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# Haunted by fears of being buried under a mountain of bills

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*Norm has full-time work and struggles with debt management.*

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Norm has dug himself a deep hole, and he fears he'll soon be buried by bills and interest payments.

"I don't know what I do with my money," says the manufacturing worker in his late 20s. "I guess I just suck at managing it."

**NORM'S FINANCES:**

**Income:**

\$39,590 (\$2,309 a month net)

**Expenses:**

\$1,859 (excludes debt payments, except for car loan)

**Debts:**

**Car loan:** \$398 a month; \$13,224 owing at 18.5 per cent interest

**Home electronics loan:** \$100 a month; \$1,353 owing at 32.8 per cent interest

**Credit card 1:** \$100 a month; \$1,113 at 19.8 per cent

**Credit card 2:** \$112 a month; \$1,117 owing at 27.99 per cent interest

**U.S. bank loan:** \$2,764 owing at 31.9 per cent (in arrears)

**Speeding ticket:** \$291

**Utility bill owing:** \$234

**Total owing:** \$20,096

Norm earns about \$40,000 a year, taking home about \$2,300 a month, but he owes more than \$20,000. And all of his debts bear interest rates exceeding 18 per cent, including a car loan for more than \$13,000. He says he asked his bank for a consolidation loan that would charge a lower interest rate, but he was turned down earlier this year.

Still, he has been chipping away at his debts over the last year, making a little more than the minimum payments. Yet missteps from the past continue to haunt him.

Collection agencies are hounding him for a loan from a U.S. bank from four years ago, an unpaid utility bill and a speeding ticket an ex-girlfriend got while driving his car.

"All in all, I've been through a couple of bad relationships where I've invested a lot of money and just came out of them with nothing at all, except debt."

Now living with his parents, Norm says he wants to get out of debt as quickly as possible and save for the future.

The problem is, he's not sure how.

"I want to learn how to budget and become debt-free, but where do I even start?"

Debra Jonasson-Young is a money coach, a for-fee profession that helps people develop better personal-finance habits.

She says things aren't as bad as they may seem for Norm because he's got a good income and his cost of living is low.

"With Norm living at home, it's a great time for him to deal with his outstanding debts and develop some solid money-management disciplines," she says. "Once his fixed and discretionary monthly expenses are taken into consideration,

including his car payment, he appears to have enough money to manage his outstanding debts within a reasonable period of time."

His monthly fixed expenses are rent, his cellphone and car expenses, including his car-loan payment. They total \$957.

His other costs, such as clothing, cigarettes (\$240), groceries and entertainment, are about \$800 a month.

He should also start saving -- which he can do, even though he's got substantial debt payments.

"It's important that Norm sets up a savings account in order to get used to saving, as well as set up an emergency fund for such items as car repairs," she says. "Norm can afford to save \$100 every month, and this money should go into a separate account."

Even after paying all these expenses, he still has about \$450 a month for debt payments.

"Norm currently is \$6,871 in debt, not including his car loan for \$13,225," Jonasson-Young says.

"Although one quick solution would be for him to sell his car to pay his debts, the value that he would get for it would not fully solve his problem, and he still requires transportation to get to work."

Norm will have to grind it out each month, paying what he can until his debts are paid in full.

His most pressing debt is a \$2,764 bank loan that's been turned over to a collection agency.

"They are willing to settle for a one-time payment of \$1,650; however, he would need to come up with the money now, which he is unable to do," she says.

"The positive news is if he is diligent about paying \$450 month against his debts, as well as using his tax return next year -- likely about \$1,500, as per 2011 -- he will be debt-free within 14 months."

Norm should use the following strategy to tackle his debts: Make the minimum payments on each debt every month and then allocate the extra money on the highest interest-bearing debt. Once that debt is paid in full, he can focus on the next highest and keep at it until all debts are paid off in a little more than a year.

He should also call the creditor holding the loan that is in arrears, saying he would like to set up a monthly payment plan to pay off the outstanding balance of \$2,764 in 14 months, which Jonasson-Young factored into his debt-payment schedule.

Now he'd only have the utility bill of \$234 and the traffic ticket of \$291 left to be paid. And here's one way he can eliminate them both within a few weeks.

Norm spends about \$240 a month on cigarettes, and says he'd like to quit by using a smoking-cessation drug. He could take his first month of emergency savings to purchase a prescription, and that would free up \$240 each month that could be used to pay those two bills. If he can indeed quit smoking, the ticket and utility bill will be paid off in less than three months.

Afterward, he can save that money each month, increasing his emergency savings cushion, which will help him stay on track financially.

"With debt repayment dealt with, he will then really need to turn his attention toward what he really would like to do when he is finally debt-free," she says.

Does he want to move out into his own place? Would he like new furniture? Would he like to travel?

"Having clear goals helps us make better choices when it comes to our money," she says. Norm should also consider contributing to his work pension. He'd be contributing about \$233 a month -- a little less than he spends now on cigarettes. With his employer matching his contributions, he'd be saving more than \$6,000 a year and receive a substantial tax refund every spring.

Norm has a lot going for him, Jonasson-Young says. He's young, has a good job and most importantly, he knows he needs to change his behaviour with money. Now all he's got to do is follow through. "If Norm takes on this challenge, not only will he feel the freedom that comes from being debt-free, he will also find he will always have the money for the truly important things in his life."

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