

How we paid off \$163,500 in debt in four years and how you can too

Spreadsheets are wonderful things. They can organize your financial life or, in my case, they can shock you into the realization that you need to do something different in your financial life.

For my wife and I the shock came when I did a simple spreadsheet with all our liabilities and realized we were carrying a lot of debt; over \$150,000.

How could you not know?

You may be wondering how that much debt came as a surprise. I asked myself the very same question. How could we not have known?

Turns out it's easy to lose track of debt. My wife and I were both employed professionals making solid middle class incomes. We could cover our bills, didn't have kids and those were the days of easy credit. None of our bills were particularly extravagant. We had a mortgage, a few thousand in credit card bills, two car notes, and two sets of student loans. On a monthly basis it didn't seem that bad...until I did the spreadsheet and saw the totals.

Many people don't know their financial situation until an accident or job loss shocks them into debt realization. That is the wrong time to find out you have a lot of bills. Fortunately for us our realization came at a time absent a financial disaster or economy in freefall, but only because we took time to do it. You should take time for that exercise as well, right now. Whether you make a little or a lot, it's always a good exercise to take a snapshot of your financial situation. Do it when the economy is running red hot, don't wait for disaster to strike.

Digging out of the pit

To get out of the debt pit, we needed a plan. Instead of trying to micromanage our finances, we started with some broad strategies.

Step one - Set realistic expectations: We didn't get into all that debt overnight and didn't expect to get out overnight. We determined to set realistic goals; we'd be frugal but not poor and there was no need for panic. Panic is a mind killer and having a plan that's achievable will help prevent mistakes made in the heat of the moment.

Step two - Getting a handle on expenses: My wife loves clothes and shoes. My weaknesses tend to be computers and gadgets. Those insights came to light when we started tracking and breaking down how we spent our money. We tracked every penny. Week after week we kept records on everything we spent. We were surprised where our money was going. If you really want to get out of debt, you absolutely must do this step. Some of the things we learned were really surprising.

- We were spending way too much on food. There were entire families spending less on groceries every month than just the two of us.

- We discovered my wife was spending over \$400 a month on her hair. That's right, her hair!
- Another surprise was the \$60-\$80 a month we were spending on morning coffee. Skipping breakfast was not only costing me money but my waistline was suffering from the muffins and pastries I would grab on the way to the office.
- We were spending hundreds of dollars a month on lunches.

The waste was really eye-opening. Every week brought fresh insights about where we were bleeding cash and the picture wasn't pretty.

Knuckling down

The low-hanging fruit of wasteful expenses was easy. I bought a thermos and started taking coffee instead of buying it. We both started packing lunches.

Getting my wife to cut back on what she spent on her hair turned out to be a challenge. After much coaxing she agreed to let me try coloring it at home. To her surprise (and mine) it came out looking great. I've been her only colorist ever since. We saved hundreds of dollars taking that one step.

The fiscal austerity paid off. We were able to put hundreds of dollars on our credit card bills and other debts. The balances dwindled quickly. We were also able to start building up an emergency fund and we opened investment accounts. We paid off one car, then another. Any windfall went straight on the bills.

As I mentioned, that was the low hanging fruit. After that it got harder.

Unloading an unattractive house

One of the challenges we faced was our house. It was a neighborhood where sales were slow. The neighborhood had been annexed by a nearby big city and property taxes were set to double. No one wanted to buy in that area and we still owed too much on the mortgage. The plan was to rent it out and pay down the mortgage to the point we could dump it. To do that we needed someplace else to live.

Ironically, getting out of debt involved going farther into debt buying a second house. It sounds harder than it was. This was a time when real estate values were surging and we got a great place in a trendy neighborhood at a sizable discount. The payments were affordable and we were able to rent the less attractive home.

Even though we didn't have much cash flow on the rental it was near break even and we could divert most of our spare cash to paying down the mortgage balance.

Second jobs

In the meantime I started going to real estate school and got my license. I could work part-time and make some extra cash, most of which went right in the bank. It also helped us take the next step in our climb, which was unloading the rental house.

After paying down the mortgage for three years we had enough equity we could offer it at a substantial discount compared to the neighbors. By then I had my real estate license and the listing cost us nothing. We were able to offer a slightly higher percentage to the buyer's agent, giving them more incentive to push our house. It worked. We sold that dog of a house a week after it went on the market.

Paying cash

We paid off one credit card, then another. The remaining cash went right in the bank. When we wanted to buy something we waited until we had the money.

Right about then was when I experienced the best feeling I've ever had in my life: Paying cash for a new car; the one easy payment plan. The look on the salesman's face when I pulled out the checkbook was priceless. We put off the discussion of payment until we had negotiated the price for the vehicle. We sat there patiently while he went through one financing option after another, surprised when we dismissed each one. We let him go on because we were enjoying ourselves. Pulling out the checkbook was the crowning moment.

Frugality becomes a habit

Just over three years into our quest, we were out of debt and into a positive net worth. Surprisingly, we did not feel any desire to loosen up the purse strings. Frugality had become more than a habit for us, it was our lifestyle. Even after we had our bills paid off and were making regular contributions to our retirement accounts, we kept looking for ways to lower expenses and moderate our spending.

Since these were the go-go days of real estate, we decided to purchase a less expensive place farther out in the country and sell our suburban home. That allowed us to pick a distressed property we bought at a fabulous discount while getting top dollar for our house in the burbs.

We made those moves just in time as the real estate market tanked the very next year. We still had a small, fixed rate mortgage on the country home, but with all our other bills paid off, we were able to put more money on our sole remaining debt.

Eventually we closed all our credit card accounts and froze our credit reports. The real estate market imploded, the stock market crashed and we were able to invest money when the markets were down. Eventually the markets recovered and those investments ballooned.

We took some of those gains to pay cash for an RV and put the country house on the market. Shortly after that we got an offer from a cash buyer; almost unheard of where we lived. Even though it wasn't much of a margin, we took the offer and moved into the RV full time.

Being debt free gave us the freedom to live the mobile RV lifestyle. The financial base we built allowed me to quit my day job and launch into my own business as a freelance writer.

All of that adventure became available to us because of a spreadsheet coupled with a determination to live within our means. We had cash when the rest of the world was unloading their investments and were able to capitalize because we changed our lifestyle. A small investment in financial discipline paid off big for us.

What we did anyone can do. It's an easy first step. Start with a making spreadsheet listing all your bills. List all your debts and track every penny of spending. With a little determination, a little time and you too can live debt free.