Money Trouble Help Guide

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INTRODUCTION to Money Trouble Help Guide

My name is Michael Hobach. I am a businessman, Real estate investor, and Entrepreneur. I was born in Milwaukee Wisconsin in 1957 and have lived in Southeastern Wisconsin my whole life. I am divorced and have four children – my two youngest girls take up most of my family time, and my two older children are off on their own.

In 1982 at the age of 25 I was involved in a law suit which left me penniless. I was forced into bankruptcy, had my home Foreclosed on, and ended up getting divorced from my first wife as a result of the hardships that we endured. That was 25 years ago!

I have always been a problem solver (this doesn't work in your marriage - so don't try it at home guys!) although as I get older I realize that I need to be selective as to which problems I try to solve.

I set out after the bankruptcy, Foreclosure, and divorce to learn about all of the things that went wrong and caused me go through what I had gone through. Amazingly, the things that I learned were quite simple, but to know them and to apply them wasn't that easy. Which is where this book comes in.

Since 1982 I have rebuilt my credit and grown several businesses from the ground up to where they are multi-million dollar corporations now. By applying simple processes and techniques over the years I have been able to raise my credit score to near 800.

Recently I had a ding appear on my credit as a result of a second divorce and just not paying attention to my credit report. Working on repairing this issue has again forced me to utilize these principles to get my credit score back up to where it needs to be.

The simple task of refinancing my home after the divorce became a nightmare - within 2 short months I have restored my credit to where I can get a palatable interest rate. I continue to apply these techniques and within 6 months I should be back to where I was two years ago.

So what are these techniques? What 'system' am I using to raise my credit score? Well, I guess you will just have to read this book and find out.

I have compiled a lot of information here. Some of it is real simple - kind of like 'duh' as the kids would say. Other things are more involved and may take some time a perseverance to get done.

This information and other information that I am making available to you will help you live a better life. While money can't buy everything, it does allow you to not have to spend so much time making money and allows you more time to spend with family and friends.

Although this book is arranged in sections, there may be duplicate information found across multiple sections. This is because the information is pertinent to each section that it appears in.

You may not realize it but without good credit you may not be able to get a good job, or that house that you want - a new car, or other toy that needs to be financed. With good credit you can do almost anything that you want to do. So eliminate your debt - improve your credit, and get on with your life.

Section I - Debt

The basic concepts of debt

Budgeting is an important aspect of living and a person who knows how to budget will go a long way in this commercialized society. Budgeting has a lot to do with keeping the expenses less than the total income of the household. Those who are very good at budgeting can come up with savings even if they have meager incomes.

The problem sets in when a person fails to make an efficient financial plan and his expenses exceed his earnings. When this happens, a person has no choice but to borrow money to make up for his financial deficiencies. Borrowing once or twice because of a mismanaged financial plan is normal but when borrowing becomes a regular thing that can put a person in serious debt problems.

A person who borrows money from another is said to be in debt. The debts of a person can be minimal or can reach up to millions depending on the credit limits of each person. Sometimes, a person who has assets but isn't liquid can use these assets to get cash. Under this term, the person can be indebted for an amount less or more than his assets.

There are laws that provide that a person can never be forced to render services as payment for his debts. This is called undue servitude and is prohibited by the laws of some countries. However, there are situations when the person who is in debt opts to settle his obligation by rendering his services.

This can happen if a person is so talented in his craft like painting and he opts to pay for his debts by creating a painting of the creditor or the assignee of the creditor. Sometimes, a person can pay his debts gradually or on an installment basis.

When a person dies, the law has provided for a hierarchy of preferences in the payment of such debts. Of course, payment of taxes to the government will always come first. The second priority for debt payments includes funeral expenses of the deceased and the payment for the wages of people.

Debt is really just a simple concept, which provides that a person who borrowed something from another is duty bound to pay that debt. However, the concept of debt becomes more complicated with the introduction of other concepts like mortgage, interest rates and other charges. Interest makes most debts double or even triple in amount. More often, the interest rates due for a certain debt is even higher than the principal amount borrowed.

A person who wants to get credit can do so in the form of a loan. A loan can either be secured to unsecured. A secured loan means the debtor borrowed some money and supported the loan by collateral or a security for the loan. The security or collateral can come in the form of a house and lot, a car or any asset of the debtor. An unsecured loan means otherwise.

Most creditors require a security before granting a loan because it gives them something to hold on to or to forfeit in case the debtor defaults in payment. When the debtor fails to pay the debt within the agreed timeframe then the creditor can foreclose the security or the collateral.

However, having an unsecured loan doesn't mean that the debtor can renege on his debts. When the debtor fails to pay his loans, the creditor can still run after him by filing a case in court. When this happens, the debtor who has no cash can sell some of his assets to pay for his outstanding loan.

Being in debt is common even for the rich and the famous; the only difference between them and the common people is that their debts can be in the millions since they have more assets to support their loan. Unsecured loans most often have higher interest rates to make up for the lack of security.

Even third world countries are indebted to more developed countries. However, the debts of a country can go on forever because they keep on paying their loan but they also get new credits as their credit ratings go up.

What Are Expenses?

Society is becoming so commercialized that no person is exempt from this worldwide phenomenon called spending and mounting expenses. The high cost of living has paved the way for an increase in the spending habits of people.

An expense refers to disbursement or spending and it generally has something to do with money. Anyone who lives today isn't exempt from having expenditures even just for day-to-day living.

Expenses can either be essential meaning those expenses necessary for the survival of a person, or non-essential expenses, which refer to expenses that aren't really necessary or are considered as luxury expenses.

The most common and essential expenses are those spent for food and for the daily subsistence of a person. A person couldn't survive without food and water so almost all people are forced to spend money on these items. Expenses for housing utilities like water and lights are also considered essential expenses because any household will not operate efficiently without them.

For people on the go, the cost of fuel or fare is also considered an essential expense because they couldn't go about their daily work without spending for these items.

Essential expenses are the expenditures that a person couldn't live without because these are necessary for the day-to-day subsistence of a person. Try scrimping on food expenses and any person will soon realize how essential food is in the daily household budget.

People work so they will earn money that will be used to pay for their essential expenses. A person who isn't lucky enough to get a good paying job will definitely have no choice but to tighten the budget even for his essential expenses. This means cutting back on basic needs like food, water and power consumption and even toiletries.

However, there are some people who earn less but still spend more for their household expenses. These people have failed to manage their finances and they will soon be deep in debt. The key to successful household management is to keep expenses to the minimum.

The expenses of every person differ and the money allotted for each type of expense depends on the priorities of the person. While each person has a household expense, there are other expenses that are necessary to fulfill his various responsibilities in life.

A person who is engaged in business will definitely be familiar with business expenses. These are the necessary expenses to run a business and sometimes it is called overhead expenses. Any entrepreneur should keep his expenses at a minimum and it should be much less than the total sales of the business so that the business will be able to make a profit.

An entrepreneur can have expenditures related to the promotion of the business, advertising, maintenance of the business establishment like expenses for power and water, salaries and wages for the employees and other expenses. A person who works at home can claim a certain percentage of the household expense as a business expense.

While business enterprises should cut back on their overhead expenses to get a decent margin of profit, a homeowner should keep his household expenses to the minimum to achieve a reasonable savings. Savings advocates, however, argue that savings shouldn't be the remaining cash after the expenses are deducted from the total income. They say savings should be deducted from the total income first and the remaining cash should be the basis of the monthly budget of the person.

Every person who wants to profit and to achieve savings should be a wise spender. You can keep the expenses at a minimum by availing yourself of grocery sales, promotions, and free coupons. You can choose to buy a cheaper product with the same functions and quality as another known product that is more expensive.

It is always wise to become a critical spender so manage your finances wisely and keep the expenses low by following different strategies like buying from the bakeshop when it is near closing time as most shops discount their bread products by as much as fifty percent during this time.

There are a thousand and one ways to save money and keep expenses low; it is however up to you to achieve these goals.

Exploring your own debt

The rising cost of living and dying has made people more reliant on loans and credit. Most people have been indebted to someone at some point in their lives. A debt is an obligation that should be paid and accounted for no matter how meager the amount.

Being in debt is normal considering that no one has a monopoly of all the money in the world. People will always have the tendency to accumulate debts no matter how rich. In fact, rich people have more debts than poor people because they have more needs and they have more collateral or security.

Being indebted isn't something that you should be ashamed of provided you are a responsible debtor. This means the money was used for a very good cause or purpose and the debtor is religious in looking after his responsibility to pay his debts.

Even a person who is savvy is financial management can get into debt for one reason or another. However, a person who is good in managing his finances should also be good in managing his debts. Managing debts would include the ability to know how much a person owes and from where he would get the money to pay such debts.

The ability to know the total indebtedness is a must in debt management because the person who is in debt is aware of the total amount he has to produce to pay off his debts. There are people who don't practice good debt management and they keep borrowing money without being able to monitor how much they already owe individuals or financial institutions.

Debt management means that at the time the loan was made, the borrower knows where he would source the payment for such debt. This makes the debt manageable because it would appear that the person has some source of income and he is just not liquid at the time he borrowed the money.

People who don't have a steady source of income should be discouraged from borrowing because there is a tendency for their debts to pile up without being paid at all. Unemployed people who resort to borrowing for their essential expenses like food and daily subsistence may borrow from another creditor to pay off a debt that is already due and demandable. The same thing happens to the second and the next loans after which it becomes a vicious cycle.

A person who is indebted to someone should take an inventory of his assets that can be used to pay off his debts. There is no problem if the debtor is looking at a possible income that hasn't yet been paid. Such unpaid income can be considered an asset that can be used to pay his debts.

Debts are easily made but they are difficult to pay. Thus, every person should be careful when borrowing money from others. Make sure that you have something to pay for the debt like an incoming income or check, or assets that can be sold to pay off the debt.

Some people get indebted by virtue of loans that have varying interest rates. This means that aside from the principal amount borrowed, the debtors still have to pay for the interest rate. A person who borrowed $100 at ten percent interest rate per month will have to pay the principal plus the interest rate of $10 per month. Some interest rates are based on the actual balance like if the debtor has already paid $20 then the interest rates would only be pegged on the balance of $80. However, there are some interest rates pegged at the original amount borrowed.

While being in debt is prevalent, every person should learn how to manage his debt and how to stay out of debt if possible. One of the major factors why most Americans are indebted today is the misuse of credit cards.

Credit cards are those plastic cards that can be used to pay for almost any purchase even if you don't have cash. People find it easier to spend when using their cards because they just swipe it and voila----it works like a genie granting their every wish!

However, most people who fail to use their credit cards wisely become indebted and are faced with legal actions for failing to pay their cards when they become due and demandable.

Go ahead, borrow if you must but always take charge of your debts to make sure they don't lead you to declaring insolvency or bankruptcy.

Create a Budget

No man is an island. We all need help once-in-a-while. We're not only referring to personal matters. We're talking about financial matters. We reach a point where we have to buy something out of necessity, but we can't pay in full just yet. An example of this is a home.

Now the time has come for you to repay on what you own. You must have the discipline to plan out how much you should have saved so when your time is up and you have to shell out the money you owed there and then (plus interest), you wouldn't have a hard time doing so.

Prioritize which of the debts must be paid first. Prioritize your bills. Make a list so it will be more organized so you can see it right in front of you.

This is what you call establishing goals. First establish what must be prioritized over those you could schedule paying some other time.

The essential debts are debts that should be on top of your list. These are:

- Rent or mortgage. Of course, who in his right mind won't pay up as soon as possible? Paying your rent or mortgage bills on time helps you have a roof over your head.

- Child support. If you don't pay on time, there's a possibility you can be held behind bars.

- Utility bills. As much as possible, set aside a budget on gas, heating, water, electricity and/or telephone when you get your paycheck. In doing so, when the bill comes, then you have something prepared.

- Car payments. This also includes car maintenance.

- Other secured loans. If you don't repay collaterals, the creditor takes the property even without court interference.

The non-essential debts can be set aside because when these aren't paid, they don't have that much of a side effect. It's a desired goal but not really a priority. The only concern that can be considered when you don't pay non-essentials debts for a long period of time is the negative image it could project on your credit report.

- Department store and gasoline charges. Failure to pay these charges may result in losing credit card privileges. If it's too large, you might be sued.

- Loans from friends and relatives. Morally speaking, there is an obligation to pay but sometimes since they're family, we think that they will understand if we can't. Check with them if you can delay the payment and ask them for how long.

- Newspaper and magazine subscriptions. Little by little, if you haven't paid, they'll mount to sizeable figures.

- Legal and accounting bills. If these remain unpaid after a long period of time, you might be sued.

- Other unsecured loans. In unsecured loans, there's no collateral for the debt. This means that the creditor can sue and then collect the debt.

Here's the confusing part. Some of the bills border between essential and non-essential. If you let these bills defer for a long period of time, it could have consequences in your personal life.

- Auto insurance. The consequence in some states is losing your driver's license.

- Medical insurance. If you have a tainted record, you might have a hard time getting new insurance in the future.

- Credit and charge cards. If you don't pay your bills on time, you might lose your credit privileges and would have a hard time applying for a new credit card.

Now that we laid out the groundwork on how you can prioritize which bill to pay first, we move on to having a timeframe.

It's best that you have a calendar in front of you. A palm pilot or the calendar in your Microsoft Office program will do. Mark the dates wherein you would have to pay the specific debt – be it essential or non-essential. Then what you can do is set aside the bill that is allotted for that debt.

As for the budget, prevention is always better than cure. You know how much you get in a month. Keeping that in mind, you must allot how much percentage of your salary shall go to pay certain expenses. Then do your best to stick to that budget.

If "X" is how much you should spend for leisure, then that's how much you should spend for leisure. If at one point, it went overboard, then there would have to be a sacrifice on another aspect, such as food. That seems off, right?

