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**JOHN R. BURLEY**

**HOW TO BECOME**

**TOTALLY**

**DEBT-FREE**

**(INCLUDING YOUR HOUSE AND CARS)**

**IN 3-7 YEARS!**

**EDITED BY SIMON E. HALL**

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"Debt robs a man of his self-respect, and makes him almost despise himself. Grunting and groaning and working for what he has eaten up or worn out, and now when he is called upon to pay up, he has nothing to show for his money: this is properly termed "working for a dead horse."" P.T. Barnum

In this Handout we are going to tackle, what for many people, has become one of their biggest and most relentless problems: **DEBT**. At no other time in history has there been such a tremendous financial burden placed on the average family. I know this from personal experience as well as from extensive study of the subject.

According to the Federal Reserve Board Survey of Consumer Finances Report 74% of all Americans are in debt with an average household debt of \$33,300 (this figure has risen 42% over the past three years!). At the end of July 1998, Americans owed \$1.266 trillion dollars in consumer (non-mortgage) debt. A number that has ballooned 66 percent in the last decade and now equals roughly \$5,000 in consumer debt for every man, woman and child in the nation. Americans are the proud owners of over 400 million bank credit cards and hundreds of million more department store and other charge cards. Credit card balances are at over \$500 billion (with card delinquencies up over 40%!). Over the past decade total household debt in America has almost doubled. The average family now owes over one year's after-tax income in consumer debt. This trend is consistent with other 1<sup>st</sup> World Countries.

I can relate to this. Just a few short years ago I was deeply in debt. I owed over \$20,000 on credit cards. My monthly car lease was \$625; my sports utility vehicle (SUV) payment was almost \$500. I owed over \$215,000 on my home. I made good money but I was nonetheless deeply in debt. I didn't think I would ever get out of debt. Just as I started to make a dent in the credit card balance another expense would come up. It was very frustrating and certainly depressing. I felt like the only way I would ever be able to pay off all my debt was if I won the lottery or inherited money from some rich relative (I didn't have).

The monthly payments just keep rising and rising. Bringing with them ever mounting pressure and stress. To most it does not seem like this rising tide of debt will ever recede. And for many people that is the hard truth. They will ultimately drown in this choking sea of debts and liabilities, of endless bills, payments and anxiety. The average family will continue to make monthly payments until the day they die or until they are forced into bankruptcy by their negative cash flow. **This all STOPS NOW!!**

I was living my life like many people do; heavily in debt with no light at the end of the tunnel. I truly believed I would probably be in debt for my entire life. I certainly believed that I would *always* have a mortgage. My family was like most families who are weighed down by thousands, if not tens or hundreds of thousands of dollars in consumer debt.

Luckily for me, I did realize that things had to change. I sat down with my wife Shari and we set up a plan to systematically pay off all our debt. It took us a little over four years to be completely debt-free (the only debt we have is intentional investment debt where someone else makes the payments for us). I cannot really describe just how good it feels to go to sleep at night without having to worry about bills and owing other people money. Our only monthly expenses now are utilities, food and insurance. The remainder of our income is ours to spend just as we want to.

*"So rather go to bed supperless than rise in debt."* Benjamin Franklin

The sense of freedom is wonderful. To have freed ourselves from the bondage of debt is exhilarating. Today, rather than struggling to stay ahead of a monthly payments burden, we now have the freedom to purchase what we want, when we want it, on a cash basis. You too will soon experience the exhilaration of being debt-free.

*"...a ploughman on his legs is higher than a gentleman on his knees."* Benjamin Franklin

Before I show you my method for becoming ***Completely Debt-Free in 3-7 Years (including Your House and Cars)***, let's examine why it is that people become so deeply in debt in the first place? There are three major reasons:

**Advertisers & Marketers**

**Banks and other Lenders**

**Financial Advisers**

You must understand that it is the mission of these three types of commercial entity to hold you in perpetual and escalating debt. I call it perpetual bondage and slavery. In reality, most people have become SLAVES to their debt and to their debt masters. So how do these institutions create this control? How have they made so many people in the free world their debt slaves?

**Advertisers & Marketers**

"Advertising may be described as the science of arresting the human intelligence long enough to get money from it." Stephen Leacock

It is the job of the advertisers to entice you to want and convince you to need *everything* that was ever made. Think about it, in a matter of moments you can open a magazine or a newspaper, turn on the radio or the TV, and in an instant DESPERATELY NEED something that moments before you did not even know existed. The impact that advertising has had on the 'free' world is dramatic. We have been highly trained to become voracious consumers. To live and die by the motto: "Charge It!" Buy it now and worry about paying for it later with 'small' monthly payments. New TV! New Stereo! New Bigger Car! New Boat! Great Holiday! New House! And on the list goes.

***Consume! Consume! Consume! Spend! Spend! Spend! Want! Want! Want! And then Want some more! Bigger and Better! Newer and Cleaner! Faster and Leaner! Oh what a Feeling!***

Now don't get me wrong. I too like buying and owning nice things. The difference between what I do and what the average person does is that I live debt-free and I only buy what I can pay for in cash. What I can truly afford. I do not fall for the *easy monthly payment* plans and spend beyond my means. An overwhelming majority of millionaires follow the same principles.

"Though a taste of pleasure may quicken the relish of life, an unrestrained indulgence leads to inevitable destruction." Dodsley

**Clarification:** I am not, nor do I believe you should be a fanatical penny-pinching miser. I do not want you to *lower* your standard of living. Far from it. I actually want you to *increase* your standard of living. I advise you that the best way of doing this is to follow the techniques you learned earlier in the *Money Secrets* program for reducing your cost (not standard) of living by 20-50% and then follow Money Secret #7 - Avoiding Debt and Living Debt-Free. As you do this you will be able to own the nice things you want (and deserve) by paying for them on a cash basis, not via the perpetual debt basis.

## **Banks and Lenders**

As I have stated many times, the major objective of the banks and other lenders of the world is to make as much profit as they legally can. They are not necessarily looking out for your best interests. Again, let me make this perfectly clear. I am not saying that your bank manager or the

bank teller is a bad person. What I *am* saying is that the main objective of the lending industry is to separate you from as much of your hard earned money as possible. And they best accomplish this by charging their customers plenty of interest and lots of little fees.

Banks and other lenders want you to be a debt slave to them for eternity. They want to take money from you (in small monthly payments) until the day you die and then beyond that time from your heirs. In essence, you become their slave. By definition if you *owe money to anybody for anything* you are an indentured servant to your debtor.

"But, ah, think what you do when you run in debt; *you give another power over your liberty.*" Benjamin Franklin

**Remember the Golden Rule: He who has the gold makes the rules!**

Do you know how credit cards really work? They are designed deliberately with a very small monthly payment. Do you know why? It is so you will *never* pay them off. The lenders want you to pay interest for as long as possible. With most cards, if you only paid the minimum monthly payment, you would spend close to four times more than what you actually paid for the original item.

**The average credit card would take 15-20 years to pay off if you only made the minimum payment.**

Here is a concrete example: Say you purchase a new living room set for \$2,500. The minimum monthly payment is just \$44.44 per month with an interest rate of 21% (quite normal for a furniture store). At \$44.44 per month it would take you **20 YEARS** to pay for that living room furniture. What would the furniture be worth in 20 years? If you still had it, maybe \$200. How much did you really pay for the furniture? No, not \$2,500. You wound up paying the furniture company \$10,665.86. This is how they get you, on all those small, silent, sneaky and seemingly harmless monthly payments. They know what they are doing.

And how about the car industry? Did you know that the President of General Motors recently stated that General Motors is not in the automobile business, but in the lending business? The only reason they build cars is so that they have a 'vehicle' through which to lend (or lease) money. The same practices are prevalent in the home appliance and home furnishings business.

Here is an example of just how expensive those low monthly car payments are: Our sample driver is a woman aged 25. She leases a new car for \$400 per month. The car salesman was ever so helpful. He explained how with a lease program she could “roll over” into a brand new car every two years. Have a guess at how much money you think the car company is going to make from this lady? Assuming she keeps driving to age 65, she will spend a whopping \$417,866.75 on cars she will never own. Don’t believe me? You do the maths: \$400 per month for 40 years with a car inflation index rate of 3.5% per annum totals \$417,866.75! Want to lease that fancy luxury sedan or sports car? That \$1,000 per month lease will cost you over \$1 million!

Just try to imagine over \$400,000 in small monthly car payments! The lenders of the world are not here to help you, they are here to turn a profit. Do not believe their sales pitch, however it is disguised, whether as 3.9% first year credit card interest rate or low interest easy financing on a shiny new sedan for only \$399 per month over 36 months. All these great deals are *wolves in sheep’s clothing*. The companies offering you the ‘freedom to choose your lifestyle’ are really offering you a ticket to perpetual bondage.

Most salespeople today are well trained by their companies to part you from your hard earned income so painlessly that you slide into debt with a grateful smile on your face, thanking them for the ride, for their efforts and consideration, their flexibility and the opportunity to get caught in their trap. They have been highly trained to catch you. You have not been trained at all to escape or even recognize their traps.  
**UNTIL NOW!**

How about real estate? Residential real estate debt is an incredible burden placed on a family. You are usually told to take out a 30-year loan. The reason: smaller payments. The lenders advise this knowing full well that a typical family moves on average within 7 years. The biggest profits for the lenders are in those first few years, when all the borrower is really doing is paying interest. The longer the loan term, the more the amortising schedule is skewed towards the lender in the early years of the loan.

Did you know that after 7 years on a \$100,000 thirty year mortgage at 8% you would still owe \$92,477.43! **HIGHWAY ROBBERY!**

In those first 7 years, on a \$100,000 mortgage, you would have paid \$61,636.22 and yet only reduced your debt by only \$7,522.57!

(Assuming an 8% fixed interest rate on a 30-year principal and interest loan). What is even more startling, if you crunch the amortized numbers, is that in the first year you have only paid \$835.36 off the *capital* yet paid out \$7,969.76 in *interest*. In the second year you only pay an extra \$69.34 towards the principal reduction. Great deal...for the bank! You give them around \$61,500 over the first 7 years and they give you back right at \$7,500, pocketing more than \$54,000 in interest!

What's worse is that when people sell their house most go right out and buy a bigger one with a bigger thirty year mortgage. They start the whole small payments process again, from year one, heavily weighted in the bank's favor. Back to square one of the relentless cycle of **SLAVERY to DEBT**. Plain and simple, slavery in perpetuity. This person is a slave to the lender for most, if not all, of the term of their natural life.

Turning the amortizing schedules in your favor is achieved by reducing the term of the loan and thus increasing the proportion of the monthly payment that is principal rather than interest. For the \$100,000 mortgage, if we elected to pay it off over fifteen years instead of twenty-five, we would actually be paying less interest from year one! (\$7,869.98 instead of \$7,952.69). Of course our monthly payment would be higher (\$955.65 vs. \$771.82) but this would be entirely comprised of extra principal. The extra \$183.83 per month may seem a burden for many, but with the money-saving and financial management techniques taught in the *Money Secrets* program, it is certainly achievable for the average family. And certainly worth the saving of over \$105,000 in extra interest incurred over a thirty year loan. Just think about it, an extra \$183.83 per month (for 15 years) will save (make) you \$105,838.20 in interest! Of course, many banks may be unlikely to volunteer this type of information to you.

It would be foolhardy as a Quarterback to simply take the snap and then stand right in the path of a storming Defensive Lineman if you did not know how to evade his tackle, where to run when you did and what to do with the ball. And yet this is what we, as consumers do every day when we play the consumer debt game without knowing the rules nor the intentions of the opposing team. We as amateurs run blindly headlong into a crack team of professional players. Get educated and understand the rules by which the lenders play. Then you can consistently beat them at their own game. SEH

Please forgive the harshness of my words when I describe the pain and damage that debt has

"If money be not thy servant, it will be thy master." English Proverb

brought upon so many good people. I just want you to fully understand the awful trap that debt has become for so many. It may sound like I am talking about some terrible uncaring entity when I am describing lenders and their products. I am not. I am merely describing modern business practices wherein the almighty dollar, the profit margin in a company balance sheet, is the overwhelming determinant of company sales policy and advertising content. You are only a 'victim' if you play in the game of consumerism without knowing the rules, the ramifications and the structures of the game mechanisms: credit; leases; monthly payments, etc.

### **Financial Advisers**

I have touched on this topic before, but let me remind you that in many cases the 'average' financial adviser is not much more than a salesperson in a nice suit.

My experience, having worked in the industry for several years, is that a large number of financial advisers (but certainly not all) are in about the same financial situations as their clients (unfortunately). They too, go through life struggling to keep their heads above water, spending sleepless nights worrying about their bills and expenses (overcome by those tiny monthly payments). Giving financial advice does not automatically make someone a financial expert, nor does it mean necessarily that any of the advice given is right. Also, in many cases the advice being given is the same advice that the financial industry has been regurgitating for the last 100+ years. Advice that is just plain wrong for most people.

"The greater our knowledge increases, the greater our ignorance unfolds."  
John F. Kennedy

I know that advisers make the argument that a home mortgage is a good thing. Sure, for your family home, it *usually* makes more sense to at least be building some equity for yourself (even at a mortgage premium of 8%) rather than endlessly flushing your rent money down the toilet and contributing to someone else's equity. But do not be fooled into thinking that you have an investment, in the *true* sense of the word, on your hands. Do the numbers and be real about exactly how much that 'investment' is costing you over the entire term of the loan.

And lets talk about the home interest deduction. Most advisors construct the argument that a home mortgage is a good thing because you get a tax break. In fact many advisers recommend that you take out the biggest loan you can possibly afford. That assertion is a complete crock! The average American family's top tax bracket is at 28%. That



means for every one-dollar paid in interest they receive a 28-cent deduction. The advice is nonsense! You didn't just save 28 cents. You lost 72 cents! Even if you were in a 50% tax bracket, you would still be spending \$1.00 to save 50 cents. This is not a good deal.

If you are still convinced that home interest tax deductions are a good deal then by all means send me all the dollars you have and I will even beat the governments return and send you back 75 cents for every dollar. Let me dispel the myths in regards to debt. **Never, under any circumstances is consumption debt good.**

Also, be real about your intentions regarding the property. Are you ever going to cash out to realize your profit or will you simply upgrade to a more expensive house, thereby swallowing your cash? Let's be real, our homes are a 'lifestyle choice,' no more, no less. Look at it that way when making decisions in relation to mortgages and other household debt.

For most people I strongly disagree with the concept of building up an emergency reserve fund in your bank account equivalent to 3-6 months of expenses, rather than first paying off debt with the money. I believe this is ridiculous advice for *most* people. By diverting what little money you have to invest (and pay off debt) into an interest bearing account paying 2-4% you are losing big time. Why? Because the interest on the debt is costing much more than the couple of percent the banks pay on a positive account balance.

**The first thing most people should do when they have surplus cash is pay off their consumer debt.** Then and only then, should one start building up an emergency fund.

Think about it! Without any debt, how much of an emergency reserve fund will you need? I know some of you are saying: "What if something happens and I don't *have* an emergency reserve fund?" The answer to remove your fears is simple. Keep one credit card for such emergencies (with low interest and no annual fee). Only use it in a true emergency (and no, a sale at your favorite department store does not constitute such an emergency!).

Remember, some advisers (particularly those on commission) will not always give you the advice that is in your best interest (refer to the chapter on life insurance in *Automatic Wealth*). Unfortunately some advisers have a tendency to lead their clients to the investments that carry the highest

"Let us keep a firm grip upon our money, for without it the whole assembly of virtues are but blades of grass." Bhatihari

commissions. Be *Financially Competent (Intelligent and Responsible)* and decide what is best for *your* financial security, not the financial security of your advisers.

## **Fast Track Action Step #7 – Avoiding Debt and Living Debt-Free**

Money Step #7 – Avoiding Debt and Living Debt-Free is extremely simple and easy to implement. It has two parts.

### **Part One**    **Never use consumer credit on their terms.**

**Translation:** never use credit cards if you cannot pay the full balance off each month when the statement arrives. If you cannot pay cash for it, you do not need it. If you think you still *need* stuff you cannot afford, I strongly suggest you reevaluate what is important in your life; more stuff or financial freedom?

If you *are* serious about becoming rich but know that you are not yet able to discipline yourself to use credit cards the smart way by paying the full balance each month, then you need to **cut up your credit cards and throw them all away!** (As discussed, you may keep one no-fee credit card in a bottom drawer for REAL emergencies.)

The important point is that in my mind I am treating these cards as a beneficial and convenient method for spending cash and not as a source of credit for spending cash that I don't have. To me my cards are representative of the cash that I have, not the cash that I am borrowing from someone else.

**Please Note:** I am not recommending that you *literally* pay cash for everything and miss out on all those handy frequent flyer points. I rarely pay with actual *cash*. I use the 21<sup>st</sup> Century equivalent. I use an American Express card which I pay off in full each month and a no-fee Visa card where American Express is not accepted. I always pay the Visa card off in full each month. I never carry over a balance. These cards give me frequent flyer points and an itemized record of spending for tax purposes. So while I rarely use actual cash, I am in essence using the modern version of cash.

If you are deeply in debt but still unwilling to destroy your credit cards then I am sorry to say

"Swimming for his life, a man does not see much of the country through which the river winds."  
William E. Gladstone

that you are heading full-steam down the one-way track to a financial train wreck. You are following the path of a Level Zero, Non-Existent. You must end the cycle now! Go ahead and take your credit cards out and put them in front of you. Think about all the problems they have caused you. Ignore their glossy sheen. Think about the debt. The monthly payments. The pain. The slavery. The bondage.

**Now cut them up!**

Go on, do it **NOW**. Stop reading and cut those cards up NOW. I'm not kidding. I mean it. Get a pair of scissors and end the madness. Cut up those \*! \*#\*×!#@!\* credit cards and take the first step towards a **Debt-Free Life**.

**Become the Master and stop being the Slave!**

Please listen. If you are constantly carrying credit card debt and have not cut up your cards by now (or determined to only use cards that require full balance payout each month and/or to keep only a no-fee card in a drawer for emergency use only) you are in a very precarious position. For the powerful information in this Handout to help you, you must be willing to help yourself. If you have a problem with debt, please, I urge you, get help. Contact one of the many non-profit agencies that are available for just such a situation (check your local phone book or look on the Internet). My sincere apologies to those of you who have debt under control or are taking the necessary steps.

"All the money in the world is no use to a man or his country if he spends it as fast as he makes it. All he has left is his bills and the reputation for being a fool." Rudyard Kipling

Shop around for the best no-fee credit card: to find a credit card that offers the best rates and fees (none) for your new "pay-as-you-go" philosophy.

*If and only if* you are determined to be well-disciplined in the use of credit cards from now on (you will pay down the existing outstanding balance and then pay off each month's spending as it occurs), then consider transferring your outstanding balance to a new card, and cancelling the old one, to take advantage of a low "honeymoon" rate for the first year and a possible interest free period at the beginning. You may slash your

"Sixteen tons, what do you get?  
Another day older and deeper in  
debt.  
Say brother, don't you call me 'cause  
I can't go  
I owe my soul to the company store."  
Merle Travis

minimum monthly payment by as much as half and thus can devote more money to paying off the principal rather than the interest. Make sure that any balance transfers are not regarded as cash advances where interest accrues from the outset at a higher rate. Play the new credit card companies against your existing company who may match the switch offer if you remain with them.

Or consider a co-branded (or loyalty) credit card if the co-brand products suit your lifestyle enough to provide real savings from day-to-day use. There are well over a dozen such cards offering discounts or rebates for a wide range of products and services including accommodation, cars, banking, travel, sporting goods, utilities and car hire. Check out what is on offer for credit cards through the Internet:

- LendingTree at [www.lendingtree.com](http://www.lendingtree.com) which allows tailor-made online credit card applications;
- Bank Rate Monitor of North Palm Beach, Florida, at [www.bankrate.com](http://www.bankrate.com);
- CardWeb by Ram Research Group of Frederick, Maryland, at [www.ramresearch.com](http://www.ramresearch.com);
- ABC Software at [www.asque.com/credcard](http://www.asque.com/credcard);
- CreditChoice at [www.creditchoice.com](http://www.creditchoice.com);
- U.S. Citizens for Fair Credit Card term (CFCCT) offers free lists of best-ranked credit cards at [www.cardratings.com](http://www.cardratings.com);
- About.com's information, credit card and personal credit advice site called *Personal Credit: US*, at [www.personalcredit.about.com](http://www.personalcredit.about.com);
- Peter Flur's site Credit Card Goodies at [www.flur.com/cards](http://www.flur.com/cards), which contains news, information and tips on credit cards.

Make sure before you apply for a new credit card that the savings or benefits are real, and that you continue to pay all outstanding balances each month without incurring any interest.

**Warning:** Never order new credit cards without paying off the old ones (via the balance transfer) and then destroying the old cards and cancelling the accounts (in writing). If you don't take this step, you'll simply have more cards to get you into more trouble, further in debt!

<b>Part Two</b>
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Follow the **Debt Elimination Plan (DEP)** (Step 2 of the **Automatic Money System**) and eliminate your debt by adding 10% of your (gross) income to your minimum monthly payments.

For example: if your (gross) income is \$3,000 and your minimum monthly payments total \$1,200, you would now pay \$1,500. The \$1,200 minimum monthly payment plus the \$300 representing the 10% of your gross income. Instead of just adding the 10% to the minimum payment for each debt we are going to strategically place the entire extra 10% (\$300) on the debt we can eliminate the fastest. We do this so that we can develop momentum and see results more quickly. This strategy gives a great psychological advantage in the debt reduction process. There is nothing like seeing quick results to encourage us to continue our efforts.

Think of this extra 10% as your own personal **“DEBT TERMINATOR.”** Like the character played by Arnold Schwarzenegger from the *Terminator* movies you will now create a force to be reckoned with. A force that keeps on going, and doesn't stop until the mission is completed. Your Debt Terminator money, that small amount of money added to the minimum monthly payments, will quickly **terminate your debt forever!**

"More people should learn to tell their dollars where to go instead of asking them where they went." Roger Babson

Again, ideally you should add 10% of your *gross* income to your debt reduction. However, if you are not currently able to devote 10% of your gross income then add at least 10% of the *total of minimum monthly payments*. The most important point is to start. You can always accelerate your debt pay-off with a larger amount in the future.

Let me now lead you step-by-step through the process of applying the **Debt Elimination Plan (DEP)**. Please refer to the **Debt Elimination Plan (DEP) Form**. There are two copies at the back of this chapter. The first one is completed, showing an example of a starting situation for the **DEP**, for Stan and Barbara (who we will discuss shortly). The second is provided blank for you to complete with your own information. Let's get started.

## **The 5 Step Debt Elimination Plan (DEP)**

1. **Organize Your Debts** - The first thing you need to do is organize all your debts together in one pile. This would include all credit and charge cards, loans, mortgages, etc. You will need this information to complete the form.

2. **Review the Completed Debt Elimination Plan (DEP) Form** – The completed example will act as your guide for when you complete the form with your own information. Notice that each box has the critical information of one debt summarized.
  
3. **Fill in Your Debt Elimination Plan (DEP) Form** - Designate one box per debt and then fill in the lines. Each box has five line items to fill in. I'll walk you through them line by line:
  - **Line One: Debt Name** - List to whom you owe the money;
  - **Line Two: Total Balance** – Fill in the current total balance owed;
  - **Line Three: Monthly Payment** - Fill in your current minimum monthly payment for that debt;
  - **Line Four: Pay-Off Ratio** - Divide the current total balance owed (Line Two) by the minimum monthly payment (Line Three) and put the answer on Line Four (this is your *payment to debt ratio* for each debt);
  - **Line Five: Pay-Off Priority** – the **DEP** Pay-Off Priority is determined by starting with the lowest ratio number from Line Four from all your completed boxes. These ratio numbers are used to determine in what order you should pay off your bills. The lower the ratio number the higher the Pay-Off Priority.

Number each one of your debts starting with 1, 2, 3, etc. until the **DEP** Pay-Off Priority has been determined for *all* your debts. For example, with Stan and Barbara, their ninth debt (ANZ-Car) had the lowest Ratio Number (10). Thus it is given the Number One **DEP** Pay-Off Priority. The ABC Visa debt is given the Number Two **DEP** Pay-Off Priority (ratio 16.67), the David Jones debt the Number Three **DEP** Pay-Off Priority (ratio 17.13), and so on.

4. **Pay-Off Your Debt** – Start with the debt that was given the Number One Pay-Off Priority on your **Debt Elimination Plan (DEP) Form**. With your current minimum payment add *all* of your Debt Terminator Money and make the new higher payment. Continue to make the minimum payments on all other debts (and refrain from creating any additional debt). Pay off all debts in this way until you are *Completely Debt-Free (Including Your House and Cars)*.
  
5. **Invest your 'debt-money'** – Invest the money you now have that is not going towards paying off debt. Add this extra money to your **AIP**

or other Level Four investment and watch your riches grow. This step is critical to maintaining your journey towards *Automatic Financial Freedom*. The debt-money you have released from making all those minimum monthly payments has to be then used to your benefit. Not to repeating the debt cycle all over again by servicing new (non-investment) debts. Put this money to work *for you!*

The best way to show you how the **Debt Elimination Plan (DEP)** works is to now introduce you to our sample couple, Stan and Barbara. This is their situation. They are both 40 years old, married with two young children. And although they make a good living (combined income of almost \$70,000) they are deeply in debt, struggling just to pay their bills each month. They have no idea how they will ever be able to meet their long-term financial goals of paying for their children's education and funding their own retirement.

Their situation is so bleak that many financial advisers would recommend bankruptcy as their best solution.

Like so many other people, they have taken a large portion of their income and given it away forever to their bill collectors. That money is no longer theirs. It is gone and will never come back. What's worse, should they pay a debt off, all they would probably do is go right back out and buy something else on 'affordable monthly payments.'

Currently, they carry consumer debt totaling \$14,600 (personal credit debt in Australia has risen over 50% in less than 10 years). Their minimum monthly payments for their consumer debt total \$790. They owe \$15,000 on two cars with monthly payments totaling \$565. Their first and second mortgage total is \$120,000 with combined monthly payments of \$1,320. Their total monthly minimum payment for all debt is \$2,675.

*Again, this is no longer their money.* Think about it for a second, \$2,675 per month gone. *Gone forever* to pay for 'stuff.' And remember, most people who are in this trap will simply buy new 'stuff' if and when they ever pay off the old 'stuff.'

Truly, their financial situation is bleak. They have no emergency reserve account to redirect towards paying off their debt and no savings. The drain of their [self-induced] minimum monthly payments has put them into a corner where they have virtually no money left for savings,

"Success is precise and prompt obedience to the call of circumstance." Leon Blum
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investment, or paying off their debt. Often they pay for day-to-day expenses on credit while continuing to add to their debt with what is at times uncontrolled consumption.

Review Stan and Barbara's situation on the completed **Debt Elimination Plan (DEP) Form** at the end of this Handout.

However, using many of the techniques that *you* learned in the earlier chapters, they have been able to reduce their expenses and have agreed to come up with an extra 10% to add per month to their minimum monthly payments. For the time being (because of their desperate situation), Stan and Barbara are *truly* unable to apply 10% of their [gross] income (the favoured solution) to their **Debt Elimination Plan (DEP)**. They start by adding 10% to the minimum monthly payments and thus will put an extra \$268 per month towards paying off that unwanted consumer debt.

### **Financial Summary for Stan and Barbara**

**Consumer Debt**  
**\$14,600 Balance**  
**\$790 Monthly**

**Car Loans**  
**\$15,000 Balance**  
**\$565 Monthly**

**Mortgages**  
**\$120,000 Balance**  
**\$1,320 Monthly**

**Debt Totals**  
**\$149,600 Balance**  
**\$2,675 Monthly Minimum**

**Debt Terminator Money of**  
**Extra 10% = \$268 per month**

Believe it or not, by following the **Debt Elimination Plan (DEP)** this family will be *Completely Debt-Free (Including Their House and Cars)* in just over five years! And at retirement (age 65), doing nothing in this entire book other than the **DEP** (including step 5), they will also be multi-millionaires! Let's take a look at how...

### **Stan and Barbara Debt Elimination Plan (DEP) in Action**

It is January 1, 1996. By looking at their **Debt Elimination Plan (DEP) Form** Stan and Barbara are able to determine that their first **DEP** Pay-Off Priority is the ANZ-Car payment of \$300. Stan and Barbara add the entire Debt Terminator Money of \$268 to this bill. By paying \$568 (original minimum monthly of \$300 + Debt Terminator Money of \$268)



they are able to completely terminate the payment on the second car by May (just 5½ months later!)

Now they do it again. They take the entire amount. The original \$300 ANZ-Car payment and the \$268 Debt Terminator Money they add to the next highest priority debt. It is important to understand that *all* of the money must be brought over until you are Debt-Free. I know in the old days I would have thought that I now had \$300 per month to spend (from the ANZ-Car debt payment). But under the **Debt Elimination Plan (DEP)** I do not. I understand that I have already given this money away forever. And that the only way I am going to get it back is to pay off *all* the debt. Otherwise I will just buy something else and continue the debt cycle.

By again looking at their **DEP Form** we find Stan and Barbara's next **DEP** Pay-Off Priority is the ABC Visa. They take the entire \$568 (\$268 + \$300 old car payment amount) and add it to the existing ABC Visa minimum payment of \$300. This gives them \$868 a month with which to terminate the Visa debt! Over the preceding 5½ months they have been paying the normal \$300 minimum payment to ABC Visa (and not charging anymore). Thus the balance owed on the ABC Visa has been reduced to approximately \$3,600. This means that the ABC Visa will now be completely paid off in just over 4 months!

Imagine their elation at paying off their second car and a credit card in just 10 months rather than over an entire lifetime.

Next, they focus on paying off the David Jones bill (**DEP** Pay-Off Priority Number Three). At this point the balance is down to \$675 (from making the minimum monthly payments). So, they are able to pay it off in 1 month! They then apply the surplus \$263 (\$868 + \$70 - \$675) to the Bank One Visa (**DEP** Pay-Off Priority Number Four) in the same month. And so it goes. I think you get the idea.

All consumer debt and automobile debt is paid in full in just under 21 months! <b>Their house is paid off less than 4 years later!</b>
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That means that this family (previously in debt up to their eyeballs) is *Completely Debt-Free* in 5½ years!

<b>\$2,943 to invest each month!</b>
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What is even more exciting for Stan and Barbara is that they now have **\$2,943** per month to invest (the \$2,675 original total of minimum payments plus the \$268 Debt Terminator Money).

This is money that they had previously given away (to their debtors for the rest of their lives) that they now have back. And obviously, rather than spending it, they are going to invest it!

That's \$2,943 per month to invest into an **AIP** for the next 20 years (retirement at age 65).

At 10% compounding (easily obtainable in a mutual fund such as Vanguard or one of many others available) they would have **\$2,234,822** by age 65!

### **They will be Multi-Millionaires!**

Imagine that. This one-time-on-the-verge-of-bankruptcy couple are now multi-millionaires. Isn't it amazing just how simple becoming rich can really be?

AND...at a return of 16% they would have **\$5,080,917!**

At 25% (easily obtainable for a Level Five Investor) they would have **\$19,774,351!**

All of that from a couple whose financial life lay in ruins. With no hope of getting back on the right track.

### **Your Financial Freedom Date**

To determine how long it will take *you* to become *Completely Debt-Free*, simply examine the **Financial Freedom Planner** at the end of this Handout. Find your total amount of debt and the new +10% "Debt Terminator Money" total monthly payment you are going to make. Then determine how many years it will take for you to become *Completely Debt-Free*. Using this strategy most families are able to become *Completely Debt-Free (Including the House and Cars)* in 3-7 years.

Next, look at the **Wealth Creation Calculator**. Compare the amount of money you are going to be able to invest each month (this would include the old debt money you have learned to reclaim, your AIP, super contributions and any other investments you make on a periodic basis), with the rate of return you anticipate, plus the length of time. This will allow you to calculate when you will have enough wealth to live on for the rest of your life without having to work.

The **Debt Elimination Plan (DEP)** is a very simple, realistic plan. It has worked for tens of thousands of people throughout the world. Put it to work for you.

**Please Note:** I recommend you do not overly concern yourself with which account has the highest interest rate. The **DEP** so quickly accelerates bill payoff that you will not be paying enough months of the higher interest for it to make a significant difference to you. For most, it is better to stick with the **DEP** as described. This eliminates confusion and becoming sidetracked. Stick to what really matters. Starting the system and paying off the debt. You will get further faster.

**THE KEY TO THIS PROCESS IS MOMENTUM!** By being able to see the bills completely eliminated (forever) it becomes so much easier to keep going. You gain enthusiasm and a real sense of achievement by being able to pay-off your debts so quickly.

In many cases people with high debt will not be in a position to qualify for lower interest rates because they are over extended and/or have poor credit. However, if you can qualify for credit cards that offer significantly lower rates you should apply for them and transfer your higher interest balances. Or you may be able to refinance all the smaller consumer debts with a low interest personal loan. *Remember though, this is not to establish more credit, but rather to lower the interest paid.*

If you do get new lower rate cards make sure to heed the warning I gave earlier to cancel your old cards (and cut them up) once the balances are paid off. Do not leave yourself open to future temptation. Remember, people become deeply in debt for a reason. A lack of control! So the last thing you would want is a pile of paid-off old cards laying around tempting you to go back into spending action. The results would likely be much worse the second time around.

"Happy is the man who, far away from business, like the race of men of old, tills his ancestral fields with his own oxen, unbound by any interest to pay." Horace

If you do refinance or lower the interest rate on existing debt never fall into the trap of making the new lower payment. Often people do this. They take out a new loan with a lower interest rate (and often a longer term), thus lowering their monthly payments. This is falling into the lender's trap. By doing this you will simply be in debt longer, pay more in interest (over the long term) and be tempted to get new debt to occupy the 'surplus' monthly money you now have to spend. *Please remember, if you refinance debt, always maintain the higher old payment to ensure the debt is paid off as soon as possible (the original reason for getting the new loan in the first place).*

## Debt Surfing

The Internet offers many great software programs for free trial periods. Debt Analyzer and Debt Relief, for example, from Insight Software Solutions (available at [www.debtanalyzer.com](http://www.debtanalyzer.com)); offers advice and reports based upon your inputted information and generated from three built-in approaches to eliminating debts: Timed Debt Elimination; Debt Reduction Schedule; and Loan Consolidation.

"Nothing in the world can take the place of persistence.  
Talent will not; nothing is more common than unsuccessful men with talent.  
Genius will not; unrewarded genius is almost a proverb.  
Education will not; the world is full of educated derelicts.  
Persistence and determination alone are omnipotent.  
The slogan 'press on' has solved and always will solve the problems of the human race."  
Calvin Coolidge

In summary: The freedom that this **Debt Elimination Plan (DEP)** has brought to so many people throughout the world is incredible. Many people teach this or similar information in regards to debt reduction. And while I highly value the copyright to my other intellectual property and information I urge you to please share the **Debt Elimination Plan (DEP)** with everyone you know. Without the burden of consumer debt the world would be such a happier and more enjoyable place. So please show everybody how to become Debt-Free using this plan.

Over the years we have heard from so many students who have made dramatic progress in paying off debt. Please feel free to contact us with your success story at [www.johnburley.com](http://www.johnburley.com).

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## ***Fast Track Action Steps***

1. Commit to **Fast Track Action Step #7 – Avoiding Debt and Living Debt-Free.**
  2. Get rid of unnecessary credit cards immediately. Most people only need one or two credit cards for emergencies. For non-emergencies, I recommend a card such as American Express/Diners Club or debit card that requires you to pay the outstanding balance in full each month.
  3. Vow to only pay cash (or the modern equivalent) and never charge unnecessary consumer items again.
  4. Complete the **Debt Elimination Plan (DEP) Form.**
  5. Use the **Financial Freedom Planner** to determine when you will be debt-free.
  6. Use the **Wealth Creation Calculator** to determine when you will have enough wealth to be able to live for the rest of your life without having to work.
  7. Implement and stick to the **Debt Elimination Plan (DEP)** and become *Completely Debt Free (Including Your House and Cars) in 3-7 Years!*
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