

TRENT HAMM

THE SIMPLE DOLLAR



HOW ONE MAN
WIPED OUT HIS DEBTS
AND ACHIEVED THE
LIFE OF HIS DREAMS

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Introduction

On April 20, 2006, when my son was roughly six months old, I realized that we didn't have enough money to pay our bills. It was shocking and incredibly painful. Although I had come to some valuable realizations already, the fact that we didn't have enough money to make ends meet, and we had tens of thousands of dollars in credit card debt, student loan debt, car loans, and a bunch of financed furniture and equipment in our home, meant that something had to change. Now.

I buried myself in personal finance books, coupling them with the philosophy and economics books I had already been reading. Over the next few months, I started to take some radical steps to fix our financial state.

More importantly, I began to realize that this entire experience was one that other people were struggling with. How can a person balance all the aspects of modern life on a limited income? How can we find personal

and professional happiness in an increasingly complex world where real wages for most of us haven't changed in decades?

So, in October 2006, I started *TheSimpleDollar.com* on my own with no fanfare to share these experiences. Within two months, I had 100,000 visitors. Today, *The Simple Dollar* has nearly a million visitors a month and tens of thousands more who receive articles by email.

Along the way, I've had conversations with thousands of people who were struggling with questions like these in their own lives. I've heard countless stories of people digging through the challenging connections between their money, their happiness, their daily choices, and their mission in life.

I began to live my life as a laboratory for these ideas in many ways, and I shared these experiences with my readers. I tried countless methods of reducing my spending. I quit my job and devoted myself to writing full time, a truly scary endeavor. I bought a home, and then wondered if it was the right move after all. I had a second child.

And along the way, I learned some surprising lessons about our modern lives. Many of the rules that we use to live our lives are broken. They were written down many years ago to describe a way of living that no longer exists. Our grandparents couldn't imagine the ability to share information via the Internet, the power of communication from nearly anywhere via cell phone, the ability to sell one's ideas and products anywhere—and buy them from anywhere—thanks to globalization.

Those are the realities of life today, and they're rewriting more than just the rules of how we make friends and do business.

The most valuable investment today is not in the form of a dollar, but in the form of a relationship. All the income we need can come from a large set of healthy relationships.

Debt is a prison of our own choosing, and we're enticed to enter that prison by the availability of a variety and quality of goods unimaginable fifty years ago.

Life is far more unpredictable than most of us think, and it gets more unpredictable all the time—and almost all planning ignores that key fact.

Saving for your child's undergraduate education is almost useless because the value of a bachelor's degree—and the methods we are using to get there—are changing radically.

Being a reliable employee is a path to the unemployment line—we've entered a new era where an employee-employer relationship is an exchange of a new kind of value.

Overspecialization is a dangerous trap. The route to the top relies on a Swiss army knife of transferable skills, regardless of your career path.

The American dream of a nice home of your own is just one card in a rigged game of three-card monte—and you have to pay a desperate price to play. Instead, there's a much smarter way to find a place to live.

If these ideas intrigue you, keep reading. I'll touch upon these ideas and many others—and share in detail

how they work in my own life and in the lives of many other people—as we talk about change.

I'm going to start, though, with an area that hits home to far too many people and keeps them from even thinking about moving on and fulfilling their dreams.

Chapter 1

Prison Made of Plastic

I sat at the kitchen table flipping through the mail, seeing bill after bill after bill. I tore open a couple of them immediately, wanting to see the terrible news in its full glory. I began to calculate what I could afford to pay and what I could not, I began to quickly realize that the pile of bills I just received not only wouldn't be covered by the current balance of my checking account, but that my next paycheck would not cover them either—and that was if I spent absolutely nothing on food, gasoline, or anything else. I sat there completely stunned for a moment; then I got up and went into my son's room, closed the door behind me, and sat down in the rocking chair across from his crib. He was so tiny lying there, less than six months old, and sleeping so peacefully there without a worry in the world. As I watched him lie there, gently breathing, emotions poured through me. Guilt. Shame. Embarrassment. Pain. I was failing this wonderful little boy, this child who had already brought incalculable joy into my life. He relied on me for everything, and because of my poor

decision-making and my selfishness, I was letting him down. I closed my eyes and didn't realize at first that I was crying, almost uncontrollably. My wife came in and put her arm around me. Eventually my sobbing woke up my son, who also began to cry. Sarah held us both.

April 2006

Let's make no bones about it: High-interest debt is a prison of your own making. Financial writer Michael Mihalik puts it quite simply: "Debt is slavery."¹

Debt increases your risk while at the same time decreasing your opportunities. If you accumulate debt, an unexpected negative event in your life has much more impact than if you were debt free. Similarly, debt often causes you to pass up positive opportunities in your life, such as a job offer or an incredible bargain on a car.

I believe deeply in a debt-free lifestyle. The only additional debt you should ever incur is a home mortgage and, if you do have a mortgage, it should be paid off as quickly as possible. The greatest personal freedom you can have occurs when your monthly bills are as low as possible, and there's no better way to accomplish that goal than to get rid of your debts—all of them.

It sounds like an impossible goal. I know that when I was stuck in an overspending lifestyle, it seemed impossible for me, as well. When I finally realized that I needed to make a change, I still didn't believe it was really possible.

1 Michael Mihalik, *Debt Is Slavery*. Page 23. ISBN: 9780978545703.

Then, in the course of about three years, we paid off \$21,000 in credit card debt, \$2,600 in additional consumer debt, \$6,600 in car loans, and \$17,000 in student loans. Along the way, our financial status became so secure that I was able to walk away from my full-time job and follow my dream of being a full-time writer, giving me an incredibly flexible schedule and much more time to spend with my children.

To put it simply, three years of focused debt repayment *completely changed our lives*. I have a new career. I have a new home. I have a much more stable marriage. I'm no longer scared at night about our financial position. I no longer dread getting the mail.

Debt was a prison, and we escaped.

How exactly did we do this? Here's a step-by-step guide describing exactly how we managed to extract ourselves from this precarious debt situation and put our lives in a whole new place.

Get Everyone on Board

We've all heard the horror stories. One spouse secretly racks up \$20,000 in credit card debt, while the other one saves and scrimps. One partner talks about the large amount of money in the bank, while in truth there's not much saved at all. Married couples fight—and even separate—because one partner spends with reckless abandon while the other partner is constantly cleaning up the mess and working to keep the couple above water.

In each of these cases, the same problem rears its ugly head: The people in the household are on different pages with regard to the plan for long-term financial security. To put it simply, **if you and your partner are not in agreement with your long-term plans, actions on behalf of those long-term plans are useless.**

The best opening step in this journey is to simply sit down with your partner and do two things. First, identify the big goals that you have in common. Where do you want to be in five years? Do you want to have children? Do you want to have a nicer home? Do you want to have a different career? Figure out what you both want out of life. From there, look at your financial state—your debts and your income level. What needs to change for those dreams to come true? Don't get bogged down in the specifics at this point—instead, the point is to recognize whether or not you're both open to making changes in your life to achieve the dreams you share.

Remember, **actions speak louder than words.** Quite often, people will give lip service to the initiative of their partner, but won't make any real change to their own behavior. If this happens, there is a much deeper trust issue in your relationship, one that will require a lot of communication—and perhaps some counseling—to solve. You will not find financial, personal, or career success until you address it.

If you find yourself in this type of situation, move your focus from fixing your finances to fixing your relationship. Take some time to carefully evaluate the entire state of your relationship. Communicate calmly with your partner—don't let emotions run the day. Seek

counseling and build a relationship based on trust where you both feel safe expressing your viewpoints and are able to work through disagreements in a rational and healthy fashion.

Without that, you will not be able to work together for a brighter future.

Reduce Your Interest Rates

If you're ready to make changes, and your partner is on board as well, you're already ahead of the game. The next step is to minimize the amount you pay each year in interest on your debts. After all, the less money you lose to your debtors without actually reducing your debt, the better.

The first step is to simply make a list of every debt you owe. On that list, record several pieces of information for each debt: the name of the person or company you owe money to, how much money you still owe, what the interest rate on that debt is, your most recent monthly payment amount, your account number, and the telephone number of the person or business you owe.

Next, move through that list of debtors and call each one. Explain your situation—you're attempting to set up a debt repayment plan because you're worried about your financial future—and request a reduction in the interest rate of your debt. If the first person you talk to won't do this, request to speak to their supervisor and repeat your case.

Some people argue against this approach because there is some risk that the business may reduce your credit limit or close your account. To that argument, I say, “Who cares?” After all, your goal here is to *repay the debt*, not to merely free up some room so that you can charge it up again.

Once you’ve directly reduced your interest rates, it’s time to look at indirect methods. Set up a meeting with a representative of your local credit union and see whether or not they have a loan package that will enable you to consolidate some of those debts. Consider transferring balances from high-interest credit cards to lower-interest ones (this can usually be done with a phone call to the company holding your lower-interest card).

One suggestion: Do *not* borrow money from family or friends to pay off high-interest debts. Borrowing money from people you love puts a completely new dynamic on the relationship, adding a lender-borrower relationship to the mix. Now, ask yourself, do you love the businesses you owe money to? Do you enjoy the bills they send you, requesting money? Is that a dynamic you want to add to your relationship with your friend or loved one, where they’re trying to decide how to ask you to start repaying that debt, while you’re feeling resentment when they ask you for repayment? Don’t mix loved ones and debts—they just don’t mix.

At this point, you’ve made some significant progress toward minimizing the amount you’re going to pay in interest. Your monthly minimum payments should be lower than before as well. Now comes the hard part—buckling down and paying off the debts.

A Plan for Debt Repayment

The next step is to assemble a debt repayment plan, which is far easier than it sounds. Remember the list of debts you made before, when you were attempting to reduce your rates? Make it again with all the debts you have now and their current interest rates. This is the backbone of your debt repayment plan.

There are two common ways to build this plan. One method is to pay off the debts in order of their balance, from smallest to largest. This is often referred to as the “debt snowball” and is popularized by personal finance pundits such as Dave Ramsey. The advantage of this plan is that it lets you feel the thrill of victory over debt as soon as possible, since the easiest debt to pay off is the one with the lowest balance.

On the other hand, the method that minimizes the total amount of dollars you’ll pay out is to pay off the debts in order of their interest rates, from largest to smallest. The largest interest rate debts are the ones that are eating up more of your money, so paying them off first means that you’ll end up, over the long run, paying less in interest. However, this plan can sometimes leave you with long periods without the thrill of eliminating a debt—it’s psychologically more challenging.

Whichever route you choose, set up your debt repayment plan by listing the debts in that order. Then, each month, make the minimum payment on each debt except for the top one. For that top debt, *throw everything you can at it*. You should strive to make at least a *triple* payment on that bill at the top of your list at a minimum. Set a goal for each month—how much can

you consistently pay on that bill? Treat *that* amount as the minimum payment on that top bill.

When you manage to pay off a bill, cross that bill off the top of your list and celebrate a little! Then get down to business on the next bill. Add the payment you were consistently making on the previous bill to the minimum payment on this new top bill—that’s your new minimum payment! Strive to make it each month.

The question many people ask is *how can I possibly make more than the minimum payments when I was not really making them before?* You’ll have to make some choices along the way. Those choices, however, are often less painful than people initially think they will be. Stay tuned—Chapter 8, “Frugality as Framework,” will explain all about it.

Get a Rope

Our living room, now an eBay shipping center, was littered with packages, small boxes, brown paper, and labels. Our previously-overstuffed DVD rack lay largely empty, and our video game consoles were as bare. Sarah peeked around the corner and admired the chaos. “Are you sure this is really worth it?” She nodded toward my trading card binder, which formerly housed an enormous collection of sports cards and gaming cards, but now was nearly empty. I looked up at her. “According to my math, once we sell and ship out all of this stuff, your car will be paid off and our MBNA credit card will be paid off next month.” She looked at me for a moment just to

make sure I wasn't joking. She opened her mouth to say something, but then just burst into a big smile.

June 2006

Over the years, I've had the chance to talk to many readers who felt they were drowning in their debt. They were simply overwhelmed with the amounts they owed, and it felt hopeless. Even after coming up with a debt repayment plan and ensuring that their interest rates were low, they still felt as though they were climbing Mount Everest without a rope.

To those people, I say, "Get a rope." What do I mean by that? What I mean is, give yourself a big boost on your debt repayment plan right out of the gate.

Go through your home, room by room, with a discriminating eye. Look for things that you don't use—or rarely use. Start with your closets, your junk-collecting areas, and your collections. Go through these items and ask yourself, honestly, if these items are adding genuine value to your life—or if they're just representing memories that you hold in your heart and your head, regardless of what items are filling your closet.

I'll use myself as an example. Once upon a time, I avidly played several trading card games, and I played with enough skill to amass a large collection of these. Yet, as time went on, I found that I really wasn't enjoying this enormous collection I had amassed. I'd look at them on occasion, but mostly I just enjoyed spending time with friends. My cards would go untouched for months, but I kept them because of the memories.

I realized, though, that the memories come from within me, not from collected items that I barely looked at. I might get a smile from the memories brought about by looking at them on occasion, but I could get that same good feeling from meeting and chatting with an old friend or keeping tabs with those friends on message boards or on Facebook. It was the camaraderie and the stories that I enjoyed, not a closet full of stuff.

So, I spent a week going through that collection. I sorted it, determined the items that had significant individual value, and sold almost all of them.

I applied the same philosophy to our DVD collection and our book collection and our video game collection. We sold stuff on eBay, at consignment shops, at used stores, and directly to people. Just like that, some of our debts went up in smoke, and we suddenly felt in control of our situation for the first time in a long time.

Try this approach with the items you possess. The unwanted, unnecessary purchases of your past can often serve as a wonderful rope to help pull you up to a new place in your life.

Snowflaking

What would you do if you found a \$50 bill lying in the street? Would you go off and spend it on something frivolous? Or would you quietly stick it in your pocket, knowing that it has the power to push you a little bit further toward your dreams of debt freedom?

Many people would choose the former strategy, arguing that it's *just* fifty dollars. That type of attitude

is exactly the type of attitude that leads to a lack of control over one's life. If you spend every dollar you find, you're completely at the mercy of the unexpected in life, as great opportunities will pass you by and bad situations will bring you to your knees.

The alternate strategy is to allow yourself money with which to have fun each month, but when extra money comes in, treat it as a way to get ahead with your long-term plans. This strategy is often referred to as *snowflaking*, perhaps in reference to the "debt snowball" concept.

These "snowflakes"—the little money you find here and there in your life—are applied to your debt repayment plans, helping you to make a little bit more of a payment each month. That \$50 bill found in the parking lot becomes an extra \$50 on your next debt payment, perhaps giving you just enough to pay off that debt a month earlier than expected.

There are many ways to snowflake. Recycle aluminum cans once every few months and apply that money toward your debts. Ride public transportation once a week and apply the \$3 you saved in gas toward your debt repayment plan. Keep all the change and small bills you accumulate in a jar; then cash that in twice a year and use that amount to whack away at your debt. You can even go big with this and start a part-time job solely for debt repayment—a big snowflake, indeed.

The goal is simple—just use the little opportunities life gives you to get rid of that debt faster, which opens the door to even bigger opportunities.

Five Steps for Today

If you remember one thing about debt repayment, it's this: The reason to pay down and eliminate your debts is that it opens up a great deal of personal freedom in your life—freedom to change careers, freedom to try new things, and freedom to take advantage of opportunities. These freedoms are essential to the ideas covered in the rest of this book.

Debt is the opposite of freedom—it reduces your opportunities and leaves you with a sense that your life is out of your control. You *can't* lose your job. You *can't* make a career change. You *can't* move to a different city. You *can't* say no when your boss demands more overtime.

Break Free

Here are five steps you can take today to get started on repaying your debt:

1. **Schedule a talk with your partner or spouse.** None of this matters if you're not on the same page and working toward the same goals. During this talk, allow things to be an open book—no hiding secret plans, no hiding financial mistakes. Instead, strive to find out your real financial state and discover the goals that you have in common.
2. **Make a list of all your debts.** Simply cataloging all of one's debts goes a long way toward making the situation real and tangible. This will likely involve digging through statements, checking websites, and perhaps making a phone call or two.

3. **Think about the stuff you own that's unnecessary.** Ask yourself if you really use some of the items you have or if you keep them around solely for sentimental reasons. If it's for sentiment, ask yourself if the memories exist in that item or if they exist in your heart.
4. **Make a list of the things you hope to accomplish in life.** What five big things do you hope for in your life over the next five years? Once you've got those down on paper, ask yourself what needs to happen for those things to be achieved. You'll likely find that these things you dream of are much, much easier to accomplish if you eliminate your debts.
5. **Recognize that it's not hopeless.** Many people feel overwhelmed by their debt load—I know I certainly did for a number of years. It's not hopeless—nothing ever is. Just stop, take a deep breath, and start looking through your entire life situation with a careful eye. You might just be surprised at what you'll find.

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