0:09:11] T:** "I received an email guaranteeing me a lower interest rate on the refinance loans and lower payments, the company wants to charge me \$250, is this something you recommend doing?"

**[0:09:20] ST:** There are companies out there advertising on the internet and through websites to provide debt relief to student loan borrowers, especially those in default. Dozens of new services have popped up claiming they can help you out on your student loans and your debt situation, because it's a big crisis right now. Now only 10% of student loan borrowers participate in the income based repayment, its IBR plan, or pay as you earn — PAYE programs. Those programs are available from the Federal government to help you reduce your student loan payments, when you don't have enough income to meet your debt obligations.

Nobody can you get better or lower student loan payment than, you guessed it, you. The reason these services are a scam are because they're charging you hundreds of dollars to do what you can do yourself for free. They're a rip off and they aren't saving you any time, it isn't like paying for someone to prepare your taxes or you pay someone for their expertise in handling a complex topic for you.

Consumer financial protection bureau, they've shut down a bunch of these companies who took millions of dollars from unknowing students by charging illegal advance fees and falsely promising lower payments. If you're on default, contact the lender immediately, don't try falling from one of these scummy services claiming to make all your problems go away. The lender can provide you with the best choices and how to get out of your default, how to lower your monthly payments through one of those federal programs available.

The promise is for lower monthly payments but you can lower your monthly payments for free yourself on your federal student loans. If you have a private student loan, check out these student loan guide I have on my website. I have a list of legitimate companies that offer free refinancing options. They can lower your interest rate payments on your private and public student loans and they can save you a bunch of cash.

If a company is promising you loan forgiveness, or extremely low payments, run. Run in the other direction. Call your lender first, see if you're eligible for a loan reduction, they won't charge you a penny. Thanks for the question Tamara.

George writes:

**[0:11:33] G:** "I just moved to Boston and I now take the subway to work every day. My employer benefits include a transportation spending account plan. I have not heard of this before?"

**[0:11:41] ST:** So some employers offer flexible spending plans so you can set aside part of your pretax income for expenses like commuting and healthcare. A transportation spending account that allows you to put aside money on a pretax basis to pay for a work related commuting and parking expenses, if you have those.

Transportation spending account plan or the TSA is pretty straight forward. This type of plan, set aside some of your pretax income up to certain limits for eligible expenses associated with getting to work. Could be things like monthly transit passes, buses, ferries, commuter rails, van pools, there's a lot of options, no gas if you drive to work, sorry if you're driving.

When you set up the plan, you decide how much your pretax income will go into your TSA. Let's say you have \$100 a month in transit passes, you can setup your plan, deduct \$100 from your monthly pretax income. You can save a couple of hundred bucks each year in taxes on one of these plans, about 40% of your commuting expenses.

Setting up and using a transit commuter benefits account, super easy, you just select the amount you would like to contribute for the month, your account is automatically funded with a paycheck deduction, it's taken before any taxes are calculated. Purchase your regular daily weekly, monthly transit passes, collect your savings, it's that simple. 2015, limits are \$130 per month for transit expenses, \$250 for parking expenses.

Now, one important difference between a TSA and a health savings account which you may have heard of is the transportation benefit does not include a "use it or lose it" penalty as is the case with medical and dependent care for flexible savings accounts. Thanks for the question. If you have money related question you'd like answered, please visit

Goaskscott.com to get in touch with me. That website has my email address, Twitter, and also leave me a voice email. Please contact me, I am here to help you.

[BREAK]

**[0:13:44] ST:** A friend of mine named Jeff, very successful business man, very successful at real estate as well, sold 400 homes in the past 11 years. He gave me a tip on how to price your home for selling, which may contradict something you may get from your real estate agent.

Now, when the real estate agents that's down with you, let's say you got a house and you want to sell it for \$299,000. Psychologically we've learned you may not have heard from this before. You hear that 99, it just makes it sound like less than if you priced it at \$300,000. They're very similar in price but the 299 sounds like such, such, such a much better deal. Now, it is a better deal, that's \$1,000 less. But mentally we think it's like way better of a deal.

But according to Jeff, what happens is, you miss out on all the people searching for homes in the 300 to \$350,000 range if you're using a website like Realtor.com which a lot of us use when we're shopping for homes. Now, even if you're down in the lower price points, if you're pricing your home at 199, you're missing out on all those people who hop on Realtor.com and looking for a home starting at \$200,000.

If you don't believe me, go to Realtor.com, use the search feature, it jumps from 190 to \$200,000. So if someone that's starting that research at \$200,000 and you price your home at \$199,000, you're missing out on a lot of people searching. Jeff sold 400 homes, he is a great agent, I would seriously consider his advice when you sit down with your real estate agent and start discussing pricing your next home sale.

Now, back to your questions. Alicia says.

**[0:15:39] Alicia:** I need help with deciding what a good time to file bankruptcy is or if there is another way to dig out of my situation? We had a camper foreclosed on about three years ago, it has left us with a debt of \$15,000 that shows on our credit report as charged off. I'm not sure how I can work on building my credit with this debt. Is filing bankruptcy the only way I will get out from under it?

Besides that, my husband just started back to work for the first time in seven years after owning a business before that for 10 years. Both of us went back to school online, I am still going but he is not so now we owe about \$30,000 in school loans for him and eventually I will owe that much for me. My student loans consist of federal subsidized Stafford and federal unsubsidized loans.

Recently got a remodification done in the house and now have that payment coming straight out of my payroll before I even see it so I'm one step closer there to not ding my credit. Our income so far is just under \$40,000 a year. Once we start getting his income, it will be another \$12,000 a year, I will graduate in 2016."

**[0:16:41] ST:** Now, when a debt is more than 180 days past due, the original lender gives up on collecting and they mark the debt as a charge off. They consider a loan to be bad but that doesn't mean you don't owe the money anymore. Most people think when a debt has been charged off that it's been canceled by the lender. That's not the case. You borrowed the money, you're still in the hook.

After 180 days, the original lender for that camper will most likely sell the debt to a collection agency for pennies on the dollar. The collection agency will try again and again to collect the money from you, they might represent the original lender or there may be a third party that bought the rights to the original loan so that they can try to collect some of that money. In either case, your loan still exists until you pay off the entire thing or to negotiate to repay less than the \$15,000 you owe. You might be able to negotiate to payoff this debt for 10 cents on the dollar or 50 cents on the dollar. Depends on how much the collection agency's willing to negotiate. What you're going to do, you've got to call him up and say, "Hey, what are you guys willing to take? I want everything in writing," and make the payment in one lump sum to get it over and done with. What

you don't want is be making payments and something happens when you can't make that payment on the repayment. Then you're back to square one.

The worst thing you can do for your credit is file for bankruptcy, don't do it. While \$15,000 might seem like a lot, if you negotiate a lower payment, you'll be much better off paying off that debt and filing for bankruptcy. You won't be able to get rid of your student loans and bankruptcy so what you're looking at is just the camper debt. Pay the whole thing off or negotiate a lower payment, once that debt is settled, your credit report will show the loan as paid, charged off.

Now paid charged off on your credit report is better than your credit report showing a charge off as it does now. Which makes sense, paying an outstanding debt is always better than not paying it from the standpoint of a lender. How much it paid charged off is going to affect your credit score really depends on other factors in your credit history. If you have too much outstanding debt, paying off the outstanding debt will improve your credit score over time.

Now, if you negotiate, you will want to have everything in writing and what I mean by everything, is everything. All your receipts of payment, your communication via mail, return receipt requested as proof of what was said by both sides. You want to send personal checks so you can know when the check was cashed and to have physical proof at the back showing the check was cashed, you're going to need that information to contact the credit recording agencies. Prove the debt was paid off in the collection agency fails to report the update.

After you pay off your debt, give it 30 to 45 days to show up as charge off paid on your credit reports. If the collection agency has stated something and later claims he didn't, you're going to have that written proof you need contradicting what they're saying. You never ever, never ever ever want to give a collection agency electronic access to your accounts when you're negotiating with them. Too many stories of agencies coming in and they're draining everything in the family savings account to collect on a debt. Doesn't matter what was agreed to, they'll take it all if they can. Don't do it.

For your student loans, sit down with your loan officer, your school, ask about the pay as you earn program, it's a federal program that ties your student loan payments to your income. That loan officer will help you navigate through the application process with those programs, you end up paying less when you earn less. Exactly in the position you're in right now. It will make sense for you.

As always, the number one thing you can do to rebuild your credit, pay your bills on time. Now, your credit scores, they're not going to improve right away but paying off your debt either in full or by negotiating to pay a lower amount, that's going to reduce the negative ding on your credit. Your scores will come up over time but stay away from that bankruptcy. Thanks Alicia for the question.

Betsy Writes.

**[0:20:41] B:** "Our biggest downfall is actually sticking to our budget. We always start the month off well, we create a budget and give every dollar a name but as the month goes on, we veer off course and spend more than we budgeted. Dinner out here, unplanned purchase there, we need help staying focused and being disciplined. Amazon is my Achilles Heel."

**[0:21:00] ST:** If you start the month on a budget, by the third or fourth week, you're off it, it's most likely because you know a big enough reasons to stay on it. Budget without some big goals behind it, it's just a piece of paper or some meaningless numbers on it. It's boring, it's lying around, it's got no purpose but if you do have big reasons, you haven't built them into them an emotional component enough that is going to get you through the month.

Through the tough times, through the months and years if you're digging yourself out of debt or the long years it takes to save for retirement because retirement is a long way off for most people. There has to be some shared excitement in your goals. When you get that going, it's going to power you through the overspending that's happening. Also you got to ask yourself how you're going to feel about that spending decision tomorrow.

For me, those decisions are like eating pizza. I love pizza but I can't eat it because it screws up my stomach so I have to remind myself how I'm going to feel the next day, terrible, and how you usually end up something else. I really want that pizza though but I give it a pass because future Scott is going to hate it. It's easy to enjoy dinner out tonight because it's right now. It's pretty hard to enjoy the thought of retirement in 20 years, which is why having some short term goals are important. They're tangible and they seem reasonable.

And having long term goals are important too because you don't want to show up at age 65 broke or when you run out of money at age 75. If you aren't on a cash budget, try to cash budget and get on the envelope system. Put your entertainment money in an envelope at the start of each month. I highly suggest trying it because it's quite hard to overspend when you run out of cash. Restaurants don't take an empty envelope as a payment. It takes a conscious decision to get in the car, go to the ATM and withdraw money that will obviously bust the budget.

And as far as Amazon, try this for 30 days: turn off your auto sign in and change your password to "Do I really need to buy this?" Anytime you want to buy something, you have to type in, "Do I really need to buy this?" If you're forced to ask yourself, "Do I really need to buy this?" It's not a want or is it a need? We've done that before because we are amazon junkies too and it will curb your online purchases. For you, I suggest write down some big shared goals, long term, short term, what you're saving for, reading every morning, get on the cash budget and review that budget every Sunday night before you start the week. Just put it on the calendar.

When the money is gone from the envelopes, it's gone. Using cash will make you a much more conscious spender, and you end up spending less on things that are unimportant like an appetizer out or a new thingy-bob for the house and you'll have more money to save and to spend on things that are important to you.

Okay, quick break, back in 30 seconds, we'll be answering more questions. You're listening to Scott Alan Turner.

[BREAK]

**[0:24:03] ST:** Hey Rock star Nation, Scott Alan Turner here. Now, for those of you that are my long time listeners, you know I'm not one of those guys on the radio who promotes every product that shows up on their desk. You never hear me try to get you to buy wine from Texas. Or recommending you to buy air conditioning services from some company in a city I've never lived in. No. I have a name to uphold to you my valued and awesome listeners.

But if I were, if I were to recommend something to you, I would tell you about public bread. If you need to make a sandwich, bread pudding, stuffing for a turkey, bread crumbs for your parmesan chicken. What else do you use bread for? Toast, feeding the ducks, you can't go wrong with public bread. Twice the yeast and half the sugar of normal bread, you can taste the difference.

Public bread is made by the brotherhood of Millers and the brotherhood uses only the finest flour, true roman bread for true romans. Available in the bread section of select grocery stores. Tell them, Scott Alan Turner sent you.

[CONTINUED]

**[0:25:07] ST:** Welcome back nation, I best scoot no more. Whoever came up with that must be brilliant. Cats on a toilet. What will they think of next, putting a man on the moon? Do you like the beach or skiing maybe? Or you've got a vacation on the calendar and you think about sitting next to the ocean hearing the waves or going down some fresh powder on the slopes? Do you think about those things like that sometimes?

I read this crazy experiment done years ago. I think I read about it in a book called The Talent Code, I don't remember all the parameters of the experiment but I remember the results and that's what we're after here. They took a group of adults and showed them some karate moves over a few weeks. They walked through the moves, they had a teacher and they would practice.

Then they took another group of adults and they showed them the karate moves or a few weeks too. But they weren't allowed to practice. Then they took a third group of adults, they showed them the same karate moves over few weeks, they weren't allowed to practice either but they were instructed to spend a few minutes each day going over the moves in their minds. They would picture themselves doing the moves. See themselves as if they were doing the karate in the class. Again, never physically doing the moves, just doing it in their minds. Then, the fun begins. Each group was tested to see how well they did the moves which group do you think did the best? The group that visualized themselves doing the moves, even though they had never performed them, did the best. The human brain, that marvel of mush. Now, what am I getting at here? I assume you brush your teeth right? Two minutes at morning, two minutes at night, maybe. I want you to stick a picture on your bathroom mirror of what it is you want. Something that's going to change your life.

Seeing it every day will make it easier for you to maintain motivation each day. It's just another tool you can use to get to where you'd want to go. Those are the words. Next time on the show, what do you need to know to be a successful investor? I'll tell you. That's it for this episode. I'm your host Scott Alan Turner, Rock star Katie is my producer, all the links mentioned in the show are available in the show notes at Scottalanturner.com. Today's episode is powered by Ben and Jerry's ice cream. Thanks for listening.

**[0:27:38] ANNOUNCER:** Okay nation, for your free copy of the guide, How to save \$1,000 in One Week, simply subscribe to the podcast right now on iTunes and text the word saving to the number 33444 to prove that you did it. Subscribe now to get out of debt, save more money and retire early. See you next time.

[END]