Debt Consolidation

Scott A. T.: Broadcasting from One Dallas Tower in the great country of Texas, welcome to the Financial Rock Star Show. I'm your host Scott Alan Turner, here to help you get out of debt, save more money, and retire early. In the studio with me is producer Katie who's been busily planning her trip to Japan, konichiwa. On the show today, is debt consolidation worth it? I'll be answering your questions on money, business, and life. If you have a question like answered on the show, visit GoAskScott.com.

One of the listeners of our fine program has a red alert for you, which I'll get into in a moment. If you are in debt or you know someone who is, you or they are looking for an escape, a way out, an escape hatch. Sometimes somebody shows up with a lifeline. You see an ad on late night TV, on the subway, on the internet to help you get out of debt faster. Debt consolidation is when you combine 2 or more debts into a single payment with a lower overall interest rate than what you're currently paying. Maybe you got 3 credit card balances, 22% interest rate, 18%, 20%, whatever they are, and you can't afford the minimums. If you can lower the interest rate and the minimum payments, it seems like a way out. You think you can pay the debt faster or at all. Usually, it involves stretching out the payments for a much longer period of time. In the end, when you consolidate debt you often pay more on interest because the longer payment period.

Think of it this way, you have a mortgage, 15 years, 5%, decide, "Hey, let's refinance it to 30 years at the new current 4% interest rate." You pay more on interest. You lower your monthly payments, stretch out the payments. What are you options though if you're looking at debt consolidation? First thing you need to be aware of, this industry is riddled with scammers and people who want to rip you off. They are slick sales people and they talk a great game, but they're really after your money. They take advantage of you in your worst time, when you're down on your luck. They know this. They're generally not good people. You want to watch out for debt consolidation companies that charge what's called an origination fee for consolidating your debts. It's like an upfront fee or percentage of the money that they're saving you.

For example, you got $10,000 in credit card debt. You're looking to consolidate and they charge you 2%, 200 bucks. That's just the fee. There's more charges coming. That's just the origination fee. Sometimes some of the really seedy ones, they will take some of your lower interest debts, let's say you got a no-no-no plan, you've got a 0% interest rate on some furniture that you bought. Maybe you're in month 6 of an 18-month no-no-no plan, and they roll that into the consolidation as well. Well, if your consolidated debt is now 10%, you've gone from paying 0% to 10%. You're paying more. Some of these guys do this.

There are also a couple of other types of debt management companies and debt settlement companies that fall under this debt consolidation umbrella. A debt management company, they work with your lenders that you owe money to and they try to negotiate interest rates and payments on your behalf. That's a debt management. A dept settlement company, they work with your lenders and they try to negotiate your total balance down. If you owe $5,000 credit card, they'll go in try to negotiate a 3, 4, $2,000 payment for you. Both of those types of companies charge you a fee for their services as well, hundreds and hundreds of dollars.

When you're looking at these things there are some red flags you got to be aware of. Number 1, if paying money upfront before they render any services, red flag. Companies that don't have offices, they don't have offices, big red flag, big red flag. If you feel you're being high pressure, high pressure sales tactics, fear mongering. If they're trying to scare you to death, you could lose your house, they're going to come take your car, they're going to garnish your wages, you could be sued, if they're scaring the pants off you, they're probably trying to get you to sign a contract, get some money out of you. Beware the high pressure sale tactics, red flag, or if you get guaranteed approval before they have ever seen your paperwork or situation. I was driving down the street just yesterday and saw a big billboard out there going down the highway, guaranteed 700 credit score. That was on the billboard. You can't guarantee someone a 700 credit score without have ever met them or know their personal finance situation, red flag. Drive on by that billboard. Don't even take the number down.

If you check with some of these companies in the Better Business Bureau, that's not necessarily a good way to see if they're legit or not. Better Business Bureau is like class in high school or college, on the first day of school we are all 4.0 students. We're all A students, and then you go down from there. All companies start out on the Better Business Bureau with a good rating. Then like in school, once you start not handing in your homework or doing badly on tests, then your grades go down. Start with the A, go down to the B, C, D. If you're really a bad student, go down in the F. Until the complaints start rolling into the Better Business Bureau, every company a-okay. It's not a good gauge.

On to our listener who run into this first hand. He was 2 weeks away from a court summons, 2 weeks from a court summons, to be sued for his debts. This was after using debt consolidation company. These companies are supposed to keep this from happening, but this company was taking his money and not paying the lenders. This is common. He had to go find a lawyer, which you don't have the money to do if you're in a situation where you're trying to consolidate your debts, right? Who has $335 an hour to pay an lawyer when you're just trying to make payments.

Thankfully, he found someone who wouldn't charge him. The lawyer said he should've called up the creditors and negotiated it on his own and work it out. The lawyer at this point said, "Your best option is to file bankruptcy." The NationalFoundationforCreditCounseling.org, they looked at his situation and said, "The company, they are not helping you," that he was with. He has a credit score of 552. He would've been stuck in debt until the year 2026, paying $34,000 instead a $25,000 that he owed based on all the interest. The lawyer said, "You should've worked with the National Foundation for Credit Counseling from day 1." These companies, not the NFCC, these consolidation companies, they work either by not paying your creditors and they tell you this, says, "Just stop paying your creditors. Don't do it. Make them squirm." That's not the way to handle it, or they give you bad advice and tell you do other stuff." Burying your head in the sand is not how this gets fixed. It just makes it worse.

Some companies claim they can help you clean up your bad credit. They cannot. It's a rip-off. Don't believe them. If it sounds too good to be true, it's too good to be true. If you're in this situation, step number 1, contact the National Foundation for Credit Counseling, NFCC.org, one of the very, very few legit companies out there offering credit counseling, legit credit counseling. They're not trying to rip you off. They do good work over there. The biggest issue with any type of debt consolidation from these services using peer-to-peer lending, having a friend or family member bail you out, whatever route you take. Unless your underlying spending habits are address no amount of time, no amount of money can save you from falling right back into debt. A person in debt who makes $100,000 a year is a person in debt who makes $200,000 or $300,000 a year if they don't have a plan and they follow the plan. It's natural. It's normal. We spend what we earn. Until you have a plan to spend less than you earn, you cannot get out of debt.

Debt consolidation, it may be an option for you. You have to work with a legit company. NFCC.org, they're one. I can't tell you another. The biggest benefit is you can get a lower interest rate on all of your debts. It's going to free you up some money to put more money towards the principal, paying down the debts faster. It should be your only goal. Pay out the debts as fast as possible. You might not be someone who is in debt, but someday you may come across someone that is. Now you know how you can help them. Point them in the right direction, or help yourself find a better way.

Now, on to your questions. Antonio asks if there is a foreclosure forgiveness, he says,

Antonio: "I was researching some things about the Mortgage Forgiveness Debt Relief Act, but I cannot find any legit sources without someone wanting me to pay for a book. Do you have any information? Will it remove the foreclosure off my credit report? That foreclosure I have is crippling the business I want to start. I cannot get a small loan or anything with it there."

Scott A. T.: You don't have to buy books if you're looking at it from a tax perspective. There's a couple of links. I'll give you one. It's from the IRS. Their Home Foreclosure and Debt Cancellation information, and there is also a website link I'll include called For Debt Insolvency and Taxes, which is written from a CPA who specializes in that and walks you through the different issues. If you have a foreclosure and how that is going to impact your taxes, one of the legit sources that offers some free articles, they also sell books, is Nolo, Nolo.com. Their books are very, very well written. They are legit. While they do cost money, it's worth the investment to get them, and they're not super expensive, 10, 20, 30 bucks, depending on the book that you want to buy.

Unfortunately, once the foreclosure is there on your credit report, it can't be taken off. It's going to be on there for about 7 years. In does have an impact on your credit score, but that is going to lessen over time. Foreclosures, like a bankruptcy, very, very negative on your credit score, but there is this misconception that, "Hey, I'm doomed once it's on there until it's off." It's not going to ruin your score forever. It's just going to take a little bit of time for you to bring it back up. It can rebound in as little as 2 years. The important thing you want to keep in mind, it's a single negative black mark on your credit report. It's a big one. It's a big one, but if you isolate it down and everything else looks good on your credit score, your other credit obligations that you have on there. When a lender looks at that hopefully they'll take that into consideration.

There's a lot of things you can do to improve your credit. First, you do want to get a copy of your credit report, go to that. Make sure there's no errors. There's nothing on there that shouldn't be. Check that it's accurate. If you're looking to get a lower interest rate, check with the lenders. If your foreclosure is a little bit older, you've been making payments on time, your recent credit looks good, maybe your creditors will be willing to lower your rate or extend you a loan. You also want to contact your local bank and see about getting a personal loan with a lower interest rate, if that's an option.

Other sources for loans, personal loans from SoFi.com, you could look at going with Lending Club and Prosper. You probably have to pay bigger interest rates. That's one thing you're going to have to watch out for with those places. Kickstarter, if it's some type of product development. Think outside the box there. Again, sitting down with a loan officer at a credit union explaining the situation.

Smart lenders are like smart general managers of sports team. Alright, you look at this person. They may have had one isolated incident in the past, but we're going to take a chance on them because we believe that we have the support system or whatever in place for them to prosper in this sports environment. Likewise, you get a smart lender say, "All right, I understand what happened with your foreclosure. I can see that on your credit card. I see that you have a good source of income and you've got a budget and you're paying your bills on time and you're doing well, maybe I'm going to take a chance on you. I might charge you a little bit more interest, but maybe I'll a take a chance on you and loan you that money." Friends and family, another option for getting loans, not going to necessarily go that route, because that changes the relationship, but it is an option if that's something that you're really looking forward to doing. Thanks Antonio for the question and good luck.

Shout out to Aubrey. Thank you for subscribing to the show. If you have a question you like answered on the show, visit GoAskScott and maybe put a .com after the end of that in your browser. Otherwise, you're going to be going nowhere.

How do you know if you're picking the right college, or your son or daughter is picking the right college, or a family friend, niece, nephew picking the right college? By senior here at high school if flew down to Charlotte, North Carolina to visit my brothers, my brother Terry and his wife Lynn were kind enough to drive me down to Macon, Georgia, 4 and a half hours south for an appointment to tour a college campus. How I ended up from country, town, New England to deep south? A tale for another day, but I remember the curly-haired sophomore named April who walked me around campus, showing me the school and all its amenities.

This is a scene played out year round at small and large universities. Wide eyed high school, college juniors and seniors being wooed to attend ... insert of the name of the school here, but what's the school really like? When the show is over, how do you know what you might be buying into? What's behind the façade, everything they showed you? Are you seeing the schools' true colors, or are you just being presented them at their best? Here's an idea I heard recently and it stuck with me. I thought, "This is brilliant. Why couldn't I think of this?" Every student looking to go to school needs to do this. It's how you can be sure you're making the right the choice. Maybe not 100% sure, but it's going to get you a little bit closer to make sure you're not making a huge financial and life mistake.

If you're a high schooler listing, if you have kids who plan on going to college, grandkids, listen up. When your tour is over, go find the busiest place on campus in between classes or go to the student union, cafeteria, go by yourself, don't go with mom and dad, don't go with the aunt and uncle, or the grandparents, don't go with the tour guide. You, all alone, give yourself 30 minutes. Give yourself 60 minutes. Go to that place, sit there, and just observer, observe. Look, listen, feel, observe, and take it all in, and think about it. Ask yourself, "Do I see myself here? Are these my people? Could I see myself spending 4 years here?" If you get that warm and fuzzy feeling, you're good. If you have any doubts, cross that school off your list.

Just taking that 30 minutes to think about it, if you're going to fit in here. Will I fit in here? If you think you see your future lifelong friends walking around you, talking, having fun, that can make a huge difference in your life. Likewise, if you see the crazy lady over there in the corner spouting off political rants that you don't necessarily agree with, you might think, "This is not the place for me."

Back to your questions. Robin in White Hall, Arkansas is deciding between student loan payoff and debt forgiveness. He says,

Robin: "I have a little under $60,000 in student loans, and I'm currently on an income-based repayment, IBR, plan. Based on my individual income, I have $0 a month payment right now. Sounds pretty sweet, but of course, the interest is building. The $0 a month payment was based on my individual income, and since my wife and I got married a year ago, the next time I renew the application for IBR, our combined income would be used to determine the new payment. By my calculations, we're using the federal repayment plan site calculator, I expect the minimum to go up to around $350 a month starting in September. The $0 a month has helped knocking out our other debts by September according to our debt plan, we will be on to my student loans which is pretty good timing.

"We are public school teachers, pay a mandatory 6% contribution to a teacher retirement pension plan, but that is all the retirement savings we have so far. I am 38 with 8 years in teaching. She is 34 with 10 years in teaching. We're really worried about our retirement savings. At our current pace, if we move on to my student loans in September, we can have them gone in around 2 years, or if we continue making minimum payments, which are $0 a month right now, the remaining balance will be forgiven in about 7 years. I expect the minimum payments to go up, but to no more than $350 a month over the next 7 years, and we have over $2400 a month earmarked for debt a month.

"Should we push through our debt payoff plan and put the $2400 a month on these student loans starting in September or should we continue with the minimums and wait for forgiveness. If we make the minimum payments and invest the remaining balance into different tax deductible plans, I believe we can get our adjusted taxable income down to where our minimum payments on these student loans would be in $100 to $150 range, maybe even lower, which leaves a pretty good chunk for savings each month. My wife and I have gone back and forth in this issue for a while. We need some guidance and advice. We're also worried about waiting for forgiveness to kick in and the program being cancelled or something else going wrong before we are eligible."

Scott A. T.: I Just heard in an interview the other day, it was with a 30-year-old couple. I think they're in their early 30s, both of them. He was a school teacher. I don't recall what his wife was, and they're now travelling the world. They have some rental homes. They are early retirees, and I remember this because one of the big regrets the guy said during the interview was, "I wish we hadn't had paid off our student loans early. We would have so much more money for retirement if we had done the Public Service Loan Forgiveness." It really stuck with me, so does that mean that you should do it Robin? Well, your situation is not their situation. Let's ignore what they did and look at you.

The Teachers Union is the most powerful union in the country. Politicians cower to them. The chances of the Public Service Loan Forgiveness Program being taken away are about as likely as me becoming an NFL quarterback, so let's take the fear and worry off the table, never going to happen. There are no outside forces that can derail that program. What I would do is call your student loan advisor wherever you went to school and talk to them about the IBR program and student loan forgiveness for your unique situation. You can derail your own plans though by missing payments. You've got to make 120 consecutive payments, so 10 years, and you've got to work for the school for 10 years as well.

Now, outside of that, let's use the higher power of math to help guide your options. Here's the quick and dirty. 350 a month payback, 12 months, 7 years is 30 grand you pay back, so $30,000 is forgiven. If you pay back all the loans yourself ahead of time, accelerate the payment, like you said, you've got 60 grand in payment, 30 grand could be forgiven, the difference is 30 grand, so it's 30 grand you're not going to have to invest if you pay it back sooner. 8%, a very conservative return on your investments, 8% over 20 years, that 30 grand would turn into almost %150,000 if you retire at 58 and start pulling it.

Let's say you don't need the money until you're aged 68 because you live off other investments like the pensions that you're getting. That 30 grand turns into $328,000 over the next 30 years. Let's be conservative. Let's say you invest, you can get your income-based repayment payments down to 200 bucks a month, even though you said 100 to 150, let's just make it a little more. 200 bucks a month, same deal, 12 months, 7 years payback, roughly $17,000 out of pocket. Let's just call it 20, use round numbers. You would end up with $40,000 forgiven. It's $40,000 difference between if you paid it down and accelerated the payment plan and what has been forgiven. Same investment, 40 grand, 8%, 20 years, comes out to nearly $200,000 at age 58 and $437,000 at age 68. That's the difference. That is not even with the investments you would be making by not paying off the loans.

You said you've got $2400 a month. That's going to be freed up if you go with your number of, or actually it's my number, $200 a month towards the student loan payments on your income. That's $2200 a month towards investments for 24 months, because remember, you said you were going to knock this out in 2 years, so that extra money is for the next 24 months you wouldn't be applying towards the debt, 8%, 20 years, $227,000. After 30 years of those payments, $492,000. That's just using the calculator on my website, 8%.

Let's flip it. Let's flip it. Put $2400 a month towards the debt. It's paid off in 2 years, 60 grand. Well, there's nothing really to flip there. You paid off 60 grand. You have no debt, but you didn't get any of those investment dollars, so that's your return, 60 grand, and you get peace of mind from having loan paid off in 2 years. Is it worth paying the extra $40,000 difference between accelerating the payments and not over the next couple of years if you're going to give up 400 grand 20 years from now or 900 grand 30 years from now, and you know what? It might be. It might be.

Here is what I would consider doing. First, double check my math. Who knows what my fat fingers might've hit instead, but I think those numbers are pretty accurate. Here's what I would do. Take your extra student loan payments that you were going to apply, the $2200, whatever it is above and beyond your minimums, stick them into online savings bank earning 1%. In 6 months, after your other debt is paid off, in 6 months when you've got that money accumulated, you will review your situation. 6 months of interest isn't going to kill you.

You can decide 1, "Nope, we want to pay down these loans. We're going to take that money that we put aside and we're just going to throw it at the student loans. We have them. We want them gone." Number 2, you can say, "No, we can make this work for the next 6 and a half years and we're going to go for the forgiveness, so we're going to take this money that we have been putting aside and we're going to invest it," or 3, "We're going to wait another 6 months before we decide. We're just going to tap the breaks and see how it goes," and you can repeat that in 6 more months if you decide to wait.

Maybe 1 to 2 year out you decide, "Holy cow, if we just hang on 5 more years, we can have all these loans forgiven. We can have them all forgiven, and we got this big pile of cash sitting over here, let's stick them in stock market, start making some money, start investing," or you might decide, "I can't stand this debt. My wife can't stand this debt. She's on me. She wants to get rid of it. I don't care what it's going to cost me, we're just going to pay it off," but you can take your time, and if you that, I believe your path is going to become much clear. With the cash set aside, instead of already being committed in one place or the other, you can choose which path is more appropriate when the time comes. Thanks Robin for the question.

Back in a moment. You're listening to Scott Alan Turner.

Hey nation, Scott Alan Turner here for the Weed Store. Are you sick and tired of spending your valuable time on the weekends mowing your loan? You can't fight the crabgrass, clover, and dandelion? Well, now you can cover your entire outdoor landscape with attractive weed seed so you can finally give up the fight. The Weed Store has weed seed for every type of lawn, Bermuda, fescue, Kentucky bluegrass, even the Cadillac of grasses, Emerald Zoysia. Replace your tiresome monoculture grass with beautiful flowering weeds that grow no higher than 4 inches in height, eliminating both your mowing and complaints from those pesky neighborhood associations run by power hungry board members who have nothing better to do but sending you nasty grams, threatening to take your house away by force if you don't mow. In your face Wisconsin. The Weed Store, mention Czechoslovakia and get 10% off your first order. Never mow again.

Sean from Denver, Colorado asks for advice for combining finances for newlyweds. He says,

Sean: "My fiancé and I wanted to know if you have any advice for newlyweds regarding joining finances. We're not sure the best way to approach joint bank accounts versus individual accounts. Is there anything that we should keep individual? Thanks for the wisdom and keep on rocking."

Scott A. T.: Katie and I, when we got married, it was one of our first coupley actions. Got back from the honeymoon and started the process of merging accounts. I did hang on to my Georgia Telco Credit Union account for a number of years, but it only had $100 in it on average because I hated giving up on the credit union. Katie loves the mega-bank, but since we had no loans. Didn't keep much money at the bank, who hold our smaller accounts, whether it be a mega-bank or not, didn't really matter. Some people are going to tell you, "You've got to have separate accounts. You've got to do it. His money, and her money, and our money, what if something goes wrong? You've got to have your own money just in case." If you plan for failure, you will most likely fail.

If you expect the worse out of your marriage, why bother even getting married. That's my thought on that. By that logic that these people give, every married couple should have at least 3 refrigerators. Unless you have kids, then you should have 1 for each kid too, because there's my food that I'm going to eat. That's going to be here in my refrigerator. There's her food that's going to be over there in her refrigerator, and then there's our food. We're going to put that in the shared refrigerator. What we eat or cook for dinner together, and if and when the kids come along, well, they eat different stuff too. They're always eating hot dogs. I don't eat hot dogs. They're going to have their own refrigerator. I mean, that I senseless, but that's the similar logic. It's our food. It's our money. If Katie has leftovers in the fridge, I don't touch it without asking first, but she doesn't have a separate bridge.

Budgeting and spending plans, they are so much easier when you just have one big pool of money to work with, your total income. 1 checking account, 1 or 2, or you could have multiple savings account, but they're all yours. You can have your emergency fund, your opportunity fund, your house savings fund, but they're all your accounts. All the bills come out of the shared account, the mortgage, the car payments, the credit card payments, the utility bills. It just makes life easier. It's better than separate checking, separate credit card accounts. His, hers, and ours. It isn't I'll pay the mortgage, you pay the electricity bills. If you want a new car, that comes out of your paycheck. You have to save for it.

You would be building a financial future with each of you on different foundations. One might be building a skyscraper. The other might be next door building a lean-to or a popup camper. 1 foundation, 1 building, 1 future, 1 set of common goals, 1 retirement plan, we want different things along the way, and that's normal, that's okay. It's expected, but we're going to work together to get them because we're a team and we're going to plan for success and not hedge your bets for failure.

I give you this other thought. If you start thinking about getting sick or feeling sick or someone says you look unwell, "Hey man, you look like you're kind of red in the face or something," you're going to start feeling unwell. It's going to be a seed planted in your mind and you're going to start getting sweats, and then your brain tricks you into getting sick, and sometimes you end up going home early from work because of this. This happens. I've had it happen to me. If you start thinking, "Well, something could go wrong," something is probably going to go wrong. The advice to keep everything separate, that usually come from wounded people who had things fall apart, probably gone through a bad relationship, maybe a divorce. They've got good intentions. They do, but I think it's just bad advice.

If you want marriage advice, I'm going to go to the old frail couple that's been married 50 years today, how did you guys do it? I bet you'll find they didn't have separate checking accounts, or the guy might go ask the guy with the cats who would soon to be married 11 years until death do us part. We've made it thus far. It has worked pretty well for me, so that's what I'm going to recommend that other people do as well. Common account for you checking, common account for your savings, common credit cards, no hidden money after you get married. Remember to add each other's beneficiary to your retirement plans and your employer sponsored retirement plans if you have them to your brokerage account, whatever you got, but pull your money together. It's going to make your budgeting and spending plan much, much easier, and it's going to position you to win in the future when you get on the same page with your finances. Congratulations Sean and your fiancé on the upcoming wedding. Eat lots of cake. I love wedding cake. It's the only reason I go to weddings, certainly not because I enjoy wearing a suit. Cake, I love it.

Steve writes,

Steve: “I wanted to let you know we were able to refinance our car with Capital One. FYI, Steve was upside down his car loan by about $20,000. After running the numbers and contacting several other refinancing institution Capital One came in at 6.5% versus my 10% I was hoping to get a lower rate, but I filled chapter 7 bankruptcy in 2009 through credit cards, so that hurt me on this one. 6 and a half percent I'll take any day over 10% though. After we did the math, it looks like we saved a little over $14,000 and cut 18 months off payments. All in all, we consider it a win. We celebrated with sushi that we had a groupon for, $30 worth of food for 15 bucks. We will continue to put every extra dollar on that loan until it's finished or we sell the car." Way to go Steve. Steve just saved $14,009, $14,000. That's $14,000 in savings. That's a win.

Scott A. T.: Final words of the day, doubt kills more dreams than failure ever will. Those are the words. 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 on ScottAlanTurner.com. Do you have a question you like answered on the show? Visit GoAskScott.com. Thank you so much for listening.

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