# How WE got out and STAYED out of debt

When we first started our homesteading journey, we started with a heavy load of debt. We were renting a house in downtown Phoenix and thankfully we did not have a mortgage. However, we were $65,000 in debt. We lived our lives according to how we were taught. We went to school; we got our degrees. We drove new cars, we had credit cards, we had student loan debt. We did all the things that was expected. We bought houses and later tried our hand at owning a few rental homes. None of it worked. We were drowning in debt. When we decided to start homesteading, we made some major changes in our financial lives.

*We had to unlearn what we had learned.*

We had to unlearn what we had learned. Everything that we had learned in school, everything that had been taught to us we eventually found out was wrong. And learning that we were taught incorrectly helped us to see where we could make changes in our lives so that our lives could be debt free.

You likely have heard the Biblical reference that a person is a slave to the lender. But in order to not be the slave of the lender you have to think like an owner. When we go to school we are taught incorrectly. In public schools we are taught not to collaborate with other people we are taught that there is only one answer to every problem. We are taught that the teacher is the authority, and the teacher is the only one that knows all of the answers. Not to mention that money in general is not taught is schools.

All of that sets us up so that when we enter the real world, the real working world, we aren't accustomed to collaborating with other people. We take the advice of financial planners or our boss or companies HR as the final say so as the authority on these particular matters. When the real truth is there is multiple answers there's multiple ways to get out of debt and stay out of debt. There is not one size fits all one answer to this problem and that's it.

## *Money in general is not taught is schools.*

We are going to share with you what <u>we</u> have done. **<u>This does not constitute financial advice.</u>** **<u>But we are simply telling you what we have done to get out of debt.</u>** The first thing is paying the biggest debts off. We started paying off the debts that had the highest balance not the highest interest rate. There's a thousand ways to look at this but we felt that for our situation that the debts that had the highest balance and the highest monthly payment were the ones that needed to be attacked first.

## *Live below your means.*

We did something drastic. We sold our car. We had a car that had an $11,000 balance on it. We got rid of it. That car when we bought it was about $25,000 and we had a very high interest rate. Mostly because our credit wasn't all that great. So we had a very high monthly payment. Once we got rid of that car and bought ourselves a very basic car that worked (it wasn't flashy it wasn't showy, it was just a very basic car that got us from point A to point B), that freed up $500 in our monthly budget so that we could do other things like pay off our other car. And that's precisely what we did we paid it off very quickly. The other car did not have a very big balance on it and we were able to pay that car off in six months. So it was at this point that we saw we had no car payments, but we still had student loan debt, credit card payments, and also a personal loan that needed to be repaid so we went to work.

Again sticking with the same thing, we attacked the thing that was the biggest payment out of our budget. And we kept doing that. We followed loosely the Dave Ramsey program of creating a snowball and it was at this point that we were on fire getting rid of our debt, and while we were doing that, we were changing our mentality. We were starting to learn, or I should say relearn what is an asset what is a liability. Why the banking system is different if you are the customer versus the banker. We started learning how to manage the flow of our cash: how money is coming in, and where does it go out.

Cash flow is something that you probably hear big investors talk about all the time. Especially Real Estate investors. When they reference cash flow, they are talking about does a property or investment make more money that it costs to own.  For example, if you own a property with a $100K loan and a payment of $1k a month, plus repairs and maintenance, all in you are paying $1.3k a month on the property. You need to have renters who are paying at least $1.5k a month to be positively cash flowing. This means you are making at least $200 a month this property.

We need to look at our own budgets in the same way. Cashflow your budget. Stop the bleeding out of money. Try to have money left over every month. If your monthly paychecks are a total of $3k a month, try making your spending only $2.5k per month. Put another way, live below your means.  So we threw everything that we had towards our debt and then we had our first child. It was at that point that we felt very strongly that we needed to have a stable home to raise our son in.

So we opted to buy a house and we did. Granted we bought that house at a very low price and we did a lot to fix up that house. We lived way below our means in that house. We could have afforded twice the amount of our mortgage than we did in that house, but we didn't.

*Have at least 6 months of that mortgage saved up.*

And when it came time to sell that house we were able to pay off our student loan and personal loan debt from that particular house. Looking back, it was the best thing that we could have done. The house actually became an asset because of the equity. But that was five years ago now things have changed. Interest rates are up, things are more expensive. How can you make it now?

1. Get out of ALL debt.
2. If you have a mortgage, have at least 6 months of that mortgage saved up.
3. Have at least 1 years' worth of all other expenses saved in another account.
4. Keep your personal expenses in a positive cash flow.

5. Be very disciplined when and if you choose to use a credit card. Have the cash to pay it off, at any time. ***And pay it off every month!***

So, once you are out of debt, you need to start diversifying your money. You need to start investing in things that will help pay for the liability of your home. That way what income you are earning stays put instead of being flowing out because of liabilities. I know that's getting a little bit advanced, but this is the basics of how we got ourselves out of debt because we changed our mentality. We changed our thinking. We started realizing that we had not a budget problem, but it was a cash flow problem.