

Interview With Jackie From The DebtMyth.com

Brittany Lynch: Hey, hey. Brittany Lynch here. I have another really great interview lined up for you. Today, we have Jackie on the call with us from thedebtmyth.com, which is an amazing blog that shares Jackie's story on how her and her husband paid off over \$147,000 in debt. It also shares practical tips on how to get out of debt as fast as possible. Today, Jackie is going to share a bit more of her story and what it takes to take control of debt. If you are someone who has debt, whether it is consumer debt or student loans or mortgages, you are definitely going to want to pay attention to this interview.

Jackie, thank you so much for being here with us.

Jackie : Thanks for having me. I am looking forward to talked with you.

Brittany Lynch: Yeah. No problem. It is a pretty amazing story. You really prioritized paying off your debt. You paid off over \$147,000 of debt in just a few years' time. I would love if you could tell us a little bit more about that and what did the debt consist of, and how did you manage to pay it off?

Jackie : I think we were fairly normal in that we had a lot of different kinds of debt. Between my husband and myself, we had student loan, credit card debt, car loan, and our house payment. We actually started by paying off our credit cards before we got married. Then, once we got together, I really started focusing on my student loan. I had been out of work for a long time and I finally got a job and had some money coming in, which helps. I really prioritized knocking out my student loan and I did that really fast. Then, my husband saw how that went. He got motivated to pay off his car loan, and so he knocked that out.

We took some time off and did a lot of fun stuff and did things around the house. Then, we decided, "Hey, why don't we go ahead and pay off our house?" Of course, that was by far the biggest debt. I think at the time we owed something like maybe \$97,000 on it. We really weren't sure how we were going to go about doing that. We started by just paying an extra \$35 a month toward it, which really isn't much but it got us started in the right direction and it grew and grew and grew over time as we really focused.

Brittany Lynch: What is your philosophy for paying off debt? Something that you talk about a lot on your blog is the debt snowball method. Can you talk to us a little bit more about what that is?

Jackie : Sure the debt snowball method is basically where you pay minimum payments to all of your debts, except for one. That one debt you really focus on and you send as much money toward it as possible until it is paid off. Then, once that debt is paid off, you take the money you had been sending toward it and start sending it to the next debt on the list, and you keep going and going until all all of your debts are gone. It really an awesome way to focus on getting your debt knocked out and to see progress, which is two things that a lot of people really need to see and it helps a lot.

Brittany Lynch: Yes. Do you think that is one of the big reasons why it works so well is that you can see progress so quickly?

Jackie : Yeah. For sure. It is really motivating. When you see progress, you want to do more of it. If you are trying something and you are not getting anywhere, why would you keep trying it? When you actually see progress, you want to do more of it. Then, you see more progress and so it just grows and grows.

Brittany Lynch: As far as the debt snowball method goes, how do you actually prioritize what you are going to pay off first? Is there a method to that?

Jackie : Most people do the lowest balance first but it really doesn't matter all that much what you pick as long as you are really highly motivated to pay that particular debt off. Maybe you have money that you owe a relative that you just hate owing so bad and so if you want to put that one first, go ahead. It just is a matter of what is going to keep you the most motivated. Generally speaking, doing the lowest balance first does keep people most motivated because then they see progress faster but it doesn't matter all that much. People spend a lot of time agonizing and trying to pick the right debt. Really, any debt is going to work for you as long as you keep at it.

Brittany Lynch: Right. The whole idea is whatever is kind of mentally maybe dragging you down the most, pay off those debts first. Most people start with lower debts because then they can cross two, three, four different debts off of their list and kind of in their mind consolidate the debt process.

Jackie : Mm-hmm (affirmative). Exactly.

Brittany Lynch: I had heard on another type of debt payment and that is the debt avalanche method. How do you compare the debt snowball method to the debt avalanche method? What is your preference?

Jackie : Actually, there is very little difference between them. The only difference is that in the debt avalanche, you specifically pay the highest interest rate debt first. People say that is a good way to do it because you pay less interest over time but that is not necessarily true. It really depends on your individual situation and you are going to pay a whole lot more interest if you don't pay your debt off [inaudible 00:05:29] by just making sure you do them in the right order. It really depends on your individual situation.

I would say if you got into debt maybe by some medical bills or something that were just crazy high and even though you had good insurance and you had an emergency fund and your life was in really good financial order, you still ended up with this debt, then probably the debt avalanche would work for you because you don't have a lot of emotional or negative habits to overcome. You have already got the good habits. It really just depends on your situation. If you are pretty normal

and you are used to borrowing as a solution, then you are probably going to see more progress with the lowest balance first.

Brittany Lynch: That is an interesting point. Debt comes in all sorts of different forms. The example you gave about a medical situation, where maybe that person had really good behavior or habits financially beforehand, the debt avalanche might make a bit more sense. I tend to agree with you that any method that is going to get you paying off your debt, seems to make the most sense. You have kind of got to evaluate what type of person you are and prioritize from there and just get started. Right?

Jackie : Mm-hmm (affirmative). Exactly. Stick with it. The biggest thing to change is the habit of borrowing. You have to get in the habit of only spending money that you already have. That is the main thing.

Brittany Lynch: What was that process like for you guys, getting out of the habit of borrowing? Did you go cold turkey or how did that work?

Jackie : Yeah. We sort [inaudible 00:07:15]. At first we were like, "Yeah. Okay. We are not going to borrow anymore money." We had the caveat we are not going to borrow any more money on credit cards.

Brittany Lynch: Okay.

Jackie : We viewed credit cards were the issue because it seemed that way to us. Gradually, we realized no, it is actually borrowing that was the issue. Once we had paid off the credit cards, paid off my student loan, paid off my husband's car payment, then we felt like, "Oh." We had saved up a big emergency fund. We wanted to do some remodeling on the house. We got caught up in the whole 0% interest, because this was back when savings accounts were actually paying some interest. We had some money in the savings account and we said we will just leave it there and we will take out a 0% interest loan and then we will pay it with our savings. That actually felt so horrible and uncomfortable that we realized, "No. We just never want to borrow again ever, anywhere, for any reason." That was actually kind of a big experience to realize how debt averse we really were.

Brittany Lynch: It is interesting. You started with just saying we are not going to borrow with credit cards but once you kind of got that under control, you realized that you actually just enjoyed the feeling of not borrowing, period.

Jackie : Right. It is a whole lot nicer to pay for things with money you have already got. There is no worry and no stress and you can often get a much better deal that way too.

Brittany Lynch: Do you, as a family, not use credit card debt at all anymore or do you use credit cards but just pay it off right away?

Jackie : We use them and pay it off right away. For a long time, we didn't use them at all. I actually only switched because I had a problem with my debit card, where someone actually charged me twice for something and it was a big charge and it was a whole mixed up situation where I had closed a bank account and then this charge went through for \$400 and I got sent to collections. I'm like, "Hey, it is a mistake." They fixed it but just realizing that the bank will actually reopen your account and pay someone was kind of scary. I think I wanted to have a little bit of a buffer in there to give myself a little bit of control over the money in my account.

Brittany Lynch: Yeah.

Jackie : That is why we went to using credit cards.

Brittany Lynch: Logically, sometimes if you are doing online purchases or even booking flights or something along those lines, sometimes the debit card won't work. Having a credit card is a nice option but from your perspective, it is being responsible with it. Don't spend money you don't have, is that right?

Jackie : Right. Exactly. We don't put anything on a credit card unless we literally have the money already. Not like, "Oh, we're going to get paid next week or whatever." It is, "No. We have it right now."

Brittany Lynch: Yeah. That is a good mental shift to be thinking about if you are someone in debt or just wants to get more control of your finances because even just hearing about your emotions of being less stressed and worried, that must feel really, really nice, comparing your feelings and emotions now to when you did have the debt.

Jackie : It is a great feeling. I didn't even realize how heavy the weight of debt was, mentally and emotionally, until it was gone. You get so used to living under that, you don't even know it. It is so much better without it.

Brittany Lynch: Yeah. When you went through the process of getting rid of your debt, did you use any sort of debt consolidation, and is it something you would recommend? What is it? Did you use it and would you recommend it?

Jackie : Very early on, I tried debt consolidation because I thought, "Oh well. The problem is all of these payments." That is not the problem. I ended up owing more money for a consolidated than before, which is pretty typical. When I actually got serious about getting out of debt, no. I didn't use debt consolidation and that is basically where you take the various debts you owe and you lump them together into a single debt by taking out a loan for that purpose. The thing is you can't borrow your way out of debt. It doesn't make any sense.

The idea is instead of having all of these multiple debts with a variety of interest rates, you have one debt with one interest rate. It seems easier to manage and maybe your average interest rate might go down. In reality, a lot of people end up going deeper into debt because they are not addressing the real problem, which is

their behavior and their emotions.

Brittany Lynch: Right. You have got to get that in line first in order to start paying it off. Just making the move of consolidating your debt, isn't actually going to change your behavioral patterns.

Jackie : No. It is just going to move your money around, your debt around, and you will continue with your patterns, which means you are probably going to end up owing more.

Brittany Lynch: Would you say that is the same sort of idea with debt refinancing? Again, the same sort of question. What is debt refinancing? Did you use it and in what cases would you pursue it?

Jackie : Debt refinancing, sometimes it is debt consolidation, sometimes. Other times, it is things like refinancing your mortgage to get a better rate or refinancing your student loan to get a better rate. As a get-out-of-debt strategy, I would only pursue debt refinancing if you have been actively making real progress for a significant period of time. It is really going to help you get there faster at a lower cost.

We did refinance our mortgage when we were paying it off, but we had already paid off all of our other debt and it was a true no-cost refinance. Those are pretty rare. Usually, it costs you money to refinance.

One other situation where I can think of where refinancing might make sense is if you have federal student loans that you are afraid might go into default. Sometimes consolidating through the U.S. Department of Education can help. In general, it is all about your behavior. That is what is really going to help, changing your behavior and emotions.

Brittany Lynch: Okay. Speaking of behavior, I would like to talk a little bit about budget and how you budgeted, both when you had debt and after you had debt. I know on your blog, which by the way for all of our listeners, you should absolutely check it out if you do have debt. I gave that URL at the start, thedebtmyth.com. I will include a URL at the bottom of this interview.

You have talked about a monthly budget or a living budget. Can you tell me about what this is and how do you structure a household budget? For example, what percentage of your income do you save and what goes to spending and when you had debt, what percent went to debt, and all of the nitty gritty around creating a budget for your household?

Jackie : [inaudible 00:14:16] Budgeting, which is where you account for every dollar and you have a plan for where it is going. In general, that could be like your bills, your savings, your fun money, your debt, whatever. Every dollar that comes in, you have a plan for where it is going to go. It doesn't necessarily have to go out but it needs to go somewhere. The point is to account for every dollar.

Then, on "The Debt Myth," I talk about a reality-based budget too. That means that you don't just make this zero-based budget and then hope you have got it right. Instead, you actively track your spending. You adjust the budget to reflect your real life, instead of just saying, "Oh well, that was an unusual month," if things didn't work out right. It took me quite a few years but I eventually figured out that every month is an unusual month. It is good to just take reality into account and to realize that you need to adjust over time. When you first start out budgeting, things aren't going to be perfect. You are going to have forgotten about things like Christmas or birthdays or your car tags. For some reason, I constantly forgot my car tags, even though those are due every year. You can then adjust it and if you have something that is an annual expense, you can set aside money for it each month so that when it comes around and you have got the money, you are not shocked.

As far as how we structure our household budget, we do his, hers, and ours accounts. We have household expenses and then our own expenses. We kind of essentially have 3 budgets. Percentage-wise, saving and spending and everything varies because we have irregular income. We do retirement savings and then regular savings first, then our bills, and then spending. Our budget is really simple because we have very few expenses that we truly have to pay because that is what happens when you don't have any debt. A lot of people, you have car payments or you have your credit card payments and mortgage, and we don't have any of that. We basically have taxes. Taxes and many kinds of insurance are our biggest expenses. Then, electricity, gas, and food. Everything else is optional. We have a lot of do-whatever-we-want-with-it money compared to bills because most of our bills were debt.

Setting up individually, it is just a matter of looking at what your expenses are and just looking at it regularly to gradually put in the things that you forget.

Brittany Lynch: One thing that you said, which I am really curious about because I know a lot of our listeners actually have irregular income as well. As someone who has irregular income and because you run your own business, have you developed a formula for understanding how much income you have coming in? Do you average 3 months of income and then take the average as your monthly salary or how do you account for irregular income in your monthly budget?

Jackie : Me, personally, I don't average it out. I track my spending regularly. I used to do it actually every day. Now, it is about every month, maybe twice a month. I have a really good handle on what is coming in and what is going out. I just make sure to spend less than what comes in every month. For people who have a lot more fixed expenses, I would say it would be good to take ... What I used to do is take the total of our expenses and divide it up by 12, and then figure that is the average but make sure whenever I went over, I put it into savings. I was a lot more focused on let's save for the lean times because they are going to come around. You can always take money out of savings if you need to and it is hard to get that money back if you've spent it.

Brittany Lynch: Yeah. That makes a lot of sense. For someone who is just starting out at budgeting because many people don't have a budget, what would you recommend? Would you suggest that at the beginning of each month, they start with their zero-based monthly budget or living budget and accounting for every dollar? Then, at the end of that month, taking the reality-based approach of saying, "Where did our money actually go [inaudible 00:18:41]."

Jackie : I would say start today. Don't wait until the beginning of the month. Start whenever you feel like you doing it. Whenever it has come to you, "Hey, I need a budget." That is the day to start. Start by tracking your spending. You can literally track the single day spending. Just write down what you spent that day as you are spending it. Then, I actually started doing that and I would look at whatever I bought and say, "Hey, did I get value from this? Was it worth it to me?" If it wasn't, I considered, "Maybe I won't buy this again next time." If I did, maybe I got a lot of value from it, like for traveling. I love traveling and so I decide, "Hey, I want to travel more."

The tracking of spending is the one aspect of it. Then, the other is writing out the budget and that is a matter of looking through ... You can look through what you spent over the last 30 days or the previous month. Just go through your bank statements or whatever kind of statements that you have. Just start writing down things that happened. You can start with your history and so you can get an idea of what has been happening. Then in the beginning, I would look at it at least weekly, if you can, and just see if you are on track for what you think is going to happen and then adjust from there.

Brittany Lynch: Yeah. That is a really good piece of advice is to just start tracking, and like you said, don't wait until the first of the month because that is just another way to, I guess, push it forward and put off actually making the budget, so start today.

Jackie : Right.

Brittany Lynch: Okay. Let's see. What other daily activities can a person do to tackle their debt faster? Are there 3 things you recommend a person do to tackle that debt faster?

Jackie : The biggest thing is making sure that you are only spending money you already have. You can do that every day. The other thing is that I would obsess about it. Take a look and just really think about, "Hey, is there any way I could send any extra money to this debt, or how could I make extra money, or are there any expenses I could reduce?"

The third thing, I think, is every day, celebrate the progress that you have actually made so far. Even if you have only paid down a little bit of debt, that is progress. Any step in the right direction is a good step.

Things like building an emergency fund that is at least a small one is important. You

could maybe send money to that each ... Maybe not every day. As you think of it. You don't have to do the same actions every day. Just any small step in the right direction that you do every day is going to help you.

Brittany Lynch: If someone was starting out today and let's say that they have some debt, maybe we will put it all into a practical example. Let's say that someone has \$30,000 in total debt and maybe it is a third are on credit cards, a third on student loans, and then a bit on back taxes and a bit on a car loan. What would be the best approach to making a plan to get out of this debt in kind of actionable steps? Then, also, let's say this person doesn't yet have an emergency fund. How would you prioritize these important things?

Jackie : Every situation is going to be different. In all cases, the first thing I would do is to stop borrowing. If you don't have an emergency fund, I would make that a priority to at least make a small one. Whatever you feel is going to be comfortable to start with. Maybe that is \$500 or \$1,000. In that case, I would treat not having an emergency fund as an emergency and go through and see if there is anything I could sell to put toward it? Could I do extra work? Maybe you could babysit or pet-sit. People pay a lot for pet-sitters. Anything that could bring in even a little bit of extra income and put that towards your emergency fund to get it started.

A tool that I recommend for savings in general is Digit. You can sign up for that and that will take tiny little bits of money automatically from you and it will text you every day and tell you what your checking account balance is too. That is kind of handy. It is kind of a way to track things too. Maybe you could sign up with that. That ...

Once you have got the emergency fund in place, I would look at your debts and make sure ... I am assuming that you can already make minimum payments on all of them. If you can't, then that should be an emergency too. You should do the other things that I was just talking about. Once you have got that in place, I would pick a debt that is going to be your target debt. In the example you gave, I would probably pick the back taxes because I don't know about you, but I don't want to owe the government any money. That seems kind of bad. It is kind of scary. I would probably focus on that. Just send extra money to it as often as you can.

Sometimes people send too much to a debt. They forget to leave themselves money to live on. You want to make sure you are doing that too. Just really focus on the debt that you have chosen as your target and then put the other debts in order. I would put them into my Pay Off Debt app and that will let you see how long it will take to pay off your debt and that will let you see how long it will take to pay off your debt based on your current situation. You can also play around with the numbers in there to see how things might change over time if you are able to send more in.

The important thing is to obsess every single day about getting out of debt until it is gone and to really celebrate any little incremental progress because you are

moving forward and that is important.

Brittany Lynch: It really kind of reminds me of the process of getting in shape. A lot of people start out and they don't maybe see the initial progress, so they stop. It is a very similar sort of situation that you are describing. Even though it doesn't feel like you are maybe accomplishing things right away, just the act and habit of making some action each day towards that debt is something you should celebrate.

Jackie : Yeah. For sure. There are a lot of similarities. That is a good point.

Brittany Lynch: You mentioned your app. I would love to hear a little bit more about that. You have got a debt payoff app. What is it? What does it do? Where can our listeners actually get it?

Jackie : It is called Pay Off Debt. It is a smartphone app that can help you organize and set up your debt snowball. Then, it helps you stay motivated while you are getting out of debt. It is right there on your phone. You can look at it all of the time and see what kind of progress you are making. You can get Pay Off Debt on iTunes, the Google Play Store and the Amazon App Store. The easiest way to find it is just to go to thedebtmyth.com because it is listed right on the home page.

Brittany Lynch: Okay. Yeah. Just so the listeners know, just on iTunes alone, there is over 1,000 5-star reviews. I would definitely recommend going ahead and picking that up if debt is something that you are dealing with and struggling with paying off, as well as checking out thedebtmyth.com. Again, this is something who has a blog that has actually been in this situation and successfully paid off a massive amount of debt. Whenever possible, you can listen to someone who has been there and has real actionable experience and advice from that experience. It is really the best that you can ask for.

Jackie, before we sign off, do you have any final last pieces of advice or words of wisdom for someone who is maybe in a situation that you were in, where they are working with debt and they have to pay it off?

Jackie : I would just say to remember that it is possible to live a debt-free life and it is really awesome. Do everything you can to get there because you will not regret one second of it.

Brittany Lynch: Yeah. Absolutely. I couldn't agree more. Again, everyone, check out Jackie's website, thedebtmyth.com. It is a really fantastic resource.

Jackie, thank you so much for being here on the call. This was really great information for all of our listeners. Again, there is great information on your blog, thedebtmyth.com.

Jackie : Thanks for having me.

